

**AMERICAN MULTINATIONALS IN INDIA:  
—A CASE STUDY OF INTERNATIONAL  
BUSINESS MACHINES (IBM)**

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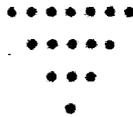
**CONTENTS**

## C O N T E N T S

	Pages
Preface	.. 1 - 111
Chapter I : American Multinational Corporations and United States' Foreign Policy:	.. 1 - 24
a) The Way the MNCs operate	
b) Controversy regarding multinationals	
c) Characteristics of American Investment	
d) Importance of developing countries	
e) Multinationals as carriers of technology	
f) Impact on US foreign policy	
g) US MNCs in developing countries	
Chapter II : American Multinationals in India:.	26 - 57
a) India's initial policy towards foreign private capital	
b) US Interest in India	
c) American Investment on the eve of Independence and the changing patterns thereafter	
d) Characteristics of American investment in India	
e) Assessment of American private capital in India	
Chapter III : Computerisation and IBM:	.. 58 - 84
a) Importance of Computers	
b) Computers for developing countries	
c) IBM in General	
d) Linkages between US Government and IBM.	
e) How IBM has reached the top?	
f) The manner in which IBM curbs off its domestic rivals.	
g) IBM in Europe	
h) IBM in India	
i) IBM's reaction to growing nationalism in host countries	

**Contents.. conted...**

	<b>Page:</b>
<b>Chapter IV : IBM's Exit from India</b>	<b>.. 85 - 105</b>
<b>Chapter V : Conclusion</b>	<b>.. 106 - 111</b>
<b>APPENDICES</b>	<b>.. 120 - 135</b>
<b>BIBLIOGRAPHY</b>	<b>.. 136 - 146</b>



**PREFACE**

## PREFACE

In recent times, the study of multinationals and their operations in the developing countries has attracted the attention of scholars. The subject has acquired an added significance in view of the tremendous publicity given to their economic and political activities. Multinationals have also been accused of depriving the host countries of their due share in terms of economic benefits. As a result, a new appraisal of their activities has become a subject of great interest.

American multinationals have acquired a political complexion, as is well known to a casual reader of the Indian situation. It has been suggested that these multinationals have made no significant contribution on the economic uplift of the country. This phenomenon, therefore, dismayed the Indian economic planners. They have discovered that the return from the technology employed by foreign enterprises has brought no great economic dividends to our country. On the other hand, the multinationals have benefited immensely inspite of their minimum capital investment.

The present study is a modest attempt to investigate American multinationals in India with special reference to the International Business Machines (IBM) and its operations. US foreign policy has also been examined in this context.

The proposed thesis is divided into five Chapters, including the conclusion. The first Chapter is primarily concerned with the rise and spread of US based multinationals under the protective umbrella of Pax Americana Syndrome. The manner in which they have helped the United States economy in terms of earnings, employment opportunities together with providing a diplomatic leverage to the country in its foreign relations, have been discussed.

The second Chapter deals with the spread of American multinationals in India, their general mode of operation and the cost and benefit that they bestow upon the host country. The Chapter deals not merely with the economic liabilities but also the political cost involved in such operations.

The third Chapter relates to the specific topic on the operations of International Business Machines. It comprehends on its worldwide network and the ways in which it has curbed competition and managed to get maximum benefits for itself.

The fourth Chapter provides a focus on the exit of IBM from India. The reasons which necessitated such a decision on the part of the Government of India have also been briefly illustrated.

The concluding remarks are an assessment of the present situation and the possible future course of action of multinationals in general.

For this work, I have mainly relied on the official documents of the United States and that of United Nations. The report brought out by the Public Accounts Committee of Indian Lok Sabha has been of major help. The articles from leading journals as well as important newspapers have been of immense help in developing the thesis.

A few interviews were undertaken to get a proper background which helped me in stressing a few points in my analysis and also helped me in making certain inferences.

I wish to record my appreciations and deep sense of gratitude to my supervisor, Dr. R.P. Kaushik for providing me valuable advice and encouragement, and for his remarkable forbearance. If inspite of all this I have failed to come up to his expectations, it is largely due to my own imperfections.

In my work, a number of people extended substantial help and gave me good suggestions. I also thank the various members of the staff of the libraries in Delhi.

Above all, I must thank my parents for having patiently borne with me during my work.

27.2.79

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**CHAPTER I**

**AMERICAN MULTINATIONAL CORPORATIONS AND  
UNITED STATES FOREIGN POLICY**

## CHAPTER I

In recent years a certain kind of study of international politics has been in vogue. A stereo-type study of foreign affairs purely confined in the realm of interstate relations is gradually receding into the background. There has been a strong need for fostering an economic outlook of foreign affairs. International affairs have to be viewed in terms of their international economic implications. Although power and security constitute significant nuclei of foreign policy of every state, the emphasis on economic aspect of their relationship have assumed new dimensions. The dollar devaluation of 1971 and 1973, the activities of Multinational Corporations, resource scarcities and trade issues creating political conflict among the United States, Japan and Europe, are economic issues that have emerged along with the issues of security and power as top priority in their assessment of foreign affairs. However, there is no theory to specify the relationship existing among various factors and the processes that are viewed as integral part of the study of world politics. Hence, the present study will be devoted towards assessing the activities of Multinational Corporations in India in the light of the above framework.

The 1950s and 1960s have witnessed the operations of large multinational enterprises that have primarily been

based in the United States. These business enterprises have emerged as a potent agent of economic transformation and its development, in the developed as well as the developing countries of the world.

The reason for selecting out only the US multinationals is due to the fact that multinationals based in other European countries or Japan are still relatively small.

The American multinationals have outgrown the limits of technical, financial and economies of scale. This has further led to a question as to why the American MNCs should grow to such a gigantic size as they invariably do in the developing world. This aspect has been emphasized by R.H. Patil in his article (citation given below). He says:

"The fact several American MNCs have outgrown this optimum size indicates that they are able to more than compensate for some of the dis-economies of gigantism by exploiting to the maximum possible extent the political power and financial strength that are the elan vitals of the MNCs." <sup>1</sup>

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<sup>1</sup> R.H.Patil, "Behavioural Patterns of US Multinational Corporations", Economic and Political Weekly, (Bombay), February 1976, p.263.

This has also been viewed that "apart from the size and financial power that accompanies it, it has been noted that the links between the large corporations and the political power base are much closer in US than in most other countries, with the possible exception of Japan."<sup>2</sup>

The indispensable role of multinational business in the policy making process was outlined before the Economic Club of Detroit on 18 February 1975 by Deputy Secretary of State Robert S. Ingersoll. In part Ingersoll said:

Economics and politics have become inseparable ingredients of international affairs. Any breakdown in the world economic order would have political consequences at home and abroad and deep concern to all of us. The State Department is determined to improve its ability to deal with global economy but we do not pretend to be a monopoly on economic wisdom. The Administration and the Secretary of State are equally aware of the requirement to read the business community into the foreign policy process.

In essence the US Government officials like Ingersoll see a definite role of American multinationals in the conduct of US commercial relations.

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2 Ibid., p.263.

3 J.M. Brookstone, The Multinational Businessman and Foreign Policy : Entrepreneurial Politics in East-West Trade and Investment (New York: Praeger Publishers, 1978), p.68.

Therefore these economic entities are viewed as extended arms of US Government. It is the general feeling that these firms are often deployed to order the national priorities of the host countries in consonance with the best interest of the United States.

It is for the above mentioned suspicions that the multinationals have to encounter the hostile spirit of rising economic nationalism from the host countries, especially the developing ones.

They voice their grievances in the international agencies and demand an international code of business ethics to discipline the activities of multinationals.

Let us briefly reflect over the nature and character of the multinationals and also on their modus operandi. It will bear some relevance to their interaction with the US foreign policy.

The United Nations has used the term "Multinational Corporations" (MNCs) as those big business enterprises which have their operations in two or more countries of the world.<sup>4</sup>

Christopher Tugendhat, a leading writer for the Financial Times, London (multinationals was one of his special subjects) has brought out the chief characteristics of these Corporations

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4 United Nations, Multinational Corporations in World Development (New York: United Nations, 1973), p.5.

in a distinct manner. He writes:

However large it may be and however many subsidiaries it may have scattered across the globe all its operations are co-ordinated from the centre. They must all work within a framework established by an overall group plan drawn up at headquarters and their activities are tightly integrated with each other. They are judged not by their individual performance but by the contribution they make to the group as a whole.<sup>5</sup>

Some of the other characteristics which could be attributed to the Multinational Corporations are their large size; sales worth hundred million dollars; having the latest technology, and finally the capacity to incur heavy advertising cost for selling the technology. All this has enabled them "to tap financial, physical and human resources around the world and to combine them in economically feasible and commercially profitable activities."<sup>6</sup> This vast economic potential gives them the flexibility to shape "demand pattern" and values of society, influence the lives of people and policies of the Government.

The way the MNCs Operate:

In order to carry on production on a large scale with reduced cost, the multinationals spread the production of different components and parts in its different subsidiaries.

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5 Christopher Tugendhat, The Multinationals (England: Chaucer Press, 1973), p.31.

6 Excerpts of United Nations Report on the Impact of Multinational Corporations in Eastern Economist (New Delhi), 7 September 1973, pp.448-49.

The final assembling of parts is done at selected points only. This sort of strategy is primarily followed in the production of computers, agricultural machinery and motor vehicles. The cost incurred on all these activities gets so mixed up that it is impossible for the host country to determine the pricing of components imported by the subsidiary and those exported by it. The host country even finds it difficult to take over a subsidiary producing parts since it would mean acquiring a few links in the total chain of production.

Because of their worldwide network the multinationals can transfer surplus funds if they suspect devaluation of currency of a country is in the offing and put the Government in questions in greater difficulties.

The power of the MNCs thus acquired can be decisive as has been brought out succinctly by Raymond Vernon, a well known expert in international trade and investment, "Every sovereign nation is aware that MNC group which is able to provide export market for the product of host country is also capable of with-holding such markets and cutting of jobs that depend on such export."<sup>7</sup>

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7 Raymond Vernon, "Multinational Enterprise and National Sovereignty", Harvard Business Review (Massachusetts), March-April 1967, p.163.

The advantages of these corporations therefore lie in (a) plenty of capital to invest and unlimited access to credit on favourable terms in both domestic as well as foreign money markets; (b) a pool of experienced managerial talents which can be deployed anywhere in the corporate empire according to its need; (c) a large and effective sales apparatus; and (d) research and developmental facilities which can be put to solve technological and marketing problems.

Controversy regarding Multinationals:

The controversy regarding the impact of the activities of MNCs has been in part coloured by ideological perspectives. On the one hand is a school of thought which believes that activities of MNCs will bring about greater cross national integration of worldwide economic structures which in turn would lead to an inter-dependent world. This traditional economic approach has an implicit belief in the practical virtue of free enterprise system. Foreign investment to them, constitutes a net addition to investible resources in host countries and as such raises their rates of growth. Foreign investment also brings benefits - like the introduction of new technology, better management and organisation, superior marketing and cheaper finance. The major proponents of this approach include Charles Kindleberger and Raymond Vernon. On the other end of the spectrum are the

nationalist who emphasise on minimising the cost and extent of foreign investment like Paul Streeten,<sup>8</sup> Sanjaya Lall<sup>9</sup> and Vaitsos.<sup>10,11</sup> The dependencia school - Dos Santos,<sup>12</sup> Sunkel<sup>13</sup> and Hymer<sup>14</sup> and Marxist Paul Baran<sup>15</sup> conclude that

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- 8 P.P. Streeten, "The Multinational Enterprise and Theory of Development Policy", World Development (New York), October 1973, pp.1-14.
- 9 P.P. Streeten and S. Lall, Foreign Investment: Transnationals and Developing Countries (London: Macmillan, 1977); the book contains interesting references to this effect.
- 10 C. Vaitsos, "The Process of Commercialization of Technology in the Andean Pact", in H. Kadice, ed., International Firms and Modern Imperialism (London: Cox & Wyman Ltd., 1975), pp.183-214.
- 11 C. Vaitsos, "Patents Revisited: Their Functions in Developing Countries", Journal of Development Studies (London), October 1972, pp.71-90.
- 12 E. Dos Santos, "The Structure of Dependence", American Economic Review (Cambridge), May 1970, pp.231-36.
- 13 O. Sunkel, "National Development and Policy and External Dependence in Latin America", Journal of Development Studies (London), October 1969, pp.23-48.
- 14 Stephen Hymer, "The Multinational Corporation and Law of Uneven Development" in J.N. Bhagwati, ed., Economics and World Order from 1970s to 1990s (London: Macmillan, 1972), pp.113-140.
- 15 P.A. Baran, Political Economy of Growth (New York: Monthly Review Press, 1957); see for further reference.

by gearing the economies of host countries, especially of developing countries to that of home countries, the activities of MNCs discourage the creation of widely based infrastructure which has historically been important for developmental take off. The result is likely to be the creation of super-subordinate relationship among States which aggravate existing inequalities, thereby increasing the likelihood of inter-state conflict.

Keeping the ideological predilection apart, let us assess objectively the role of US MNCs in the developmental process of a developing country. This may need an account of US investment policy.

Characteristics of American Investment:

American companies account for about half of the world's direct investment. The size of US investment has risen from \$ 12 billion in 1950 to more than \$ 135 billion in 1976. The spread is approximately 35 per cent in Western Europe, 27 per cent in Canada and 18 per cent in Latin America. Of the whole 60 per cent in the developed countries and 40 per cent in developing countries. As far as sectorwise investment is concerned the percentage is 40 per cent in manufacturing, 30 per cent in petroleum and 10 per cent in mining.<sup>16</sup> American Corporations are research based and they are capital intensive industries that are linked with the defence interest

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<sup>16</sup> H.M. Joiner, American Foreign Policy: The Kissinger era (Alabama : Strobe Publishers, 1977), p.250.

which has caused concern among the recipient countries. American firms lead in such industries as compared to others because of the sheer size of their marketing and research effort that they can sustain. The bulk of this investment has gone into industries producing cars, computers, pharmaceuticals, tractors, micro-electronics etc.

Boudhayan Chattopadhyaya, writing from a leftist angle traces the American lead in the emergence of MNCs to huge subsidies that are drawn by the US businessmen from their Government in research and development. Between 1957 and 1965 \$ 22 billion of American tax payers money were fed into research and development expenses of the industry. Again more than half of \$ 23 billion worth of orders for electronic equipment came from the Department of Defence, National Aeronautics and Space Administration and Federal Aviation Agency.<sup>17</sup>

Importance of Developing Countries:

The process could be explained with Raymond Vernon's theory of product cycle.<sup>18</sup> It is suggested that US multinationals are research based grounded on superior technology. Only a few firms at first risk the high cost of manufacturing in America. Later when the product is perfected, more firms come in and soon the home market tends to get saturated. Therefore, the earlier firms try for the developed markets

17 Boudhayan Chattopadhyaya, "Multinational Corporation and Sovereignty: An Asian Perspective", Economic Times (New Delhi), 2 January 1976, p.4.

18 Robert Gilpin, US Power and the Multinational Corporation (London: Macmillan Press, 1976), p.120.

of Europe by exporting their goods and then to produce it locally so as to save on the transportation cost. In the process other countries also rush in. Japan which had licensed American technology long back poses a challenge to US firms in their own domestic market. The main reason why Japan is able to compete with the American firms is because it has a low consumption level and therefore has to spend less money on labour wages. The American firms in order to cut down on wage costs are shifting their firms to developing countries that are considered as low wage areas.

Multinationals as Carriers of Technology:

Orville Freeman, President of Business International Corporation commenting on the importance of technology stressed that, "technology which in the broadest sense including material, managerial, marketing, organizational and other skills as well as advanced technical information such as secret knowhow is at the heart of the difference between developed and the developing world."<sup>19</sup> Therefore, as Denis Goulet writes:

Corporations employ a rhetoric which portrays them as surveyors of technological salvation. The line is that if modern technology is adopted, misery in the Third World will be abolished, productivity will increase and everyone will be better off. The transnational corporations are best for bringing technology to poor countries

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19 Denis Goulet, The Uncertain Promise: Value Conflicts in Technology Transfer (North America Inc./IDOC, 1977), p.69.

because of their global organizational skills, their ability to mobilize resources quickly, their skills in recruiting personnel from all cultures, their capacity to respond quickly to opportunities and their massive investment in R and D without which new technology could not be generated. While arguing that transnational corporations no doubt possess these advantages, one can still legitimately doubt whether the technologies they supply are well suited to abolishing the poverty of masses in poor countries. 20

This particular aspect of transfer of technology will be a subject of greater discussion in the later Chapters. But a comment by Robert Girling summarizes the main trend. He says:

The transfer of technology has proved to be a subtle and pervasive mechanism in the preservation of structures of dependency in the Third World. Technologies sold by TNCs favour growth with huge scale, high concentration and built-in obsolescence. Each of these features may prove to be anti-developmental and inimical to the demands of distributive justice. 21

What can, however, be a subject of significance is the benefit that such a transfer brings to the economy of the United States. In the Senate Hearings on Multinational Corporations, James W. McKee, Jr., President of CPC, International Inc. observed:

US MNCs have made a positive contribution to the US. It has increased wealth and the international asset of United States. It has had a generally stimulating effect on US economy and US jobs. 22

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20 Ibid., p.80.

21 Ibid., p.123.

22 United States, Committee on Finance, Sub-Committee on International Trade, Hearings on Multinational Corporation (Washington: 1 and 6 March 1973), p.9.

The statistical figures show that they bring in more than \$ 6 billion in profit to US every year which helps to finance domestic operations and supplement sales at home. Again between 1966 and 1972 the domestic employment of these firms rose by 30 per cent, while employment in US oriented companies increased only 14 per cent. MNCs account for half of America's export and only 7 per cent of goods produced by foreign subsidiaries are exported to the United States.<sup>23</sup>

Impact on Foreign Policy:

It has been a subject of significant interest among scholars as to what kind of influence the MNCs could render on the foreign policy of America. Though no elaborate work has been taken up until recently but strong references about it are increasingly in evidence. This aspect needs to be probed from the point of view of whether economic forces are more influential than matters of politics and security. Authors like Hymer whose work we have cited earlier argued that it is the economic forces that determine the international politics. In an article, "Multinational Corporation and Law of Uneven Development", Hymer argues that contemporary international relations are rapidly being shaped by two laws of economic development: The Law of Increasing Firm Size and Law of Uneven Development.<sup>24</sup> The law of

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23 Joiner, n.16, p.280.

24 Hymer, n.14.

increasing firm size is the tendency from the time of Industrial Revolution that firms have increased their size "from the workshop to the factory, to the national corporation, to the multi-divisional corporation and now to the multinational corporation."<sup>25</sup>

The law of uneven development, he continues, is the tendency of the international economy to produce poverty as well as wealth, underdevelopment as well as development. Together these two will produce the following consequences:

A regime of North Atlantic Multinational Corporation which would tend to produce a hierarchical division of labour between geographical regions corresponding to the vertical division of labour within the firm. It would tend to centralize high-level decision making occupations in a few cities in the advanced countries, surrounded by a number of regional sub-capitals, and confine the rest of the world to lower levels of activity and income, i.e. to the status of towns and villages in a new Imperial system. Income, status, authority and consumption patterns would radiate out from these centres along a declining curve, and the existing patterns of inequality and dependency would be perpetuated. The pattern would be complex, just as the structure of the corporation is complex, and the basic relationship between different countries would be one of superior and subordinate, head office and branch plant. 26

On the other hand Jacob Viner, belonging to the realist school and proponent of economic liberalism analysing the relationship between political and economic factors in determining the structure of international relations

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25 Ibid.

26 Ibid., p.114.

concluded that political and security considerations are primary.<sup>27</sup> Politics determines the framework of economic activity and channels it in direction which serves the political objectives of the ruling groups in the country.

Following this argument transnational actors and processes are dependent upon peculiar patterns of inter-state relations. "Whether one talks of the merchant adventures of 16th century, 18th century finance capitalist or 20th century multinationals, they have been able to play an important role in world affairs because it has been in the interest of the prominent power to do so."<sup>28</sup>

From this perspective the multinationals exist as transnational actors today because it is consistent with the interest of the world's dominant power - the United States. This argument does not deny the analysis of economist that MNC is a response to contemporary technological and economic development. The argument is rather that these economic and technological factors have been able to exercise their profound effects on the developing countries because the United States has been a dominating power.

According to Robert Gilpin, who wrote an article on this subject, it is closer to a kind of truism to argue that the role of nation State in economic as well as political life is

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27 Robert Gilpin, "Politics of Transnational Economic Relations", International Organization (Massachusetts), Winter 1971, Vol. XXV, No. 1, pp. 348-419.

28 Ibid., p. 404.

increasing and that MNC is actually a stimulant to a further extension of State power in the economic sphere.<sup>29</sup> MNC is largely an American phenomenon and that in response to this "American challenge", other Governments are increasingly intervening in the domestic economies in order to counter-balance the power of American Corporation and to create domestic rivals of equal size and equal competence. However, it is assumed that Americanbased MNCs have sub-served the national interest of the United States. The study of American foreign relations becomes more meaningful and understandable in terms of its power thrust.

Writers like David Horowitz, a long time Marxist, has stated his view points that the gap between American activities after the Second World War and its cherished ideals cannot be properly understood unless it is taken that the group which wields power blends the national interest and its own interest into one. And this group is no other than the men who also man the corporations.<sup>30</sup>

Dennis M. Ray writing a similar article argues that the influence of corporation on American foreign relations stem primarily from (a) their ability to take independent action in international field through foreign investment; and (b) their capacity to shape public opinion in such a way as to legitimize

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29 Ibid.

30 David Horowitz, "Corporations and the Cold War", Monthly Review (New York), Vol.21, 1969, p.38.

governmental action in favour of business interest abroad. The very act of investment becomes a component of American foreign relations and brings in a level of influence on American foreign policy.<sup>31</sup>

The most direct and probably the most effective mechanism of corporate influence is the pattern of recruitment of foreign and national security policy officials. Studies conducted by David S. Mc-Lellon and Charles E. Woodhouse reveal that for the years 1938, 1948 and 1956, business, finance and law dominated the pattern of recruitment in the foreign policy cadre.<sup>32</sup>

Though the argument of pulls and pressures from other interest groups on the foreign policy making process is not discounted, it is widely believed that some interest groups are more capable than others in promoting their business interests.

Having made the above point, it is to be analysed as to how US MNCs have been helped by the Pax Americana syndrome and vice versa. Robert Gilpin has successfully documented the entire process.<sup>33</sup> His idea is therefore followed to debate the subject. He argues that after the Great Depression, a leadership vacuum occurred in the international economy.

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31 Dennis M. Ray, "Corporations and American Foreign Relations", Annals of the American Academy of Political and Social Science (Philadelphia), Vol.402-41, 1972, p. 83.

32 Ibid., p.88.

33 Gilpin, n.18, pp.138-162.

The United States as a major industrial power was attempting through Congressional Acts for reduction in trade barriers. But after the Second World War, US had to sacrifice the two basic principles of American commercial policy: "reciprocity" and "non-discrimination", and allow the regional integration of Europe and also help Japan to develop against the impending threat from the Soviet Union. It had to help Japan by supplying the technical knowhow and forcing its multinationals to license patents. Further, it had to use foreign economic and military aid to maintain its influence, acquire strategic positions and protect American overseas interest. Though Europe was allowed to regionally integrate but US was successful in retaining its economic interest. America supported the establishment of European Economic Community with the pre-condition that American subsidiaries were to be treated on the same basis as European Corporations.

Thus America's relationship with Western Europe and Japan provided the necessary conditions for the spread of its business firms in search of markets. Pax-Americana provided a political and security structure which facilitated the rapid expansion of American Corporation in South America, Canada, Africa and other parts of the world while European imperialism began declining.

The whole operation did not follow a planned course but US officials gradually realized that growing overseas empire of American Corporation could be made to serve the larger interest of the United States.

Over the years US overseas military, diplomatic and foreign aid commitments had caused a serious balance of payment deficit for the United States. As this deficit became more severe the MNCs and their rapidly growing foreign earnings were recognized as major assets that could help maintain America's global hegemonic position. Again US Government had used its domestic law which forbade its multinationals to part with the superior technology in trade with enemy countries - Soviet Union, Cuba and China. Instead, it had forced the multinationals to license technology to Japan fostering the emergence of rival MNCs in Japan. Again much of the early American investment in pre-revolutionary China, came about as a result of urging by the State Department personnel rather than US business community who saw greater opportunities in Japan than in China.<sup>34</sup>

On the whole, despite the occasional bickerings of American MNCs and decision makers the underlying assumption of American officials has been that the national interest of US is best served by the overseas expansion of American Corporations.

Even writers like Kenneth E. Waltz who takes the position that the MNCs do not expand into other countries for the sheer necessity of raw materials or become dependent on them in any

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34 Dolph Warren Zink, The Political Risks for Multinational Enterprise in Developing Countries - With a Case Study of Peru (New York: Praeger Publishers, 1973), p.19.

way concedes that despite all the decentralization of operations, centres of control remain intact. As he writes, "...that most of the largest MNCs are based in America, most of their research and development is done there, most of the top personnel are Americans. Under these circumstances, it is reasonable to suppose that in making corporate decisions American perspective will be prominent one."<sup>35</sup> Therefore, the size of American operations abroad would inevitably carry the US influence in the affairs of other nations - a situation whether one wishes it or not !

#### US MNCs in Developing Countries:

The international economic order formed at Bretton Woods after the Second World War was largely to the advantage of the United States mainly because of the dominant position of the United States in the world economy. This aspect needs no elaboration here, but it is sufficient to say that US was successful in moulding the international monetary and trade policy conducive to its national interest than many countries with less economic power.

The surplus money generated by the war economy was mainly to be utilized for importing raw materials. The official

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35 K.H. Waltz, "Myth of National Interdependence" in Charles Kindleberger, ed., International Corporation (Massachusetts: M.I.T. Press, 1970), p.221.



policy laid down was of the following nature:

Our interests require that we concentrate on domestic productive efforts in those fields where we can produce most efficiently and not draw down upon our exhaustible resources unduly. We need large imports to strengthen our conservation policy and increase the stockpile of critical material. .... Even with the maximum feasible levels of imports, substantial foreign investment will be needed to maintain a level of exports sufficiently high to avoid a painful readjustment in certain areas of domestic agricultural and industrial production. 36

In the light of the above policy, it would be interesting to view US policy towards Asia.

The forces of nationalism as generated in the newly independent countries was not unnoticed by the US Government. The fear as it existed then was that the present state of turbulent condition in the developing countries could be exploited by the Communist States to their advantage. It was realized that "the position of US as the leading exporting and creditor nation of the world" would be of some help to stabilise their condition. Besides "American commerce and industry will, of course, continue to have an active interest in Asia as a source of supply and as a market." In this connection "American Governmental loans would fall far short of the magnitude of Asia's capital requirements.

36 President's Economic Report, Department of State Bulletin (Washington, D.C.), 16 January 1949, p.79.

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Only private capital could be of any use."<sup>37</sup> But for that, the country desirous of American capital must express their desire "by creation of conditions which give prospects of reasonable treatment and return for foreign capital."<sup>38</sup>

It has been the opinion of some others that American economy has become so dependent on foreign raw materials of host countries that it is alleged that US foreign policy is designed to ensure that host countries continue to be receptive to foreign investment.<sup>39</sup>

Therefore, it could be categorically laid down that though short term security interest in preventing the menace of communism was present but long term economic interest was also taken into account.

As Gunnar Myrdal notes the spurt of interest in the problems of underdeveloped countries particularly on the Western side was induced by internal interest and pressures

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37 W. Walton Butterworth, "Asia Today", Department of State Bulletin, 12 October 1948, pp.492-494.

38 Ibid.

39 D.I. Blake and R.S. Walters, The Politics of Global Economic Relations (New Jersey: Prentice Hall, 1976), p.103.

exercised by the dominant social strata but was sought to be justified by the security of Western countries.<sup>40</sup>

The policy evolved for the purpose was the International Technical Co-operation Act of 1949 or Point Four Programme. It was announced that this would help to make the benefits of "scientific advancement" and "industrial progress" available for the improvement and growth of underdeveloped areas.<sup>41</sup>

If the objectives of Point Four Programme is looked at closely the real purpose becomes distinctly clear. The technical assistance would be to provide amenities in the fields "considered basic for economic development - such as transportation, health, education, communications and water resources." It was clarified that "lack of development in such basic fields imposes real limits on the rate at which capital investment can be absorbed in most underdeveloped sections of the world....." <sup>42</sup>

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40 P.C. Mahalanobis, "Asian Drama: An Indian View", Economic and Political Weekly, July 1969, p.1119.

41 Inaugural Address of the President, "Point Four", Department of State Bulletin, 30 January 1949, p.125.

42 John R. Steelman, "Goals and Practical Problems of the Point Four Program," Department of State Bulletin, 12 June 1949, pp.760-63.

Thus it is clear that governmental assistance program was given mainly with the clear cut idea to facilitate the activities of its own foreign capital. As it finally said, "Governmental direction and assistance are necessary, particularly in the planning and development stage, but the ultimate success of Point-4 necessarily will in great part depend upon the ability of American businessmen to supply the wants of the underdeveloped areas." 43

Some of the figures available go to prove that US investment in developed countries is more than the underdeveloped ones but the profits and rate of return are more from the latter. See the pages of the citation below. 44

Given these aggregate data on US foreign investment and given the important weight of the underdeveloped countries, various analysts have argued that American investment in underdeveloped countries are primary determinants of the American foreign policy towards these countries.

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43 Ibid.

44 Abdul A. Said and Luiz Simmons, ed., The New Sovereigns, Multinational Corporation as World Powers (New Jersey: Prentice Hall, 1975), p.141.

**CHAPTER II**

**AMERICAN MULTINATIONALS IN INDIA**

## CHAPTER II

We have emphasized earlier that direct investment has been one of the main features guiding American foreign policy towards developing countries. Also, that markets are in a way creatures of social and political systems and their operations (given the economic parameters and technical constraints) can be induced or suppressed through political decisions and institutional mechanism both at national as well as international level. As Carlos F. Diaz-Alejandro, Professor of Economics at Yale University, writes:

Markets are creatures of social and political systems, not mechanisms arising spontaneously and inevitably out of economic necessity. Which markets are allowed to operate and how, which are encouraged and which are repressed - these are political decisions, both nationally and internationally.... Power, whether military or corporate, abhors an uncontrolled and truly competitive market. It would be an extraordinary world in which asymmetries in military power were not reflected in asymmetries in economic relations. <sup>1</sup>

Such an interpretation is particularly applicable to the operations of multinationals in developing countries. The official policies, that have been pursued, both at home as well as in the host countries, have had a direct bearing on the flow and the presence of such an investment. In fact, the bilateral relations of the United States with the host country tends to get strained or smoothed, to a large extent,

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<sup>1</sup> Carlos F. Diaz-Alejandro, "North-South Relations", International Organization, 29, 1975, pp.213-41.

as a result of the recipient country's attitude towards American capital. Therefore, it naturally follows, in the case of a country like India which is eager to maintain its independence and self reliance; that foreign capital investment of the nature that the United States has followed would create a certain sense of suspicion and doubt about such an investment. A review of the relationship of the US with India tends to reveal a slow and persistent feature of the American policy that has undermined the indigeneous industrial capability. Such a state of affairs in turn would lead the United States to have its own frustrations with a country like India.

Events and circumstances have forced India to welcome American capital but as and when India has tried to assert itself in regard to the policy matters, the relationship has taken a turn for the worse. The reason for being sceptical about US capital is mainly because it is generally believed that in accordance with the prevailing power equations and imperfect world structure, the influence of US terms on the political composition and developmental objectives of host countries will be adverse.

The above points have rarely been found and spelled out in the empirical literature. More often than not, attention has mainly been focussed on the contributions of foreign capital to the third world. Research in the field of

international economics also tends to be addressed mainly from the standpoint of rich countries. But there are some scholars in the less developed countries who are studying international relations and the questions related to it from their own perspective. Of course, part of the problem in studying the multinationals is the lack of access to crucial information. Many of the facts are simply not available for the scholars to do an indepth study.

The approach of the less developed countries to the international trade problems had been fairly passive in 1950s and 1960s. The bargaining success of the Oil and Petroleum Exporting Countries (OPEC) for better prices for their natural resources have made the third world conscious of their resource wealth. This is noticeable in their changing approach in dealings with the developed countries. The earlier approach for voluntary international co-operation from the developed countries have been changing into more effective and determined bargaining with developed countries and foreign firms in international negotiations as well as bilateral ones. The present stance of these countries is to reap the maximum benefits from the firms and also make them toe the country's national policy. In India, the two US based multinational firms, International Business Machines (IBM) and Coca Cola were asked to pack up and leave for not conforming to governmental regulations.

It will be the endeavour of the present researcher to assess from the host country's point of view the benefit resulting from the giant multinational firms. The obvious framework of such a study will be the national viewpoint in which the political, social and economic objectives are to be assessed in studying the role of multinationals. From the scant and scarce data available, the American multinationals will primarily be our concern which with their superior technology and management skill have to this day dwarfed the firms of other countries.

To understand the activities of the multinationals, it is necessary to dwell upon the respective views and interests of the United States as well as India. Secondly, the behaviour of these corporations as perceived by the host countries after some years of their functioning and the reactions that such a behaviour sets in the host countries becomes a crucial point in understanding the subject.

India's Initial Policy Towards Foreign Private Capital:

Newly independent States like India, were confronted with the problem of shortage of foreign exchange, managerial and technical knowhow and thus were compelled to invite foreign capital to achieve rapid economic growth. Having suffered the hazards of foreign capital the interim national government of India had decided to avoid the same story again. In the resolution of Indian National Congress it was laid down

that foreign capital has resulted "in the acquisition of control over India's economic and political life which had both warped and retarded national development."<sup>2</sup> It was the unanimous decision:

that goods which the country cannot produce at present but should be in a position to produce later on should continue to be imported from other countries rather than local manufacture should be started or expanded by foreign firms. In the course of time it will be possible to restrict or discontinue foreign imports but foreign vested interest once created would be difficult to dislodge. <sup>3</sup>

Even the business groups were aware of the need for a national government and economic freedom for further growth. In the Bombay Plan for the Economic Development of India (1944) whose various signatories included leading industrialists like J.R.D. Tata, G.D. Birla, Purushottamdas Thakurdas agreed that foreign capital had created vested interest that was inimical to the development of Indian economy and society. They also suggested that any further influx of foreign capital should be discouraged and attempts should be made to expel existing foreign capital in crucial sectors by a scheme of nationalisation in independent India. While arguing that given the underdeveloped conditions of the Indian economy,

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2 L. Natarajan, American Shadow over India (New Delhi: People's Publishing House, 1956), p.48.

3 Michael Kidron, Foreign Investment into India (London: Oxford University Press, 1965), pp.68-69.

some foreign capital was necessary; they emphasized that this was to be done through the mediation of the state so as to utilise its far greater power of absorption without succumbing to domination of a foreign power. The national state should be using the greater capacity to raise finances and try to develop indigeneous basic industries so as to reduce dependence on foreign finance for capital goods.<sup>4</sup>

Though the initial attitude was of little encouragement to foreign capital, but the events conspired to change the official attitude. The loss of "food marketing areas" to Pakistan made the import of grain on a large scale necessary. Other consumer imports soared as demands were released after the war. Something urgent was to be done to start the Indian industry moving lest political and social chaos engulf the country.

The difficulty that presented itself in the rapid industrialization programme was the lack of capital goods which could be obtained largely from the United States. The Indian government explanation about the non-availability of the necessary supplies was heavy demand on US resources under the European recovery programme and India's meagre dollar reserves. But in fact the main reason was that Indian officials and

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4 A. Mukherjee, "Indian Capitalist Class and Congress on National Planning and Public Sector 1930-47", Economic and Political Weekly, 2 September 1978, p.1517.

businessmen had been rebuffed when they tried to buy machinery in the American market.<sup>5</sup>

US Interest in India:

After building Western Europe as a bulwark against the Sino-Soviet bloc, US felt the need to bring the less developed countries of Asia and Africa in its own sphere of influence. The instruments of aid, investment and technical collaboration was to be offered to augment their rate of savings, raise the level of technological knowhow so that these countries are perpetually dependent on US for their economic growth. The US public opposition against continuous economic aid to less developed countries resulted in government laying more emphasis on private capital.

Therefore, Point Four, Technical Assistance Programme for these countries had a plan to increase American private investment abroad. The US State Department in its pamphlet referred to the "stimulation of a greatly expanded flow of private investment." But "an expanded flow of private investment abroad" added the State Department, "depends upon the reduction or elimination of the risks peculiar to such investment which tends to deter investors from participating in

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5 L. Natarajan, American Shadow over India (New Delhi: PPH, 1956), p.43.

enterprises in many foreign countries." It added further that:

Much can be done to reduce risks involved through efforts already under way to bring about conditions of greater political and economic security in the areas concerned. In addition the negotiations of bilateral treaties with foreign governments which would give mutual assurances of fair and equitable treatment and relieve the investor of the burden of double taxation should contribute to a more favourable climate for foreign investment and give greater confidence to investors. 6

Though India's commerce with America was a small fraction of America's total trade but still it was considered important. According to the National Foreign Trade Council of America,

India is the sole source of supply of eight important commodities and the exporter of more than 80 per cent of our imports of fifteen other items..... Thus the actual importance of India in American foreign trade has been greater than the relative volume of trade. 7

The United States also laid great importance on the import of strategic materials from India. This is revealed by the Committee of Foreign Affairs of the US House of Representatives in 1948. India was cited as a major source of a wide range of strategic and raw materials of which there was an insufficient supply in the United States.

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6 Ibid., pp.57-58.

7 Ibid., pp.40-41.

The Committee stressed that fifteen commodities on the Munition Board Group I stockpile list of particular military importance will be produced in India (manganese, mica, monazite, shellac, material rubber, chromite etc.).<sup>8</sup>

Besides this other steps were taken to put pressure on India. It was reported that US Ambassador Henry F. Grady went round the country demanding concessions for private American capital and changes in the internal economic policy of India. Obstacles such as complicated tax structure was to be removed and in November 1947 he threatened that no American loan would be forthcoming unless plans for nationalisation were dropped.<sup>9</sup>

Besides the required capital intensive machinery from the United States in exchange for Indian exports, Indian officials and businessmen came to rely on American investment and the aid as the only means for developing the Indian economy.

Moreover, the recession of 1949 and the withholding of expected American aid forced the Indian Government to change its earlier stance.<sup>10</sup>

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8 Ibid., p.41.

9 Ibid., p.51.

10 Ibid., p.60.

The statement of Prime Minister Nehru in 1949 was a marked departure from this stance before independence:

Indian capital needs to be supplemented by foreign capital not only because our national savings will not be enough for rapid development of the country...but also because in many cases scientific, technical and industrial knowledge and capital equipment can best be secured along with foreign capital. 11

American Investment on the Eve of Independence and the Changing Patterns thereafter:

On the eve of World War II, American private investment in India (including Burma and Ceylon) was placed roughly at £ 40 million. The main industrial sphere of American investment in India were the automobile works of General Motors, Ford Motors Company of India and jute factories (five of them). Among other American enterprises, Firestone Rubber Company owned a tyre factory in Bombay and a few banks like the National City Bank, the American Express Company that operated in India.

After the 1949 policy statement on foreign capital the new American investment in India were the following:

- (a) The Coca Cola Export Corporation in Delhi in October 1950;
- (b) E.I. Squibb and Sons of New York for the manufacture of drugs;

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11 Lawrence K. Rosinger, India and the United States: Political and Economic Relations (New York: Macmillan Company, 1950), p.78.

- (c) American Cynamid Company established the Lederle Laboratories at Bulsar in May 1953;
- (d) Romington Rand of India Ltd.;
- (e) Braniard International Company for ferro manganese smelting plant in 1951; and
- (f) Parke Davis and Company for the manufacture of chloromycin in July 1954.

The largest investment were in petroleum distribution, refining and exploration. In November 1951, Standard Vacuum Oil Company entered into an agreement with the Indian government to build a refinery at Trombay. In March 1953, the California and Texas Company (CALTEX) signed an agreement to establish a refinery at Vishakapatnam. Citing extracts from New York Times, December 1951, L. Natarajan has shown that:

The Americans consider the refineries primarily as strategic installations, and India as a base rather than a beneficiary. The choice of Bombay and Visakhapatnam, two major Indian naval bases, as sites for the refineries and the New York Times reference to the proximity of these sites to the "probable scene of conflict" has ominous implications for the security of India and South-east Asia.

Moreover, in the oil agreement, the Indian government had diluted all its earlier rigid stance. Only 25 per cent of the capital stock was reserved for Indians as against the rule of 51 per cent of capital in key industries. The companies were exempted from compulsory acquisitions for

twenty-five years and were assured of receiving fair compensation if that were acquired after the stipulated period. Foreign exchange was to be made available for remission of profits. Crude oil was exempted from customs and the companies were allowed the importation of equipment at the special low rate of 5/4 per cent ad valorem. Companies were excluded from special provisions of the Industries Act which allow the government some power over the affairs of private companies. And finally, the refinery product would be sold in the Indian market at prices equal to those of imported supplies. Therefore, the Indian people gained no benefit from such an arrangement.

The Indian government by 1953 had become quite relaxed in its attitude towards foreign investment. Foreign firms were encouraged to go into reserved industries such as machine tools and fertilizers; the oil companies were granted substantial measure of extra-territoriality as an inducement to set up refineries.<sup>12</sup>

In 1957-58 measures were undertaken for stimulating the influx of American private capital in Indian economy. In September 1957, an agreement was signed by the Governments of India and the United States to guarantee the American

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12 ✓ United States, Department of Commerce, Investment in India, (United States Government Printing Office, 1st ed., 1953), pp.6, 28.

investors about the withdrawal of profits earned in India. Taxes on the income of foreign countries imposed on the Corporation were reduced from 36 to 30 per cent while the tax on dividends paid by subsidiaries to their parent companies abroad from 20 to 10 per cent. <sup>13</sup>

In 1957, stimulated by the Indian Finance Minister's visit to the United States, the Federation of Indian Chamber of Commerce and Industry sent to US a delegation of big industrialists headed by G.D. Birla to negotiate on the deliveries of capital equipment and on granting credits to Indian private companies.

In 1957-58, representatives of American investors repeatedly visited India with the object of investigating the situation and declared that India could provide a vast field of activities for American private capital. <sup>14</sup>

Even the US Department of Commerce had indicated the existence of a market potential in India. In 1961, the Department further reported that there existed a market free from competitive influence in India. <sup>15</sup>

A recent study on the US subsidiaries in India showed that expectation of profit was the main objective of original investment in India. However, the future growth of the

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<sup>13</sup> Eastern Economist (New Delhi), November 1957, p.5.

<sup>14</sup> Hindustan Times (New Delhi), 18 January 1958, p.6.

<sup>15</sup> US Department of Commerce, Investment in India (US Government Printing Office, 1961), p.3.

Indian economy and expansion of markets for products were mentioned as two main other objectives for original investment in India. The lower cost of production, tariff or import restrictions were also pointed out as the objectives for investment in India, but these were not considered as the common motives.<sup>16</sup>

Another study by Anant R. Negandhi tried to find out about the investment climate of India as far as market opportunities, socio-economic and political considerations were concerned. Of the 188 American companies examined by him, India was ranked lower in preference to Japan and other European countries, but higher than Brazil, Argentina, Egypt and Pakistan. Therefore, it is evident that even in mid-sixties India's investment climate was regarded superior among the developing countries.<sup>17</sup>

As far as profitability was concerned a study by US Department of Commerce shows that in 1962 (when the taxation procedure was quite rigid and had been relaxed considerably subsequently) the rate of earnings after foreign taxation, of American investment in manufacturing enterprise in India was among the highest of any country in the world. Out of

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16 D.R. Singh, Investment Policy and Performance of US Subsidiaries in India (New Delhi: Sterling Publishers, 1974), pp.82-83.

17 A.R. Negandhi, The Foreign Private Investment Climate in India (Bombay: Vora and Co. Publishers, 1966), p.119.

\$ 63 million of these investment in India, the US companies received an earning ratio of 20.6 per cent. In 1961 the average earning was 19.2 per cent.<sup>18</sup> (See Table below)

Table  
Taxation and Profits of Foreign Companies:

Country	Tax Rate (as % of profit) 1962-63	Earning Rates after taxation
India	67.50	20.6
Japan	44.00	9.1
Australia	49.00	11.8
New Zealand	50.00	35.3
U.K.	53.75	10.0
South Africa	35.25	17.9
Philippines	35.25	18.0
Canada	51.00	7.1
Venezuela	45.00	6.1
Peru	49.50	13.5
Italy	38.00	7.5

<sup>18</sup> Ibid., p.118.

Source: A.R. Negandhi, The Foreign Private Investment Climate in India, p.118.

Characteristics of American Investment in India:

New American private investment were mainly directed to oil refineries, chemical and pharmaceutical industries, and to mining and manufacturing of strategic raw materials. Survey conducted by the Reserve Bank of India revealed that multinationals were keen on transferring technology under pure technical collaboration, i.e. to import technology in the form of patents, sophisticated machinery, experts and technicians. For, this yields them high rate of profit through royalties and technical fees on a lower rate of taxation, fixed rate of interest on loans and credits for imports of machinery and plant free of taxation under Indian Income Tax Act. Their licenses are tied to purchase of machinery plant and spares from the foreign company or its associates at high cost and exports are restricted to certain companies so as to maintain the worldwide hold that the foreign company has.

Again a little over one-third of the subsidiaries had been able to secure 100 per cent foreign ownership. A list of some US subsidiaries shows that most of them have been able to acquire almost 100 per cent ownership.

List of Indian Subsidiaries of US MNC Operating  
in India, 1972-73:

Name of MNC	Indian Subsidiary	Total paid up capital of subsidiary	Amount held by MNC (% in brackets)	Asset of Indian Subsidiary
1. Abbot Laboratories	Abbot Laboratories (India) Pvt. Ltd.	1.00 lakhs	1.00 (100%)	317.1 lakhs
2. American Express International Banking Corporation	Anexo Nominees Pvt. Ltd.	.01	.01 (100%)	.01
3. Avequipo Inc.	Avequipo of India Pvt. Ltd.	.01	.01 (100%)	29.00
4. Colgate Palmolive Co.	Colgate Palmolive (India) Pvt. Ltd.	1.50	1.50 (100%)	461.6
5. C.P.C. Int. Inc.	Corn Product Co. (India) Ltd.	18.00	18.00 (100%)	119.3
6. Caltex Petroleum Corp.	Caltex Oil Refining Ltd.	450.00	450.00 (100%)	973.2
7. American Cynamid Co.	Cynamid India Ltd.	70.15	45.60 (65%)	800.2
8. Esso Standard Eastern Inc.	Esso Standard Refining (Co.) of India Ltd.	300.00	225.00 (75%)	2462.7
9. Ex-cello Corp.	Excello (India) Ltd.	20.00	16.00 (80%)	324.7
10. Firestone Tyre & Rubber Co.	Firestone Tyre & Rubber Co.	110.00	110.00 (100%)	2692.1

Table continued:

Name of MNC	Indian Subsidiary	Total paid up capital of subsidiary	Amount held by MNC (% in brackets)	Asset of Indian Subsidiary ( lakhs )
11. Goodyear Tyre & Rubber Co.	Goodyear India Ltd.	253.86 lakhs	160.15 (63.1%)	1977.3
12. Ingersoll Rand Co.	Ingersoll Rand (India) Ltd.	4.00	4.00 (100%)	82.6
13. General Electric Ltd.	International General Electric (India) Pvt. Ltd.	10.00	10.00 (100%)	250.4
14. Johnson & Johnson	Johnson & Johnson Ltd.	36.00	27.00 (75%)	228.9
15. Johnson & Johnson	Ethmore Ltd.	5.00	4.99 (99%)	53.7
16. Mc Nally Pittsburg Manufacturing Corp. Ltd.	Mc Nally Bharat Engineering Co. Ltd.	68.61	44.61 (65%)	676.3
17. Mercksharp & Col. Inv.	Mercksharp & Dohme of India Ltd.	180.00	108.00 (60%)	516.4
18. Muller & Philips	Muller & Philips (India) Pvt. Ltd.	10.00	.10 (100%)	122.9
19. Otis Elevator Co.	Otis Elevator Co. (India) Ltd.	70.00	49.00 (70%)	892.1
20. Pennwalt Corp.	Pennwalt India Ltd.	9.80	6.40 (65.3%)	67.4
21. Parke Davis & Co.	Parke Davis (India) Ltd.	105.00	87.50 (83.3%)	426.7

Name of MNC	Indian Subsidiary	Total paid up capital of subsidiary	Amount held by MNC (%) in brackets)	Asset of Indian Subsidiary
22. Sperry Rand Corp.	Remington Rand of India Ltd.	143.21 lakhs	110.59 (72.2%)	406.6
23. Richardson Merall Inc.	Richardson Hindustan Ltd.	70.00	38.50 (55%)	431.3
24. American Flag Manufacturing Co. Ltd.	Trisure India Pvt. Ltd.	25.33	25.33 (100%)	110.3
25. Union Carbide Corp.	Union Carbide India Ltd.	1228.50	737.10 (60%)	4414.4
26. Universal Int. Films N.York	Universal Pictures (India) Ltd.	.10	.10 (100%)	17.1
27. American Home Products Corp.	Wyeth (India) Pvt. Ltd.	5.00	5.00 (100%)	61.0
28. American Home Products Corp.	Wyeth Laboratories Ltd.	75.00	55.50 (73.6%)	248.2

Source: Company News and Notes (Department of Company Affairs, New Delhi), January 1975, pp.1-26.

Some of the American branches in India

Name	Assets (in lakhs)
American Baptist Foreign Mission Society	exempted
American Express Int. Banking Corporation	5853.0
American Insurance Co.	56.2
American Bureau of Shipping	5.3
Bank of America	4671.4
Chase Manhattan Bank	Nil
Cheeseborough Ponds Inc.	250.0
Columbia Films of India	119.3
Columbia Gramophone Co.	10.5
Control Data	1.3
Coca Cola Export Corporation	510.4
Great American Insurance Co.	60.4
Godfrey Phillips Overseas Investment Ltd.	New Company
Honeywell Ltd.	5.6
International Business Machines	1440.8
I.T. Far East & Pacific Inc.	.1
Indo-American Industrial Dev. Corp.	Not available

Name	Assets (in lakhs)
Pan American Airways	do not have separate accounts in India.
Phillips Petroleum Int. Corp.	55.2
Singer Sewing Machine Co. (India)	314.3
Scars Roebuck Overseas Inc.	1.6
CALTEX (India)	1901.9
Chicago Bridge and Iron Co.	Not available
Dow Chemical International Inc.	Not available
Dow Chemical Pacific Ltd.	New Company
Esso Standard Eastern Inc.	3294.3
Exxon Ltd.	New Company
Parke Davis & Co.	Nil
First National City Bank	14378.4

Source: Company News and Notes (Department of Company Affairs, New Delhi), Vol. XIII, January 1975, pp.1-26.

In a country of India's size which has a sense of its own potential, foreign investment is generally looked with suspicion. Therefore, according to Selig Harrison, "Public Enterprise is often deliberately used to shield key areas of industry from foreign investment and has thus become a major focus of tension in American relations with many Asian countries."<sup>19</sup> Right from the very beginning a desire, "to control over its economic destiny" led India to make striking progress in areas notably petroleum, steel, aluminium, cement, railway equipment, industrial machinery, chemicals, mining, motor vehicles and machine tools.

At times India had to pay a heavy price, as for instance, in developing indigenous refining capacity when it turned to foreign oil companies as we saw earlier. *And* it was bitterly criticized for conclusion of hasty agreements. However, the Soviet Union in 1955 came up with an offer to refine the indigenous crude oil which the American oil companies were unwilling to do. This stiffened the attitude of India and it began its efforts towards setting up indigenous refining capacity rather than permit the expansion of its existing private facilities to the United States oil firms.

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19 J.S. Harrison, *The Widening Gulf: Asian Nationalism and American Policy* (New York: Free Press, 1978), p.314.

Again when the Indian government wanted to press ahead with having fertilizer plant in the public sector and requested loans from the World Bank, it met with a rebuff. Monsoon crises and food scarcity forced India to liberalise its terms. And "foreign firms, US Government and World Bank all were pressing New Delhi to build its fertilizer policy around the private sector and to liberalise its terms."<sup>20</sup>

While one begins with the presentation regarding the benefits that accrued to the American investor, it may be equally important to assess how far the Indian economy has gained in the bargain. It may be mentioned that no clear cut objective assessment can be made in this sphere as there prevails a lack of accurate knowledge of their capital outlays, their research and development expenditure, their foreign based employment trade relationship between parent corporation and affiliates or their full stockholding in local companies. The factual data regarding dividends, royalties, technical skill and the like, as has been brought out in studies of the Reserve Bank of India cannot provide the answer as to the impact of imported technology and investment on Indian industrial productivity. A proper study is necessary to assess and evaluate the progress in production, employment, exports and technological advancement

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20 Ibid., p.331.

that might have been possible in the absence of the foreign capital and technology. The data therefore is not adequate enough to make actual assessment of the impact of foreign collaboration in Indian industry. The facts gathered therefore are always vulnerable to attack.

Assessment of American Private Capital in India:

The most elaborate study of private investment in India is that of Michael Kidron whose analysis leads to the conclusion that this type of investment imposes significant costs - including balance of payments cost on the economy while its benefits in the form of transfer of technical and managerial knowhow are much smaller than it is believed. Michael Kidron for instance estimated that during 1948-61 foreign investors have taken out of the country's general currency reserves three times more than what they have directly contributed. <sup>21</sup>

Some of the profit figures which came up during the course of debate in Indian Parliament reveal the enormous amount of profits which the multinationals have amassed in their enterprises here. In a session in the Indian Parliament some questions were raised regarding the assets of the multinationals in India. Figures that were quoted

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21 Reported in Times of India (New Delhi), 7 April 1975; Also in, V.M. Balasubramanyam, "Foreign Collaboration in Indian Industry", Economic and Political Weekly, 27 November 1971, p. A-159.

and cited in these debates showed a great disparity between the investment capital of these multinationals and the profits that they, in turn, got from the host country i.e. India. In the drug industry, Abbot Laboratories, Glaxo Laboratories and Fertilizers Ltd. with insignificant initial investment from abroad, have made fabulous profits which they have sent back to their own country or utilized to build up their assets further in this country. Abbot with initial investment of Rs. 1 lakh have repatriated Rs.22.65 lakhs in 1970 and same in 1971 and have amassed assets worth Rs. 5 crores. Glaxo with an investment of Rs. 1.5 lakhs have assets worth Rs.68 crores in the country. In the same way, Pfizer Ltd., with an investment of Rs. 5 lakhs have assets worth Rs.52 crores in the country. Coca Cola invested Rs. 66 lakhs of capital and has taken out Rs. 7 crores and built up an asset of nearly Rs. 6.5 crores. <sup>22</sup>

Another method of incurring profit is by claiming huge deduction in the name of head office expenses and under-invoicing of exports. Study conducted by Revenue Department of the Finance Ministry disclosed that such deduction claims reached upto 78 per cent of profits in case of the well known international data processing company - IBM.

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22 India, Lok Sabha Debates, Series 5, Vol. XXV, No.30, 2 April 1973, Col.306.

The company later itself came forward with a voluntary disclosure that there was an excess claim on account of Head Office expenses to the extent of \$ 450,000.<sup>23</sup>

The above facts have been further corroborated by the United States Supreme Court. It gave permission to India, Iran and Philippines to sue six US drug manufacturers - Pfizer Incorporation, American Cynamid Company, Bristol Meyers Co., Squibb Corporation, Olin Corporation and Upjohn Corporation for charging excessively high prices for antibiotics sold in these countries.<sup>24</sup>

A study of 159 multinationals in 6 developing countries by Paul Streeten and S. Lall has shown that in 91 per cent of the companies the balance of payment benefit to the host countries was in the negative. With regard to India, of the 53 companies examined, 48 had negative impact on the balance of payments. The reason for this was the low inflow of capital and the large outflow on account of imports, royalties, dividends, and head office payments.<sup>25</sup>

Before the Committee of Finance of US Senate, Peter Flanigan - Executive Director of the Council of International Policy gave an estimate that major portion of US savings

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23 India, Fifth Lok Sabha, Public Accounts Committee, 176th Report, Appendix II

24 News item in Hindustan Times, (New Delhi), 24 January 1978.

25 India, Lok Sabha Debates, Series 5, Vol.LX, No.25, 15 April 1976, Col.206.

stays at home. The capital outflow from all US direct foreign investment is only about 6 per cent of US private domestic business investment. Even this amount maximizes the return on investment to the investor at home. The Commerce Department survey from 1966 to 1970 shows that employment in US, because of MNCs activities abroad, has grown faster than employment in the average American company. And finally the multinationals have made and are making a huge net contribution to American balance of trade and balance of payments. <sup>26</sup>

The transfer of technology does not take place adequately since the research and development activities are highly centralised in their home country. In India of all the drug companies only four or five drug companies have got research centres and even those centres are practically of a nominal nature. These laboratories were visited by Hathi Committee and it was found that they were only glorified laboratories. There again one or two formulation at the intermediate stage is tried out by the Indian scientists. <sup>27</sup>

The bulk of US capital is in manufacturing industries such as petroleum refining, automobile tyres, synthetic rubber, agricultural tractors, refrigeration and air

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26 United States, Senate, 93rd Congress, Committee on Finance, Hearings before the Sub-Committee on International Trade, Multinational Corporations, (Washington, 26 February to 6 March 1973), pp.9,95.

27 India, Lok Sabha Debates, Series 5, Vol.LX, No.30, 30 April 1970, Col.270.

conditioning equipment, electronic equipment, machine tools, petro-chemicals, drugs and pharmaceuticals. Guided by their profit motive the multinationals have continued to invest in areas which are low in plan priorities of the Indian government. While chemicals products received eleventh rank in India's plan investment programme and ninth in terms of import requirement, it ranked fourth place in joint venture investment and absorbed the largest share of foreign capital.<sup>28</sup>

Due to the enormous wealth possessed by the multinationals they are in a position to easily subvert the economic programmes of the government in the developing countries. In the Indian Parliament time and again attention has been drawn as to how Coca Cola has always been accustomed to get everything done. Even lately a question was raised and aspersions were cast that the present Industry Ministry was responsible for taking Rs. 5 lakhs of bribery for giving Rs. 8 lakhs of ad hoc licence to Coca Cola.<sup>29</sup> It is alleged that the establishment of Coca Cola was under mysterious circumstances and details have never been furnished in spite of being repeatedly asked for.<sup>30</sup>

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28 K.R. Bhattacharaya, "Wages of Foreign Collaboration", Economic and Political Weekly, June 1974, p.1019.

29 India, Lok Sabha Debates, Series 6, Vol.IV, No.24, 8 July 1977, Col.245.

30 India, Lok Sabha Debates, Series 5, Vol.LXI, No.34, 6 May 1976, Cols.177-79.

Another report in daily news reported about the activities of Phillips Petroleum Company. The report says:

The Phillips Petroleum Company used a camouflaged Swiss Bank account to transfer a vast sum to India in connection with the construction of two Phillips facilities in India. The transfer of money was allegedly at the instance of certain unidentified Indian officials who it is thought may be involved in violation of Indian laws..... Also it is said that Pfizer entered this country through the backdoor by purchasing Dumex Panama and through that Dumex in India indirectly. Again Pfizer has entered this country by bribing officials. 31

Another form of malpractice indulged in by the multi-nationals is like G.D. Searle & Co., a US drug firm in collusion with All India Society of Obstetricians and Gynaecologists that has pushed the sale of their birth control pills in India around 1965. 32

By providing inducement such as liquor, entertainment in luxury hotels, hospitality outside India and providing employment in their firms to the relatives of the officials in various ministries in India they get their jobs done smoothly.

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31 India, Lok Sabha Debates, Series 5, Vol.LX, No.25, 15 April 1976, Cols.202-254.

32 India, Lok Sabha Debates, Series 5, Vol.LX, No.30, 30 April 1976, Col.266.

Apart from the malpractices that generally accompany a giant firm, the economy as a whole again do not profit much. A sort of dependency is created and local initiative is thwarted.

The Department of National Committee on Science and Technology consisting of highest technical brains stated that:

Foreign equity participation is not essential for procurement of technology. Equity participation brings dependence and has the possibility of influencing management policy directly or indirectly. Foreign equity participation should not be permitted unless some exceptional circumstances arise where it is seen that no other source exists for the technology or comparable technology and that the only mode left for acquiring such technology is through foreign collaboration.<sup>33</sup>

As far as Lux, Ponds Cream, Baby Johnson powder are concerned they do not require any technique which is not available in India. Hathi Committee said in context to drug industry that existence of MNCs in drug industry has not helped India to be self sufficient in regard to drugs but it has had an adverse effect on the initiative that the Indian scientist could take. Another instance is about Indian Leaf Tobacco Company which buys tobacco from Guntur farmers in Andhra Pradesh, by no means of an inferior quality as compared with Virginia tobacco in the US. The leaves are

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<sup>33</sup> Reported in Economic Times (Bombay), 28 May 1973.

exported to London at a price much less than that of International price. By being able to produce low priced cigarettes, it was alleged that the company has adversely affected a local company, Vazir Sultan Co., and has also been able to get concessions from the Finance Bill of 1970 for low priced cigarettes.<sup>34</sup>

The multinationals have in later stages diversified into various other activities and have thus engulfed the economy of the country to their advantage. Union Carbide has diversified into export of garments. Coca Cola was exporting canned fish and Indian Tobacco Company has recently indulged in hotel building.

All the above cited misdoings have been possible because the MNCs have managed to influence the powers-that-be. As the report of New York Times, May 1975, indicated, forty American companies operating in India gave donations to political parties and spent money to maintain lobbies for advancing their respective interests.<sup>35</sup> Also that American based MNCs are used to shield the covert CIA activities. Attention of the Indian Government was drawn to this news item and it was asked whether

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34 India, Lok Sabha Debates, Series 5, Vol.LX, No.25, 15 April 1976, Cols.202-254.

35 V. Gauri Shankar, "The Performance of Transnational Corporations in India", India Quarterly (New Delhi), Vol.XXXIII, No.2, April-June 1977, pp.181-93.

adequate steps are being taken. The Government replied in the affirmative and emphatically stated that utmost vigilance was maintained in this regard.

Therefore, more than the unethical methods employed by the MNCs, it is the extra-territorial interference of the US Government in the workings of its MNCs that is causing apprehensions in several countries, especially the less developed ones. The collusion between the CIA and US MNCs has added a new dimension to the problem.<sup>36</sup> For example, Canada which is completely dominated by the US MNCs feels that its economy is being controlled from the board rooms of Corporate America and the US State Department. Incidents like US Government vetoing the proposal to sell typewriters worth £ .5 million to Cuba from its Canadian subsidiary and opposing \$ 18 million order for locomotives from US to a US affiliated company could be cited to prove how interests of the US domestic economy and the super power diplomacy of US Government have influenced the working of US MNCs in Canada.<sup>37</sup>

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36 "Bribery, Corruption or Necessary Fees and Charges?" Multinational Business (London: The Economic Intelligence Unit), September 1975, p.10.

37 "Will Canada's New Controls Choke Multinational Investment?" Multinational Business (London: Economic Intelligence Unit), April 1975, p.43.

Similarly apprehensions are expressed in India too when US MNCs are dominating in critical areas as port development and sensitive electronic equipments. When a port like Paradeep is handed over to US multinationals, it is quite natural that portions of Bay of Bengal automatically come under US influence.<sup>38</sup>

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<sup>38</sup> Chanakya, "Dangers in Encouraging Multinationals", Patriot (Delhi), 28 July 1977.

**CHAPTER III**

**COMPUTERISATION AND IEM**

### CHAPTER III

The observation made in the earlier two Chapters was that multinationals are not mere economic entities but their activities often involve political overtones too. Although this may be more apparent in the less developed countries, but as Raymond Vernon concedes even the developed countries "impelled mainly by questions of national security or national prestige" are striving "to reduce the role of foreign owned subsidiaries in various key sectors of the local economy."<sup>1</sup>

Problems of national security arise primarily because of the MNCs specialization in sophisticated technology which is required for defence purposes. "The propensity of MNCs to concentrate in activities in which entry is difficult means in effect that they are heavily represented in the sectors that nations regard as essential to defence."<sup>2</sup> The resultant of these features is the apprehension that decisions concerning national interest might, in the process, become the prerogative of a foreign entity. This underlying assumption must be tested on the basis of an analysis into the sphere of computers which falls in the category of

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<sup>1</sup> Raymond Vernon, Multinational Enterprise and National Security: Adelphi Papers No.74 (London: The Institute for Strategic Studies, 1971), p.3.

<sup>2</sup> Ibid., p.4.

strategic items and technologically intensive units. It has been the observation that "IBM computers are reluctantly bought and put to work by the defence activities in other countries for so long as the substitute national product will be substantially inferior."<sup>3</sup> Therefore, this particular multinational will henceforth be the subject of controversy and debate among scholars and all the above mentioned points should be assessed keeping in view its operation.

One particular instance will bring out the close connection between the operation of technologically intensive multinationals and the way they can affect the national decision-making process. A French writer Gaston Deffere in Foreign Affairs (New York), April 1966, (pp.440-41), referred to the size of American investment in Europe and the power of American big business as "the beginning of the colonization of our economy." After indicating how France's only large electronics firm has passed "into the hands of General Electric, which competes on the world market with another American firm IBM", he added, "thenceforth the centre of decision in a vital sector, not only in the economic sense but for the national defense, were no longer in France but in the US."

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3 Ibid., p.8.

It goes without saying that the advent of computers have made a profound impact on the life styles of citizens in the developed world. Computers have found their way into diverse areas, viz. law enforcement, industrial management, space research, airline reservations and commercial operations.

In industries the computer's instantaneous calculations and control of automated systems has increased production, reduced delivery time and has improved quality. To the scientist, it is helpful in analysing data on gas release rates, environmental pollution, help the satellite scanning the earth's surface in the location of new mineral deposits, identify possible crop hazards and forewarn against the impending natural disasters. For the economic planners to avoid serious consequences of unproductive investment and economic imbalances, the computers are of much help for the analysis of the interactive impact of allocation and mobilization of resources in line with national objectives and priorities. The computers thus have the tremendous potential for analysis, acquisition, storage, retrieval and dissemination of information in vast quantities and at phenomenal speed:

The concentration of information makes possible its facile manipulation and computers' control of information is power. Some of these efforts

towards centralization and national information system may become quite dangerous over all the preservation of certain forms of liberty in many countries. 4

The potential of the computer can be conveniently deployed to serve any country's interest. As defence capability and economic development depends to a considerable extent on the improvement made on the computers, a tendency amongst the inventor countries is to jealously guard it and prevent the real transfer of its technology.

Computers for Developing Countries:

Whether computers can be advantageously used in the context of the needs and aspirations of the developing countries bristle with many difficulties. Much depends on which sector of the national economy needs strengthening; what national priorities are and what will be the political; social and economic consequences of the steps being taken.

It can be said that these countries do not have the necessary infrastructure to become beneficiaries of the computer technology. At the same time, the value of computer technology is so immense that the developing countries in their quest for accelerated development need to acquire the most developed form of it.<sup>5</sup>

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4 Ramon C. Barquin, "Computation in Latin America", Datamation (Illinois), March 1974, p.78.

5 S. Sampath, "Computerized Information Services" in S. Radhakrishnan and T.K.S. Iyengar ed. Technical Information Services for Developing Countries (Bangalore: ICSU/COSTED, March 1977), p.94.

Professor M.G.K. Menon, Chairman of India's Electronic Commission, opines that with regard to computer technology a country like India has no business to be content with "intermediate technology but should try and adopt and put into use the modern systems and practices that are available in the world today. He emphasised that this is not in "the nature of irrational pursuit of modernism hand waiving and prestige but because it represents best national investment."<sup>6</sup>

The distinguished economist Kenneth Boulding makes a powerful plea for the introduction of modern technology in developing countries in these words: "The spectacular changes which have taken place in the small segment of earth's total activity should not blind us to the fact that over a large part of human society at the moment is not how to deal with technology that is advancing too rapidly but how to advance technology."<sup>7</sup>

Technology has a vital role in minimizing the disparities between nations. The introduction of computers is significant in this context and their application have a decisive influence on the progress of the developmental process.

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6 Ibid.

7 Ibid.

The United Nations General Assembly in 1968 at its 23rd Session, adopted Resolution 2458 which reflected deep concern and the need for stimulating the use of electronic computer to accelerate technological change in developing countries. An Advisory Committee on the Application of Science and Technology to Development (ACAST) comprising of high level panel of experts stressed that diffusion and application of computer technology in developing countries could play a remarkable role in determining the rate of economic and social development. It emphasises that the analysis and systematisation which occurs when computerisation takes place, is itself a significant contribution to improving management decision making and resource allocation. Improving the management capability at all levels, in the public and private sectors in the developing countries, is a sine quo non for growth in the developing world.<sup>8</sup>

In the less developed countries computers should be used in operational research, linear programming rather than routine data processing and labour displacement activities. According to the Electronic Commission of India, "the positive approach to the problem is to expose

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8 "Computers and UNESCO Study", Economic Times (New Delhi), 19 March 1973, p.5.

technological alternatives which, while sustaining the natural growth of development catalysing applications, tends to minimize foreign exchange drain in a phased sequence."<sup>9</sup> Socio-economic impact of computers in the country should be taken into consideration and "it should be used in areas which are export-oriented, conserve resources, foster research and development and meet the needs of national security."<sup>10</sup>

Before assessing the activities of the computer multinational - International Business Machines, it will be worthwhile to lay down at the very outset the statement of Gilbert Jones, Chairman of IBM. The Chairman was making the statement before the UN body that was studying the impact of Multinational Corporations on Development and on International Relations. In this regard the question was posed about the need for appropriate technology for the less developed countries and he replied:

If problems to be solved are the same, there is no reason why the tool should not be the same. If penicillin worked in England, it should be possible to use it elsewhere. Likewise with regard to computers. ....When we introduce a product line, it is sometimes

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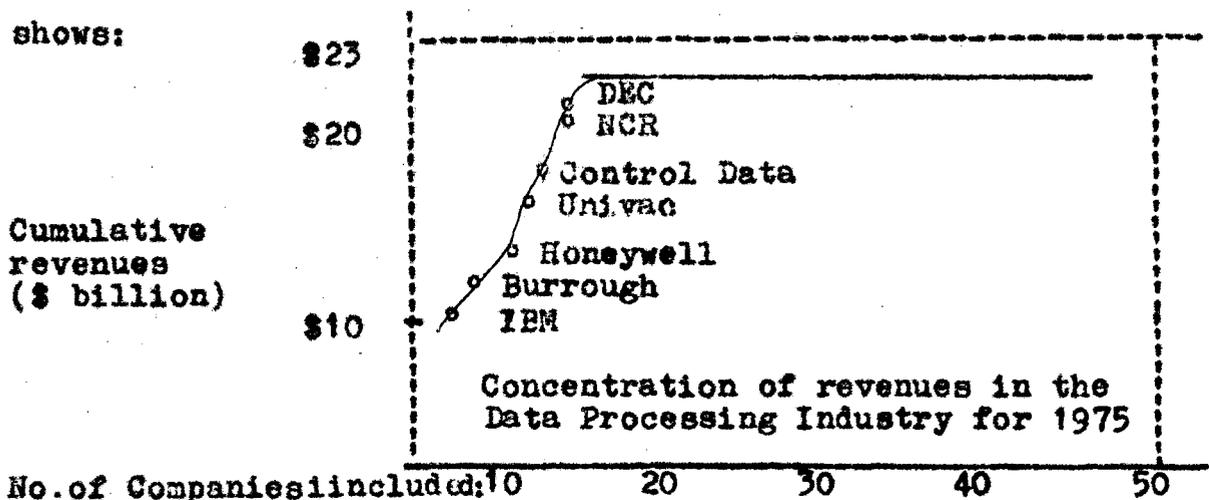
9 Perspective Report on Electronics in India (Government of India, Electronics Commission), June 1975, p.219.

10 Annual Report of the Department of Electronics, 1975-76 (India), pp.208-253.

suggested that we see whether the old, less sophisticated product line could be used in Africa or countries of Southeast Asia. However, IBM already knows that the users in those countries - whether governments, banks or other commercial enterprises - want the most modern and best equipment available. So, I think that it is really not up to IBM to decide what the customers should want to have. It is up to the local market and the government to guide the R and D effort of the corporation. We have just announced a special line of product in India which meets the requirement of the Indian market better than the requirement of any other market. And, we have been doing this for years.

American computers are technologically speaking the most superior machines and they account for 95 per cent of the world computer market and 90 per cent of European market.<sup>11</sup>

An analysis of the cumulative revenues received by the top fifty American companies in the Data processing industry shows:



<sup>11</sup> A.J. Harman, The International Computer Industry: Innovation and Comparative Advantage (Massachusetts: Harvard University Press, 1971), pp.6-39.

As the curve in the figure illustrates the cumulative revenue for 1975 for the top 50 companies was something over \$22.2 billion. The curve also shows the high degree of concentration in the large companies. Half of the total revenue accrued to the industry under IBM, whose data processing revenue (reported as 77 per cent of its corporate total) amounts to over \$ 11.1 billion.

The estimated net income of these fifty firms was about \$ 2 billion in 1975 disregarding some relatively small reported losses. Three quarters of this was earned by IBM. In fact, the income which IBM reports from other non-product sources alone (principally interest) is \$ 360 million, more than the combined income of the next six largest computer manufactures.<sup>12</sup>

Amongst the other multinational giants IBM ranks third after Standard Oil of Jersey and General Motors. Its income has more than quadrupled over the last ten years by developing, manufacturing and servicing a wide variety of information handling products whose uses range from science, business, education to arts and entertainment.<sup>13</sup>

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12 Oscar H. Rothenbuecher, "The Top 50 Companies in the Data Processing Industry", Datamation (Illinois), June 1976, pp.48-49.

13 India, Lok Sabha (5th), Public Accounts Committee, Computerisation in Government Departments - Two Hundred and Twenty First Report, (New Delhi: Lok Sabha Secretariat), 1975-76, p.175.

IBM got more than half its revenue (\$ 7.27 billion of \$ 14.4 billion in 1975) and half its profits from overseas business. With its 130,000 people abroad, 21 plants and 10 laboratories, it has amassed a share of the world market that starts at more than 50 per cent in most major countries. It has almost total domination in many smaller markets. The exception to this rule are Japan and Great Britain where entrenched local competitors and "buy national" policy have encouraged IBM to keep a low profile and be content with less than 40 per cent of the market. Rather than fight the government and local authority, IBM simply concentrates on the commercial uses and encourages the government users whenever they are willing to "buck the tide" (which is fairly often).<sup>14</sup> More than quarter of IBM's overseas revenue come from German market followed by France and UK.

Linkages between US Government and IBM:

Most of the research and development expenditure required by IBM was supplied by the US government in the earlier years to gain a foothold in the computer business and orders secured from US government was a factor in the success of IBM. IBM spends around \$ 504 million a year on R&D.

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14 Angeline Pantages & Nancy Foy, "The US Multinationals", Datamation, September 1976, p.59.

With large number of IBM computer installation, IBM's potential in US economy is phenomenal. Therefore, IBM retains within itself the power to put the country in a non plus position.

The close links between IBM and US government is noticeable - when Ford lost his election, two people of Ford's cabinet went to IBM's directorate whereas two other took their places in President Carter's cabinet. Again Branscomb, IBM's chief scientist was asked earlier by Jimmy Carter the Presidential candidate at that time, to co-ordinate his science plan. He was expected to play a pivotal role in the science policy formation.<sup>15</sup>

Having the capability of centralisation of data the IBM computers possess power to paralyse sectors of economy. But the company itself in turn has to withstand pressures from the US government. The US government still retains the power to provide the export clearance for these companies especially so with computers which falls under the category of strategic item list. Laws have been codified by the US government for preventing the US subsidiaries operating in other countries to trade with enemies or potential rivals.

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15 Datanation, October 1976, p.140.

Until the RYAD computer programme of Russia and other socialist countries came up, the US government had disallowed its biggest company - IBM, to carry on any transaction with the socialist countries since computers would increase Soviet military capabilities.<sup>16</sup>

In 1966 the US government prevented another computer company, Control Data, from exporting two computers to France for use in a French nuclear weapons laboratory. The computers were to be shipped from US, but as Christopher Tugendhat says, "There is little doubt that US government would have at least attempted to prevent their sale even if they had been manufactured by one of Control Data's subsidiaries."<sup>17</sup>

The desire of the home country to have a firm grip over these technologically intensive sensitive industries is evidenced by the fact that when it was reported in Mid East News Agency, October 1974, that the Arab oil countries

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16 A.K. Maitra, "Transferring Technology Across Borders; Policies, Practices and Conditioning Factors", paper for the delivery at the Annual meeting of the Society for the General Systems Research Section on Systems Modelling and Philosophy in Public Policy Analysis, Boston, Massachusetts, on 21 February 1976, p.108.

17 Christopher Tugendhat, The Multinationals (England: Chaucer Press, 1973), p.252.

were forming a consortium to buy shares from IBM, the officials of Ford Administration warned any foreign bid to buy IBM, on the ground of its large contribution to the country's defense programme. Though IBM later categorically denied the reports but it was reported that Ford officials had taken the threat seriously.<sup>18</sup>

Computers can also be used as a kind of effective foreign policy instrument in order to bring about the necessary change. Recently, it was reported that US administration would cancel the proposed sale of American computer system to the Soviet Union if it does not make a concession concerning imprisoned dissidents - Anatoly Schchransky and Alexander Ginzburg - the Washington Star reported quoting authoritative sources.<sup>19</sup>

A survey conducted by Datamation on how IBM is able to retain its monopoly position concludes that the questionable tactics that IBM employs are not any worse than those used by its competitors. But at the same time the study makes a pertinent point that the questionable practices when undertaken by a company with most of the clout, are measurably more effective.<sup>20</sup>

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18 A News Item in Economic Times (New Delhi).  
23 October 1974.

19 Times of India (New Delhi), 17 July 1978, p.9.

20 Richard A. McLaughlin, "Monopoly is not a Game",  
Datamation, September 1973, pp.73-77.

How IBM has Reached the Top:

Multinationals in the field of strategic industries dominate the grounds primarily because of their size, marketing powers and managerial skill. IBM's growth is not rooted in advanced technology nor it is one of those large number of companies that can boast of having invented the hardware or any of the associate bits of hardware. In 1950s, Univac was regarded as the technical leader in the industry. But Univac was based in marketing terms chiefly towards scientific and university oriented research application of the computer. IBM on the other hand had been a supplier of punch card equipment and other office data systems. It was this orientation towards office systems that distinguished it from other computer firms at that time. Louis Turner makes a very pertinent observation when he says:

Starting from a dominant position in the punched card market, the firm was reluctant to tackle the new computer technology which would render its existing products obsolete. Once having decided that computers were a logical addition to their product range, however, they went into the field with a vengeance, selling extremely hard to their existing business-equipment customers whose needs they have been extremely adept at satisfying. They achieved this while selling products not as technologically advanced as the models of several competitors. Thus their System/360 range of computers did not completely adopt the integrated circuits which were the most advanced form of electronics at the time the range was

announced in 1964. Moreover, attempts to produce the largest capacity computers have been troubled with models being withdrawn, allowing Control Data Corporation to gain a useful foothold at this end of the market. Again, in developing the 'software' for Systems/360 models, the firm got into difficulties and delayed deliveries. Despite this, IBM has such a hold over its clients, and knows the market so well that it is extremely difficult for competitors to make significant inroads, even with superior products. <sup>21</sup>

Therefore, it was this orientation towards office systems (supplier of punch card and other office data system) that distinguished it from other computer firms at that time.

IBM was first to realise the importance of heavy expenditure on software while hardware had preoccupied the other computer companies - emphasis on software was a natural outgrowth of IBM's emphasis and concern with office and data handling systems. When other manufacturers realised it, IBM had an impressive market leadership. <sup>22</sup>

Until 1950s IBM traded on a rental basis - this suited customers who were short of cash. Rentals were responsible for the high degree of stability of IBM earnings which had never faltered in a recession. <sup>23</sup>

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21 Louis Turner, Invisible Empires: Multinational Companies and the Modern World (London: Hamish Hamilton, 1970), pp.11-12.

22 "IBM: Can the Europeans Compete?", Multinational Business (London), 1973, p.39.

23 Ibid.

IBM again has planned its pricing policy so as to maintain the high margin of profit. It has not offered its products cheaper than a competitor but has fought hard for certain large orders which it considered of strategic importance.

IBM's factories and laboratories in most major European countries are immune from union problems which bedevil other computer companies such as Honeywell, Burroughs and ICL, though the unions continue to try for recognition. The company's ability to move projects quietly from one country to another is a source of irritation to European governments but its "no lay off" policy has helped to keep the unions at bay.

The Justice Department in US trying anti-trust cases against IBM have brought out a few relevant points which seeks to explain the monopoly position enjoyed by IBM.

.....By offering and providing a package of products and services for a single price, the actual cost attributed to developing and marketing each element of the bundled package could be disguised by IBM. As a result the typical computer system user was for the most part, incapable of objectively assessing the price and therefore the cost of individual components of the bundled package. ...He lacked the basis for adequately evaluating his data processing needs.

It was understandable that out of this situation arose an environment where customers grew totally reliant and dependent upon IBM for all facets of their data processing operations.

Moreover, the Justice Department drew upon IBM documents to illustrate that "IBM's activities in education were not motivated to help education but to establish key prestige accounts that would influence the purchase of company's computers and to train students who would later purchase IBM equipment."

Finally, "IBM's free software was written in its own machine language rather than what is known as high level languages" - as Fortran, Algol and Cobol. Because these programmes were written in machine language, they would operate on IBM computer equipment exclusively. Had the programme been written in higher level language a customer's internal programmes could modify the programmes to make them compatible with the computer equipment of other system's manufacture.<sup>24</sup>

From this, it follows that for proper use of the computer, IBM man too has to be hired for writing the programme and feeding it into the machine which in the ultimate analysis becomes quite crucial. Another feature which comes into focus is that similar to other US MNCs , in IBM's functioning too, there is the powerful

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24 Datamation, December 1974, p.113.

thrust for total control and almost bringing the whole industry under its sway.

IBM's Manufacturing and Assembling Operations:

Just as IBM's marketing network is spread all over the globe so also its manufacturing operations are widespread. Rather than produce a large part of the "product line" in a plant in each country, manufacturing plants in Europe are specialized and part of the "product line" produced in each, closely follows the probable demand of the respective. In Italy the smallest of 360 systems is manufactured (model 20), in West Germany 360/30 and in France 360/110. The 1130 scientific computer as well as the teleprocessing link is manufactured in UK. The manufacture of peripheral equipment for 360 series is made in Stockholm; discs in West Germany and punch cards in Berlin. A separate plant in Brussels, Belgium, is set up solely to recondition older computers (mainly German machines) which are then shipped primarily to developing countries.<sup>25</sup>

IBM's R&D laboratories are spread throughout Europe which helps the company not only to keep in close contact with scientific research in other nations but also protect its market as well. IBM employes people from all over the

world in these activities. As one of its executives remarked, "People sometimes feel we are exploiting their country's brains and talents in the same way as mining company exploits its natural resources."<sup>26</sup>

The company maintains local laboratories throughout Europe. The various IBM laboratories in different countries and their research programmes are inextricably bound together. Each makes sense only in the context of the whole. The only country that is completely self-sufficient or potentially self-sufficient in the IBM network is the United States. A laboratory is one of the effective ways in which a company can identify itself with a country, and secure the approval of the local government. By building one, it can show that it is willing to contribute something to the host country.

IBM Competes With Domestic Rivals:

Passing judgment on the anti-trust suit brought against IBM, Judge Christensen observed, "The company sought to entrench itself by calculating on the economic viability of its competitors and selling out on a sophisticated, refined, highly organized and methodically processed campaign to discipline some of them."<sup>27</sup>

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26 Tugendhat, n.17, p.153.

27 Lewis Beman, "IBM's Travails in Lilliput", Fortune (Chicago), November 1973, p.149.

The Consent Decree of 1956 forced IBM to sell as well as lease its machines to release some of its patents, and broke open the near monopoly distant relationship between IBM and its fast growing service bureau business. Following this Decree of 1956, leasing and peripheral companies sprung up and they cut into the profit margin of IBM machines and leased out on terms calculated on a seven year "pay back" as opposed to IBM's five years. Peripheral companies developed "accessories" that users could plug into IBM system for lesser expenditure than IBM would have charged them. Displacement of IBM peripheral equipments amounted to an estimated annual loss of \$ 90 to \$ 100 million to IBM. This was not in keeping with IBM's optimal marketing policy.<sup>28</sup>

A "machiavellian scheme" was therefore drawn up and IBM management used technical standards to frustrate the competition. It reduced the price, offered long term leases at high discounts subject to buying of IBM peripherals. It redesigned its disc packages in such a way that control equipment is tucked inside the computer's main central processing unit, area that peripheral manufacturers would find it difficult to fill in. Again

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28 Gene Bylinsky, "Vincent Learson didn't Plan it that way, But IBM's Toughest Competitor is IBM", Fortune, March 1972, p.57.

certain equipment, were rented at two years lease rather than thirty days lease. Although the nominal rate reduction came to 8 per cent to 16 per cent depending on the length of the lease, the effective cut in the price in some cases was as high as 30 per cent. By the end of the year IBM commercial analysis section registered the progress and reported that the sales of peripherals manufacturers were laid off by 62 per cent. And finally, by raising the price on central processors by 3 to 8 per cent, IBM could also offset the revenue loss that it had incurred earlier.<sup>29</sup>

Later, IBM designed its 370 series in a manner so as to achieve high profitability as well as total control over its installation.

To thwart peripheral makers' control, "disc" "drivers" were built into the main frame of the 370 models. And the leasing companies were surprised to find that the sales price made re-lease of the new machines unattractive.<sup>30</sup>

The whole operation reveals the tremendous power at the command of a multinational, that it can even bypass the legal limitations and thwart competition.

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29 Beman, n.27, p.158.

30 Bylinsky, n.28, p.57.

IBM in Europe:

Japanese and European computer industries are heavily dependent on US technology. However, in recent times, they are learning to imitate the innovative success of American firms. In fact, Japan's Fujitsu and Britain's International Computers Ltd. (ICL) are sufficiently advanced in the field of technology and can be considered independent participants with the American firms in international computer industry. To add to all these, European nationalism is becoming a potent force challenging IBM in computer business.

Still serious problems remain, and hamper an effective European challenge to IBM supremacy. Though ICL has the capacity to develop independent computer system, its marketing impact on the rest of Europe is so limited that, it cannot possibly drive out IBM and establish itself on its own. However, it can combine with other European computer industries to forge a challenge to IBM. But, here the incompatibility of ICL's own model with IBM creates difficulties. For, this makes it impossible for ICL to combine with the other European manufacturers - Phillips, Siemens, and French Compagnie Internationale Pour l'Informatique (CII); who having developed in the shadow of IBM, have adopted the standards of its model. This becomes clear from the fact that, IBM not only has 80 per

cent of the West European market under its control, but also is a very large-scale employer in Europe.<sup>31</sup> Again the competitive tendencies amongst the European countries prevent them from setting up an independent computer system. While France wants to develop independent of US, the British and German look upon collaboration with the US as the solution for the market and organizational problem.<sup>32</sup>

#### IBM in India:

In India computers have been there for more than a decade and are of foreign origin. Of them IBM covers more than 60 per cent of the total installations, ICL account for 12 per cent, TDC and Honeywell cover about 16 per cent and 5 per cent respectively.<sup>33</sup>

Studies conducted on computerisation have revealed that in the installation of computers in India only the commercial and technical aspects are taken into account and not the socio-economic content.<sup>34</sup>

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31 "IBM: Can the Europeans Compete?" Multinational Business (Economic Intelligence Unit: London), 1973, p.37.

32 William I. Kinter and Harvey Sichernan, Technology and International Politics (Massachusetts: D.C. Heath and Company, 1975), p.88.

33 Annual Report of Department of Electronics (India), 1975-76, pp.208-253.

34 India, Committee on Automation, Report, (Delhi), 1972, pp.37-38.

	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Machine Rentals	1257.34	1198.84	1088.53	863.33	702.17
Export Sales	410.61	333.94	93.80	162.78	139.56
Sales Cards	251.62	162.43	130.42	112.93	95.81
Data Processing Charges	226.90	183.32	160.69	139.55	94.06
Sales Imported Items	70.32	227.36	110.63	92.41	11.16
Sales Indigeneous Equipment	42.19	33.03	44.74	41.70	22.89
Ribbons, Controls, Panels, Wires	31.97	22.68	22.87	29.11	19.17
Miscellaneous Sales and Services	64.04	52.93	42.38	59.80	32.71
<hr/>					
Total :	2354.99	2214.53	1694.06	1495.61	1117.53
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Source: India, Lok Sabha, Public Accounts Committee, 221  
(Lok Sabha Secretariat: New Delhi, 1975),  
Col.176.

The operation of IBM branch in India accounts for only one quarter of 1 per cent of IBM's world operations and half a per cent of its foreign operations. In terms of investment, Indian operations accounted for .2 per cent of its capital employed.<sup>35</sup>

IBM's trading activities in India included importing computer systems, hiring/leasing of imported computer and computer manufactured or reconditioned locally, providing maintenance and software support. The manufacturing activities of IBM consisted of reconditioning IBM 1401 computers and other data processing machines as tabulators, sorters and punch verifiers.

The table shows that machine rentals form the principal source of its revenue. It is stated that thousands of these machines having no book value were in circulation and earned rentals at fixed rates. These had served in other developed countries the best part of their useful lives.

The data processing equipment manufactured in India are mostly for exports to its related companies. The Inter Company Billing price for exports does not even cover the relevant cost of the Head Office in New York and thus exports result in losses to Indian operations.

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35 Public Accounts Committee, n.13, p.175.

IBM sales within India comprised of cards, imported equipment and supply items such as ribbons, control panels, wires etc.

Studies conducted by the Cost Accounts Branch of the Ministry of Finance revealed that rates charged by IBM on the imported equipment like systems, features for the expansion of installed systems, printers, data adapters, electric typewriter parts, disc packs and disc storage provided fantastically high profits. Secondly, "the working capital employed in activities relating to machine rentals as well as customers job in Data centres was almost negligible."<sup>36</sup>

IBM's reaction to growing nationalism in host countries:

IBM World Trade Corporation had itself been aware of the growing resentment and the growing nationalism in some of the host countries.

In Europe the main threat came not from the government but "from the increasingly mature and demanding users. Led by UK Computer Users Association, mostly European IBM users are stronger and noisier these days and can sometimes impose their wishes on the vendor."<sup>37</sup> Coupled with it was the growing importance of nationalism as a factor in selling computers in non-US countries.

<sup>36</sup> Ibid., p.178.

<sup>37</sup> Angeline Pantages and Nancy Foy, "US Multinationals", Datamation, September 1976, p.59.

This is mainly because of the political implications that happen to involve IBM in the countries where it operates. Nations have regarded advanced technology as well as a top secret matter. This has been equally true of projects handled directly by government agencies and those carried out by private companies. Computers, as it was pointed out earlier also, are "a branch of this sort of research and vital on strategic as well as economic and industrial grounds. Yet all the countries which rely on IBM are dependent on each other in this field. The company headquarters know everything that is going on, and co-ordinates all the programmes. Apart from the US, they can have no secrets."<sup>38</sup>

IBM had asked its experts to prepare reports on what is called "a climate of growing nationalism." The report in 1971 assessed that Europe, Canada and Japan would not ask for local ownership. However, the impact could come through market discrimination, restriction on financing exchange limitation and import restrictions. But local ownership would definitely be an issue in some Latin American countries and India. According to the estimates made by IBM, it was feared that countries like Chile, Peru,

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38 Tugendhat, n.17, pp.159-60.

Columbia, Ecuador and Bolivia were moving to require transfer of majority ownership over a period of many years.

The report examined several methods by which it can give up part of ownership. Accordingly, there were three broad suggestions: (1) IBM would sell part of its present equity (2) it would increase equity by selling additional shares to the employees (3) it would increase equity by selling additional shares to the public.

Next a plan to split IBM was also considered. One still to be 100 per cent owned by IBM controlling such assets as plants, laboratories and leased equipment. The second unit which would have partial local ownership would primarily be a marketing servicing firm.<sup>39</sup>

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39 Economic Times (New Delhi), 12 July 1974, p.1.

**CHAPTER IV**

**IBM's EXIT FROM INDIA**

## CHAPTER IV

Having made a study of IBM's worldwide operations, an attempt will be made in this Chapter to examine its activities in India. The claim of IBM and other technology intensive multinationals about their role in the transfer of their technology and their contribution towards the process of development in the case of India may be a relevant subject here.

This Chapter would be devoted to find out the reasons and account for the events, which forced IBM to wind up its operations from this country.

An indepth study was made in the form of an enquiry by the Public Accounts Committee of the Indian Parliament. The report that was submitted became a great source material for a scholar to develop some projections on this aspect of the problem. The report goes to prove that the operations of multinationals allow the home country to have a leverage over the host countries in many ways.

IBM being very much a closed organisation, not much information has been easily forthcoming. Therefore, the Report becomes the main source of information. The interviews conducted with the government as well as non-government officials belonging to the rival computer companies in India become another source of information that might help us reach some correct findings. The only other

extensive investigation that was carried out about IBM activities in India was by the Electronic Commission of India - but the report still falls in the category of classified material and hence is not available. It was learnt from various authentic sources that several interesting nuances would have been discovered and numerous other aspects might have come to light with the release of their Report. But it was impossible to extract anything specific from the officials connected with this enquiry. There were, however, clear indications regarding the Report that it contained several instances which proved that the activities of IBM in India made the previous as well as the present government "panicky." Therefore, it was the firm belief of both the governments that IBM must stop its operations in India. Excerpts of the Report of the Electronic Commission published in the Public Accounts Committee report underline the fact that underdeveloped countries lacking in expertise are easily duped by these firms and become an easy prey to the activities of such firms. By the time, these host countries realize the harrowing experience of the situation, the firms get firmly entrenched and spread out their operations. Besides, they create interest groups and lobbies who, in turn, keep advancing their respective interests. The government of the host

country finds itself in an extremely difficult position to adopt a stiff posture towards them as a result of the political network.

The Indian Government felt the impact of its policy that it had enunciated in 1949 only towards the mid 1960s. The relaxation of controls has resulted in creation of monopoly situation by these firms in the national economy. The Foreign Exchange Regulation Act (FERA) of 1974 was passed with a view to bring about a change in the situation. The equity component of all foreign firms was to be brought down to 40 per cent. Except the two giant American multi-nationals, IBM and Coca Cola, the other firms were ready to comply. But these two companies could not. Their main contention was that only with 100 per cent control would they be able to run their worldwide operations effectively. The negotiating process between these firms and the Indian government was carried on for two and half years without any result. The narration of events is necessary to understand why the two sides were at loggerheads eventually.

#### IBM and the Indian Market:

The first IBM 1401 computer was imported by the Standard Oil Company in India. Since then the IBM in India so flourished that in 1974 the company had installed 150 computers (75 per cent of all the computer installations in India) and had declared an annual taxable income

of over seven crores.<sup>1</sup>

The main purpose of the Government of India for inviting IEM in 1958 was that the country should be self-reliant in computer technology which was considered extremely vital for achieving rapid progress. The activities of the firm were to be so oriented that they were either concentrated in heavily export oriented production of both hardware and software or in domestic manufacturing activities involving production on the basis of advanced technology of contemporary computer equipment which fulfils national needs.

Until recently IBM supplied India mainly with the first generation computers and a few second generation ones, in spite of the Indian government directives for the latest varieties. The fact that IBM refused to comply with the demand of the Government of India proves that IBM's policy was to follow its own course and not to be concerned about the request of the host countries. As a result doubts on the methods of IBM's operation were expressed.

The attention of the Public Accounts Committee (1973-74) had been drawn, through paragraphs 42 and 43 of the Report of the Comptroller and Auditor General of India for the year 1971-72, to the inadequate utilization of the IEM

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<sup>1</sup> "Computers: IBM Language", Economic and Political Weekly (Bombay), 9 April 1977, p.585.

computers installed by the Indian Railways. It also referred to certain other defects and irregularities in the contracts and agreements entered into with the firm for the hiring of the computers as well as in the procurement of peripheral equipment like Disc Packs. The examination of these paragraphs by the Committee revealed that the purchase/hire of computers and other data processing equipment from the IBM World Trade Corporation had wider ramifications and that the transactions were not confined to the Railways alone. A number of other Government departments had also entered into agreements with this giant multinational corporation, which had imposed its own terms and conditions on the Government and its other clients in the private sector. The Committee found that for the Disc Packs, the corporations had charged the Railways an inflated sum of Rs. 3712 each, whereas the prices disclosed by the firm in the bills of entry ranged between Rs. 498 and Rs. 517.<sup>2</sup>

Secondly, the Comptroller and Auditor General of India drew the attention of the Government of India in April 1968 to a contract with the World Trade Corporation for the

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2 India, Lok Sabha (5th), Public Accounts Committee, Computerisation in Government Departments - Two Hundred and Twenty First Report (New Delhi: Lok Sabha Secretariat, 1975-76), p.6.

supply of data equipment, which had involved certain items of indigeneous manufacture in which prices were stipulated in dollars to be paid in rupees. Hence, the Government was committed to an increased liability in rupees as a result of the subsequent devaluation of the rupee in June 1966. It was the opinion of Comptroller and Auditor General that there was no justification for stipulating the prices of indigeneous manufactures in terms of dollars.

The Public Accounts Committee (1975-76) reviewed the matter in November 1975 and decided that:

"in view of the important and somewhat disquieting information already available, it was imperative to examine the Ministries/ Departments which had incurred considerable expenditure on the acquisition of computers and other data processing equipment and to evaluate their utilization, the purchase procedures followed, the terms and conditions of agreements with the supplier firms and other related issues. Since IBM had the whiphand on the Indian computer scene and a worldwide blaze of publicity had revealed how many of its operations, as some other business dinosaurs were highly suspect, the Committee decided to examine, in some detail, the Indian operations of this Multinational Corporation, and also the steps contemplated or adopted by Government to achieve self-reliance to the extend desirable and possible, in the computer industry." 3

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3 Ibid., p.12.

Therefore, the suspicious nature of IBM's activities were aired, though the nature of all these are not properly accounted for. One such glaring instance of IBM's shady dealings has, however, come to limelight. In France, IBM was able to "defeat the pride of President De Gaulle who wanted to have an independent computer system and IBM succeeded in getting De Gaulle to come down because of the power that IBM had in France as well as other countries of the world."<sup>4</sup>

Probe into IBM's Affairs:

At first, an inter-ministerial group of Indian Parliament was constituted in 1973 to go into the cost of IBM machines and rentals charged by them. This group was entrusted with the task of going into the prices that were charged by IBM from 1st January 1969. It was to investigate further whether these prices were reasonable. This group was also to recommend norms for fixing rental price for the future and to look into the business-contracts of IBM and suggest changes so that IBM could be prevented from unilaterally increasing the price rentals. The same year the matter was also referred to the Department of Electronics by the Ministry of Railways.<sup>5</sup>

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4 India, Lok Sabha, Debates, Series 5, Vol.LX, No.25, 15 April 1976, Col.202-254.

5 Public Accounts Committee, n.2, p.7.

Two Public Accounts Committees, set up to investigate the malpractices of IBM (1973-74 and 1974-75), failed to obtain any information about IBM's dealings with the ministries concerned. It was only in 1975-76 "after a great deal of persuasion" that some information was extracted. (Ministry of Communication still did not provide the necessary information).<sup>6</sup>

The result of the inquiry provide sufficient evidence that the activities of IBM and its retrenchment policy was aided in full measure by the "collaborative environment" provided by the different government departments - a point which will be discussed subsequently.

It has also been alleged that IBM with its near monopoly position in India has defrauded the country of enormous revenues by resorting to various unfair practices like transfer pricing under the garb of inter company billing system, misuse of import entitlements, exaggerated claims of drawback, under payment of excise duty, exaggerated claim of depreciation, development rebate and head office expenses. All these practices have enabled it to reap high profits at the cost of exchequer as well as the technological development of the country.

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6 Computers, n.1.

IBM followed the classic mould of a multinational in India. It imported equipments at inter company billing prices far below the real value. The customs department became suspicious and eventually applied 350 per cent loading on the stated value of capital goods. These goods were generally the second generation computers which were "refurbished" into products of local manufacture and high selling prices. These locally manufactured goods were marked in US dollars which allowed the company to mark up prices by 57.5 per cent after rupee devaluation.<sup>7</sup>

Again these products were rented out to customers and IBM succeeded in claiming depreciation on the selling price though the products were only reconditioned.

The exports and imports of the company were mainly with its own branch and subsidiaries which allowed the company a greater flexibility in determining prices. Accounts were maintained in the coded form.<sup>8</sup>

IBM claimed head office expenses as high as 73 per cent of book profit. Prompted by the enquiry of the inter-ministerial group, it made a voluntary disclosure in 1974 and returned \$ 450,000 as excess charges on this account.<sup>9</sup>

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7 Ibid.

8 Public Accounts Committee, n.2, p.210.

9 Ibid., p.11.

Total out-flow of foreign exchange according to the findings of the Committee amounted to Rs.10.83 crores during the period 1969 to 1974.<sup>10</sup> The Indian Government never took any pains to find out the co-relation between the cost at which goods were imported and at which they were available to end users in order to prevent all scope for defrauding. No measures were taken to utilize the services of specialized agencies like the Department of Electronics, Economic Affairs and Industries to prevent IBM from dumping outmoded products in the Indian market. Not only this, so strong was the hold of IBM on its clients that the Committee came to the conclusion that IBM had been imposing terms and the government's departments have accepted it without much questioning.<sup>11</sup> The user Ministries justified that introduction of computers has "facilitated the processing of large volume of data with speed, ease and accuracy." Further questioning revealed that Ministries concerned had very diffused idea of what they want, the manner in which data has to be processed, analysed and put up for the management systems.

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10 Ibid., p.243.

11 Ibid., p.49.

Therefore, it was left to the brilliant salesmanship of IEM not only in making the user Ministries purchase the complete package offered by them but also to persuade that their's was the best available system.

According to the findings of the Committee, the government departments acquired computers "on an ad hoc basis without any serious cost benefit analysis on "a priori" assumption that such equipment would improve the efficiency and speed of data processing."<sup>12</sup>

Though Ministries and Departments such as Defence Production, Planning Commission, Metereological Department, Directorate General of Supplies and Disposals and Central Bureau of Investigation claimed that they have attempted some kind of job analysis before going in for computers. But the Committee found that many of the Ministries were not in a position to quantify in concrete terms, the benefits expected to accrue from computerisation.

The departments purchased computers/data processing equipment directly, although the financial rules required such procurement through Director General of Supplies and Disposals.<sup>13</sup> Computers were acquired without floating any tender and reliance for acquisition of computers was

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12 Ibid., p.47.

13 Ibid., p.108.

placed entirely on the western countries, and the markets of socialist countries were not adequately explored.

Of all the Departments, the Income Tax Department was the most complacent in dealing with IBM, possibly under the impression that they could not call for information regarding the total global activity of such foreign companies. Nor did it bother to know that IBM had split into two subsidiary corporations; IBM World Trade America/Far East Corporation and IBM World Trade Europe, Middle East African Corporations. Taking advantage of the complacent attitude of the Income Tax Department, IBM had been able to claim developmental rebate on the machinery imported by them, although it was doing only the function of assembling them and not manufacturing. Under the rule, rebate could only be claimed when manufacturing operations are carried on.<sup>14</sup>

Findings of the Electronic Commission:

The fact remains that IBM did not fulfil any of the obligations which stipulated its entry into the Indian market. The review conducted by the Electronic Commission reveals that IBM has not used local skills even with regard to software development in which local skill is in abundance. Neither did IBM propose any significant investment

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14 Ibid., p.253.

in India with regard to R&D on computer hardware and software. Large part of the firm's activities relate to service operations connected with computers which they had leased, hired or sold which could have been done indigeneously also.

Two levels at which a computer can be generally used are: the management information system (MIS) level and data processing level (DP) for clerical jobs. Majority of computers currently in use in the country are largely the data processing machines which support book keeping functions. This was the manner in which the computer industry was promoted by the foreign controlled companies and the demand for computers in India was mainly created with the view of promoting their sales activities. According to the Electronic Commission the prime effort should be to encourage use of computers in areas like industrial process control, designing scientific calculation, inventory control, defence system.

An analysis made by Information Planning and Analysis Group (IPAG) has shown that at the time of installing an IBM 1401 system or ICL 1901 system in the country, there were equivalent mini computers available with the same capacity at a cost which was half the cost in 1970, one-third in 1972 and one-fourth in 1974. In 1975 an indigeneous computer slightly more powerful than IBM 1401 was available

at a cost as low as \$ 1200 for 4000 word memory Central Processing Unit, as compared to price of IBM 1401 of equivalent configuration for \$ 20,000.<sup>15</sup>

Security Considerations:

Besides the drain on the public exchequer caused by IBM's activities, the Committee deemed it necessary to investigate matters pertaining to India's security which may be jeopardised by the use of IBM computers. For, with the computers, the user's data can be easily tampered by the personnel dealing with software. As it was made clear in the earlier Chapter that IBM's programming is done in its own machine language which only its own men are well acquainted with, the task becomes all the more complex for those who do not know it. Enquiries made to this effect revealed that except the Space Department, none of the other departments were aware of the difficult position in which IBM has been putting various parts of the world.<sup>16</sup> As the maintenance was the sole preserve of IBM themselves, the Department of Electronics acknowledged that there always would be a danger regarding sensitive matters being vulnerable to the personnel of the IBM by the sheer fact of their gaining the necessary information on Defence matters.<sup>17</sup>

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15 Ibid., p.41.

16 Ibid., p.173.

17 Ibid., p.173.

The Department of Communication conceded the fact that it is not surprising if it is found out that "foreign multi-nationals operating in the country adopt certain methods which go against the national interest."<sup>18</sup> It was further stressed by the Department that though coaxial cables exist to prevent any high frequency radiation going out of the computer and being monitored, but possibilities of leakage in electronics cannot be ruled out.

The government at present has become cautious about the type of computers being used for defence purposes. Earlier the Army Signal Unit had a International Computers Limited (ICL) computer, and Defence Research Unit had an IBM computer. Lately, there has been a reluctance on the part of India to place orders of computers for strategic interest from IBM or other American computer companies. Though during Mrs. Gandhi's regime army bought its computers from American Burroughs but the later orders were placed with French Compagnie Internationale l'pour Informatique (CII). The recent preference is for International Computers Ltd. and Compagnie Internationale l'pour Informatique.

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<sup>18</sup> Ibid., p.173.

IBM's Reaction:

Even when the enquiry against IBM was instituted, it could still marshal a lobby to bypass the Committee to secure lucrative orders from "rival government departments." "Details of the Electronic Commission's confrontation with various government departments was not known but it was evident that from railways to the meteorological department every user pleaded the cause of IBM."<sup>19</sup> Some mild accusations were made against the tactics of manoeuvring on the part of IBM in having installed an IBM 370/55 at IIT Madras in 1973 in the face of the allegation that the same computer was rejected by British European Airways.<sup>20</sup>

It was able to bring about a cleavage in the computerisation committee for Bokaro and could get its own computer installed. The fact that IBM could manage to plant its own computer in a sophisticated steel plant of Russian design is intriguing. Even more when the probe was on, the government continued importing under UNDP's assistance large IBM computers for various organizations. India accepted the computers on the understanding that they would be open to United Nations supervision and would

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19 "IBM's Brazen Violation", Economic Times, (New Delhi), 13 December 1973.

20 Ibid.

not be available for defence purposes. It can be inferred, therefore, that the government had a lurking suspicion about IBM computers.<sup>21</sup>

In the initial stages when M.G.K. Menon, Chairman of the Electronics Commission in the annual convention of the Computer Society of India in 1972 announced that IBM would not be allowed to treat India as "dumping ground" for the second hand computers and that computers should no longer be used for routine data processing but should be shifted over to applications which would involve operational research. He was, however, denounced by the commercial sector on his stand. It was apprehended that this was the result of IBM's lobbying to persuade the commercial users that their interest would suffer irreparably if IBM left. Some Indian journals made scandalous observations regarding IBM's operations and their ways in influencing people. As it was observed that:

During the convention IBM had taken fifty delegates on a tour of its management plant with lunch thrown in. The public relations work evidently paid off. The commercial sector responded by raising questions of public debate, high handedness of officials and freedom of society. 22

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21 "Despite EC Probe....IBM Favoured", Economic Times, 18 June 1975.

22 "Computers: Glimmerings of a Policy", Economic & Political Weekly, 25 March 1972, p.646.

The rigid stand adopted by the Indian government as well as IBM can be explained according to some officials as a resultant of communication gap. It is true that Indian business was insignificant as far as IBM was concerned; but still a compromise formula could have been found out. But it is said that IBM employees in India are also accustomed to behave in a highhanded manner and do not bother to have any knowledge of other competitive products. They are just not used to think anything against the IBM set up. Therefore, probably the authorities in New York were given a distorted view of the entire situation. As it is, the American multinationals have a tendency to treat all the developing countries in a similar fashion and do not take enough care in formulating policy as may be desired by the host countries. IBM could at least have manufactured a particular spare part of the latest 370 computer for export purposes without incurring any further expenditure on any sophisticated unit and could have thus continued to stay in India conforming to the wishes of the host country.

From this one can safely conclude that the manner in which the multinationals operated bringing only the outmoded technology to the developing countries and which could be suitably used only for routine jobs did not help the country in any way to develop its own technology and on the other hand it brought about more liability

than asset.

Thus we find that unable to conform with the Indian Government's Foreign Exchange Regulation Act, IBM decided to wind up its operations. The tougher stance that India adopted towards IBM as compared to the other multinationals could be accounted for several reasons. The Indian Government realized that IBM was taking advantage of its position in this country and therefore thought of taking an action to correct the situation.

Although all private enterprises are well known for realizing their objectives through public relations but in the case of IBM this "public relations gimmick" and "high pressure salesmanship", to push its sale of computers in India at exorbitant prices was a blemish point. Their aggressive marketing tactics in business operations also made Indian Government realize its lapses. Also it was charged that the incentive for profiteering and selling disc packs at inflated prices to the railways by IBM was due to the failure of the Indian Government. The fact that the Indian Government permitted IBM to acquire a monopoly position by restricting competition from other manufacturers was itself a serious reflection of its erroneous policy.

The PAC report while commenting on IBM's activities

reported that:

There is more than enough evidence that the multinationals in the field of computers and data processing equipment such as IBM with its near monopoly position in India have defrauded the country of enormous revenues by resorting to various unfair practices like transfer pricing under the garb of inter-company billing system, misuse of entitlements, exaggerated claims of depreciation, development rebate, head office expenses etc. All these practices have enabled them to reap high profits at the cost of exchequer as well as the technical development of the country.<sup>23</sup>

This very fact brings out the true nature of the clandestine activities of the multinationals. There exists a wide gap between what they advocate by way of facts before the world bodies and their actual operations. (See for instance IBM's statement before the United Nations). It is a fact that apart from being a drain on the exchequer, the purpose of advancement in technology is also not served. The reality is that, IBM in its marketing strategy is driven by competition. It competes strongly with the latest products in a market where the prizes are large. It develops its products for those markets. But in a country of India's size having only 350 computers - this competitive spirit leads to different results. IBM sees such a market as less profitable. In an effort to match the level of technology of the less developed countries to what it sees as "local needs", it imports the second

<sup>23</sup> Ibid., p.255.

hand technology already superseded in Western Europe and North America and dump it in these markets. Thus IBM's half of Indian market is mostly made up of seventeen years old 1401 computers. Indigeneous production in developing countries may not be able to support the latest technology. But once they adopt the technology and develop a knowhow they can easily match the IBM 1401 standard. The purpose of inviting the multinationals loses its significance. Judging from this point of view, the stand taken by the Indian Government to serve notice on IBM to quit seems to be justified.

**CHAPTER V**

**CONCLUSION**

## CONCLUSION

The underlying note of the present study is to have an emphasis on the nature and character of the international economic activities of the multinationals. A serious perusal of their network and the activities that they pursue in the developing world suggests that they do not confine their policies to the economic sphere alone. They have their spokes fitted into the political wheel of a nation too. This, in turn, has an abiding national interest which is characteristically reflected in the pursuit of international politics or, in the foreign policy of a Big Power.

When viewed in this context, it appears that after the Second World War, a position of pre-eminence became the mainstay of the US foreign policy. It was natural, therefore, that its basic objectives were to opt for an order or a system that would be compatible with its economic and political interests.

The investment of American private capital, of course, provided the added leverage in its dealings with other nations and ordered their plan priorities in consonance with American interest. In such a situation, it was obvious that the declared objectives of US private capital were to the transferring of American capital and technology to host countries. But this mask of noble appearance got soon unveiled and the host

countries realized the depletion of their economic resources.

It appears that the developing countries while inviting US private capital and technology, were oblivious of the context in which it was given. They were primarily lured by the short term economic benefits only to be disillusioned in the course of time. Experience proved that such economic benefits were not easily forthcoming either. Instead political matters also became the preserve of such foreign entities. Therefore, it is noticed that the stiff posture adopted by the governments of the less developed countries towards these business enterprises gets diluted in the process of execution and implementation of their policies. The reasons for such inconsistencies are many - ranging from structural inequalities and inadequacies to the lack of political will of the people who are the helmsmen in these countries. These matters are, however, left untouched and have not been explored in this study.

The case study of India revealed that it is not in a position to carry out its policy decisions quite effectively. Soon after the winding up of IEM and Coca Cola, the US government officials paid visits to India to plead the cause of their private capital. Orville Freeman of

Indo-US Joint Business Council in an admonishing tone asked the Indian government to clarify its stand about foreign capital. In the process of accommodating US interest the policies implemented by the Indian government become quite different from its declared objectives.

The presently announced policy of the Indian government about allowing only foreign collaboration in selected industries does not seem to be practicable enough. Though through the device of industrial licensing, private investment in certain industries may be prevented, but it is ineffective in securing private investment in specific high priority industries. This is evident in the two collaboration agreements approved by the government from October 1977 to March 1978. These are about the manufacture of alarm pieces and leather footwear. Again another agreement about the manufacture of steel watch cases is with the same company, though avoiding the repetitive import of technology is supposed to be another objective of the government's policy towards import of technology.

Some other drastic steps are taken in the field of basic industries where foreign technical collaboration was not purported to be entertained. Steel plants, like Bokaro are entering into agreements with Wean United of the United States via Indian firm Mecon for the cold rolling mill complex. Talks are also going on with West Germany for setting up of export oriented steel plants -

one of which is to be located at Paradeep - a place of strategic interest. The heat generated by Bharat Heavy Electronics Ltd.'s agreements with Krafts Workers Union and Siemens is too well known. The purpose for all these, as the official declaration goes, is to import sophisticated technology. But the moot point is whether adequate steps are being taken by the Indian government to avoid falling into the pit again. Although all these interesting developments may not constitute the part of the present thesis, they are in the same vein as has been the case of IEM.

The next pertinent question that arises is: How long would the multinationals like IEM and Coca Cola be able to maintain their inflexible attitude towards the developing countries? In other words, why these multinationals, like the IEM does not realize the market potentialities of the developing world?

At the moment the loss of India and Nigeria may not be a great loss for IEM. But the point to be remembered is, countries that could be discounted as markets for capital goods 20 years ago have developed a lot of economic power. It will be prudent, therefore, for the MNCs to come to terms and respect the host country's interest since a lot of other developing countries may

follow India just as they followed it into political independence from British Empire.

Another possibility is also around the corner. As stated earlier, the spread of subsidiaries serve as a second level political power for the home countries and more so in sensitive strategic industries - as in the sphere of computers. In case the inflexible nature of IBM ceases to pay dividends, a possibility exists that IBM may be asked to overhaul its policy in consonance with the exigencies of the situation by the US government itself. Such a possibility does not seem to be remote.

The present attitude of IBM towards less developed countries is similar to that of the developed countries had towards developing countries all these years, but the day is not far off when they may have to give in to a considerable degree because of the increasing bargaining power of the latter.

The incident provides lessons for the multinationals and developing countries alike. Instead of crying hoarse about being exploited by the multinationals, it is high time the developing countries do adopt a vigilant posture. They must lay down clearly the conditions

under which they accept multinational investment and monitor the companies operations so that the question of exploitation does not arise.

**APPENDICES**

APPENDIX I

IMPORTS ESSENTIAL TO THE UNITED STATES, 1949

Commodity	Total imports (Million dollars)	Imports from underdeveloped areas		Principal countries of origin	
		Value (Million dollars)	Percent of Total	Country	Percent of Total
A. Articles for which the United States is wholly or largely dependent on imports and for which substitutes are non-existent or not satisfactory:					
Total:	2,275.4	1,601.2	70		
Necessities	1,130.2	499.0	44		
Metals:					
Antimony	3.8	3.0	80	(Bolivia	34
				(Mexico	33
Bauxite	16.4	16.4	100	Surinam	80
Beryll or beryllium ore	.9	.8	97	Brazil	87

Commodity	Total imports (Million dollars)	Imports from underdeveloped areas		Principal countries of origin	
		Value Million dollars)	Percent of Total	Country	Percent of Total
Cadmium	1.9	1.6	84	Mexico	83
Chrome ore or chromite	24.2	19.9	82	(Turkey	37
				(Philippines	13
Cobalt ore and metals	10.9	7.3	67	Belgian Congo	67
Columbium ore or concentrates	.6	.6	100	Nigeria	87
Corundum ore	.2	.2	100	Union of South Africa	99
Manganese ore	26.8	22.8	85	India	27
				Gold Coast	18
				Union of South Africa	16
Mercury	6.8	.2	3	Mexico	3
Nickel	66.0	(x)	(x)		
Platinum group metals	11.9	1.8	15	Colombia	12
Tantalum ore	.2	.2	94	Brazil	83
				Belgian Congo	6

Commodity	Total imports (Million dollars)	Imports from underdeveloped areas		Principal countries of origin	
		Value (Million dollars)	Percent of Total	Country	Percent of Total
Tin	212.3	164.1	77	(British Malaya (Bolivia (Indonesia	36 18 16
Titanium (ore) rutile	.2	-	0		
Tungsten ore and concentrates	6.3	1.1	18	(Siam (Bolivia	6 4
Uranium	(a)				
Zirconium ores	.6	.1	21	Brazil	21
<u>Non-metallic minerals:</u>					
Asbestos unmanufactured	33.9	6.2	18	(Union of South Africa (Southern Rhodesia	9 9
Graphite	1.2	1.0	83	(Mexico (Ceylon	34 29
Industrial diamonds	17.6	16.3	93	(Union of South Africa (Belgian Congo	67 24
Mica	19.3	19.1	99	India	88

Commodity	Total imports (Million dollars)	Imports from underdeveloped areas		Principal countries of origin	
		Value (Million dollars)	Percent of Total	Country	Percent of Total
Monazite sand and other thorium ore	(#)	-	-	-	-
Quartz crystals	1.5	1.4	99	Brazil	98
<u>Textile fibers and manufactures:</u>					
Extra-long staple cotton	6.9	6.9	100	(Egypt (Peru	68 32
Burlaps	103.1	98.3	95	India	95
Manila or abaca fiber	22.4	22.4	100	Philippines	65
Sisal and henequen fiber	36.5	36.5	100	(British East Africa (Haiti	33 23
Silk waste	.3	(x)	6	Mexico	20
<u>Drugs and chemicals:</u>					
Cinchona bark	.1	.1	100	(Indonesia (Belgian Congo (Guatemala	38 25 20
Ergot	.3	-	0		
Opium	2.3	2.3	98	Turkey	91
Radium salts	1.7	-	0		

Commodity	Total imports (Million dollars)	Imports from underdeveloped areas		Principal countries of origin	
		Value (Million dollars)	Percent of Total	Country	Percent of Total
<u>Dyeing and tanning materials:</u>					
Quebracho extract	10.6	10.6	100	(Argentina (Paraguay	60 39
Wattle bark and extract	3.8	3.8	100	Union of South Africa	89
<u>Other:</u>					
Goat and kid skin	36.0	33.9	94	(India (Nigeria (Ethiopia (Brazil (British East Africa	20 14 13 11 10
Jewel bearings	5.1	-	0	-	-
Newsprint	437.6	-	0	-	-
Semi-necessities	1,145.1	1,102.1	96	-	-
<u>Foodstuffs:</u>					
Bananas	52.7	52.7	100	(Honduras (Costa Rica (Panama, Republic (Mexico (Colombia	18 17 13 11 11
Cocoa or cocoa beans	124.5	123.9	99	(Gold Coast (Brazil (Nigeria	34 27 19

Commodity	Total imports (Million dollars)	Imports from underdeveloped areas		Principal countries of origin	
		Value (Million dollars)	Percent of Total	Country	Percent of Total
Coffee	795.5	795.2	100	(Brazil (Colombia	54 26
Tea	46.0	43.0	93	(India (Ceylon	37 36
Cloves	.4	.4	100	(Madagascar (British East Africa	49 47
Pepper, underground	22.4	22.3	99	(India (Indonesia	73 20
<u>Drugs and chemicals:</u>					
Calcium cyanide	5.6	-	0		
Calcium nitrate	1.4	-	0		
Ipecac (emetine)	.2	.2	100	Colombia	72
Menthol	2.7	1.8	68	Brazil	68
Pawpaw juice or papain dried	.8	.8	100	British East Africa	78
Pyrethrum flowers	2.4	2.4	99	(British East Africa (Belgian Congo	68 30

Commodity	Total Imports (Million dollars)	Imports from underdeveloped areas		Principal countries of origin	
		Value (Million dollars)	Percent of Total	Country	Percent of Total
<u>Oils and oilseeds:</u>					
Castor oil	16.1	16.1	100	Brazil	95
Rapeseed oil	.5	-	0		
Sperm oil	1.4	(x)	(x)		
<u>Other:</u>					
Agar	.5	.1	15	Mexico	15
Bristles	18.3	.3	2	India	1
Cork	8.4	1.3	16	Algeria	12
Cigarette leaf tobacco, Turkish type	45.4	41.6	92	Turkey	68
B. Articles the supply of which is wholly or mainly imported, but for which, in most or all of their uses, a domestic product can be satisfactorily substituted:					
<b>Total:</b>	<b>425.4</b>	<b>401.7</b>	<b>94</b>		
Selected items imported at a rate exceeding \$ 100 million:					
Natural rubber	... 240.3	240.3	100	(British Malaya	48
All other	... 185.1	161.4	87	(Indonesia	26

Commodity	Total imports (Million dollars)	Imports from underdeveloped areas		Principal countries of origin	
		Value (Million dollars)	Percent of Total	Country	Percent of Total
C. Articles the consumption of which is largely supplied by domestic production, but of which considerable imports are necessary to supplement domestic production:					
Total:	1,406.1	825.1	59		
Selected items imported at a rate exceeding \$ 100 million:					
Cane sugar	372.1	372.1	100	Cuba	85
Raw wool and related hair (except Mohair)	222.2	130.8	59	(Argentina (Uruguay)	20 19
Copper	219.1	173.5	79	(Chile (Mexico)	52 11
Wood pulp	182.4	-	0		
Lead ore, pigs, bars, scrap, and dross	119.0	72.6	61	(Mexico (Peru)	32 12
All other:	291.3	76.1	26		

(x) Less than one-half the unit (°) Not available

Source: The International Development Advisory Board, Partners in Progress - A Report to the President (Washington, D.C., March 1951), pp.110-113.

APPENDIX II

VALUE OF UNITED STATES IMPORTS OF STRATEGIC AND CRITICAL MATERIALS AND PERCENTAGE OF TOTAL SUPPLIED BY UNDERDEVELOPED AREAS, 1949

Commodity	Total imports (thousand dollars)	Percent of total supplied by underdeveloped areas:										
		Total	South-ern North Ameri-ca	South Ameri-ca	Afri-ca	Turkey	Middle East	South Asia	South East Asia	Taiwan (For-mosa)	Oceania	All other areas
<b>Total imports, strategic and critical</b>	1,276,339	73	9	19	9	1	(x)	5	30	(x)	(x)	27
<b>Group I:</b>												
Aluminium	36,082	3	(x)	-	2	-	(x)	-	(x)	-	-	97
Antimony	3,773	80	33	47	-	-	-	-	-	-	-	20
<b>Asbestos:</b>												
Amosite	1,654	100	-	-	100	-	-	-	-	-	-	(x)
Chrysotile	4,131	89	-	-	89	-	-	-	-	-	-	11
Crocidolite	957	94	-	1	93	-	-	-	-	-	-	6
<b>Crucibles:</b>												
Bauxite	16,353	100	-	85	-	-	-	-	15	-	-	(x)
Beryl	858	97	-	87	11	-	-	-	-	-	-	3
Bismuth	834	77	-	77	-	-	-	-	-	-	-	23
Cadmium <sup>1</sup>	1,899	84	84	(x)	-	-	-	-	-	-	-	16
Castor Oil	16,080	100	2	97	(x)	-	-	-	-	-	-	0
Celestite <sup>2</sup>	177	8	8	-	-	-	-	-	-	-	-	92
<b>Chromite:</b>												
Chemical grade	2,357	100	-	-	59	27	-	-	14	-	-	0
Metallurgical grade	18,451	77	1	-	16	44	-	1	6	-	8	23



Commodity	Total imports (thousand dollars)	Percent of total supplied by underdeveloped areas:										
		Total	South- ern North Ameri- ca	South Ameri- ca	Afri- ca	Turkey	Middle East	South Asia	South East Asia	Taiwan (For- mosa)	Oceania	All other areas
<b>Graphite:</b>												
Amorphous	956	85	44	-	1	-	-	40	-	-	-	15
Flake	277	75	-	-	75	-	-	-	-	-	-	25
Crucible lump	14	100	-	-	-	-	-	100	-	-	-	0
Dust and other crystalline lump	14	100	-	-	-	-	-	100	-	-	-	10 <sup>0</sup>
Hyoscine (henbane)	50	90	-	-	90	-	-	-	-	-	-	100
Jewel bearings	5,117	0	-	-	-	-	-	-	-	-	-	100
Kyanite <sup>3</sup>	325	100	-	-	50	-	-	50	-	-	-	0
Lead	121,563	62	34	20	7	-	(x)	1	(x)	-	-	38
Magnesium	537	1	-	-	1	-	-	-	-	-	-	99
<b>Manganese ore:</b>												
Over 10, but less than 35 per cent manganese	304	100	-	(x)	100	-	-	-	-	-	-	0
35 per cent & over, battery grade	1,966	73	5	-	68	-	-	(x)	-	-	-	27
35 per cent & over, other	24,527	86	11	13	32	-	-	30	1	-	-	14

Commodity	Total imports (thousand dollars)	Percent of total supplied by underdeveloped areas:										
		Total	South- ern North Ameri- ca	South Ameri- ca	Afri- ca	Turkey	Middle East	South Asia	South East Asia	Taiwan (For- mosa)	Oceania	All other areas
Mercury	6,762	3	3	-	-	-	-	-	-	-	-	97
Mica, total	19,316	99	(x)	7	3	-	-	88	-	-	-	1
Muscovite black, valued over 15 cents	1,423	100	-	51	4	-	-	42	-	-	-	(x)
Mica film	733	100	2	10	(x)	-	-	87	-	-	-	0
Mica splittings	16,178	100	(x)	1	2	-	-	96	-	-	-	(x)
Molybdenum <sup>4</sup>	3	0	-	-	-	-	-	-	-	-	-	100
Nickel <sup>5</sup>	65,999	0	-	-	(x)	-	-	-	-	-	-	100
Opium	2,349	98	-	-	-	91	7	-	-	-	-	2
Palm Oil	10,755	100	-	-	63	-	-	-	37	-	-	0
Platinum group metals:												
Iridium	367	1	-	-	-	-	1	-	-	-	-	99
Platinum	8,553	21	1	16	(x)	-	3	-	(x)	-	-	79
Pyrethrum	2,414	99	(x)	(x)	98	-	-	1	-	-	-	1
Quartz crystals	1,462	98	-	98	-	-	-	1	-	-	-	2
Quebracho, wood and extract	10,638	100	-	100	-	-	-	-	-	-	-	(x)
Quinidine	520	0	-	-	-	-	-	-	-	-	-	100
Quinine	251	12	-	11	-	-	-	-	1	-	-	88

Commodity	Total imports (thousand dollars)	Percent of total supplied by underdeveloped areas:										
		Total	South- ern North Ameri- ca	South Ameri- ca	Afri- ca	Turkey	Middle East	South Asia	South East Asia	Taiwan (For- mosa)	Oceania	All other areas
Rubber, crude, natural	240,312	100	(x)	(x)	5	-	-	7	89	-	(x)	0
Sapphires and rubies	637	64	-	5	-	-	-	46	12	-	-	36
Shellac	6,048	95	-	-	-	-	(x)	83	12	-	-	5
Silk cocoons and waste	255	6	-	6	-	-	-	-	-	-	-	94
Sperm oil	1,393	0	-	-	(x)	-	-	-	-	-	-	100
Talc, steatite and Frenchchalk, crude and cut	40	13	-	-	(x)	-	-	13	-	-	-	87
Tantalite	237	94	-	83	11	-	-	-	-	-	-	6
Tin:												
Ore	78,176	99	(x)	48	2	-	-	(x)	49	-	-	1
Bars, blocks, pigs, etc.	133,706	64	-	(x)	6	-	-	(x)	58	-	-	36
Metallic scrap, except alloy	20	0	-	-	-	-	-	-	-	-	-	100
Alloys	401	35	-	35	-	-	-	-	-	-	-	65
Zinc:												
Ores	16,008	61	55	6	-	-	(x)	-	-	-	-	39
Old and worn out for remanu- facture	223	5	1	-	2	-	1	-	1	-	-	95



Commodity	Total imports (thousand dollars)	Percent of total supplied by underdeveloped areas:										
		Total	South- ern North Ameri- ca	South Ameri- ca	Afri- ca	Turkey	Middle East	South Asia	South East Asia	Taiwan (For- mosa)	Oceania	All other areas
Pepper	22,420	99	-	-	1	-	1	74	24	-	-	1
Platinum group metals:												
Osmium	32	0	-	-	-	-	-	-	-	-	-	100
Palladium	1,593	1	(x)	-	-	-	1	-	-	-	-	99
Rhodium	873	0	-	-	-	-	-	-	-	-	-	100
Ruthenium	210	1	-	-	-	-	1	-	-	-	-	99
Osmiridium	231	56	-	-	56	-	-	-	-	-	-	44
Rutile	180	0	-	-	-	-	-	-	-	-	-	100
Selenium	317	0	-	-	-	-	-	-	-	-	-	100
Talc, steatite, ground	537	-	-	-	-	-	-	(x)	-	-	-	100
Zirconium ores	637	21	-	21	-	-	-	-	-	-	-	79

1 Includes castor beans

2 Includes strontianite or mineral strontium carbonate and celestite or mineral strontium sulphate.

3 Includes sillimanite

(x) Less than one-half the unit

4 Includes ore, concentrates, compounds, alloys, ingots, shot.

5 Includes ore, oxide, alloy, pigs, bars, scrap cubes etc.

Source: The International Development Advisory Board, Partners in Progress  
A Report to the President (Washington, D.C., March 1951), pp. 114-117.

APPENDIX III

DEPENDENCE OF MULTINATIONALS ON FOREIGN EARNINGS,  
1973

Commodity	Percentage of Earnings from foreign operations
Burroughs	41
Coca Cola	55
Dow Chemical	48
Gillette	51
Hoover	60
IBM	60
Merck	44
MCR	53
Pfizer	57
Revlon	38
Richardson Merrel	43
Rohm and Haas	33
G.D. Searle	40
Sperry Rand	50
Sunbeam	38
Xerox	46

Source: Perspective (Calcutta), May 1978

APPENDIX IV

FOREIGN PAID UP CAPITAL IN MANUFACTURING -  
COUNTRYWISE PERCENTAGE SHARES OF SUBSIDIARIES  
(IN INDIA)

Manufacturing: Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
	100	100	100	100	100	100
U.K.	68.4	68.1	66.3	66.6	65.4	65.3
U.S.	10.3	10.2	9.3	9.5	9.2	10.7
West Germany	3.6	3.4	3.8	3.9	3.4	3.2
Switzerland	5.7	5.9	7.6	7.4	6.7	6.5
Canada	3.8	3.5	3.0	2.9	5.3	5.0
Sweden	4.2	3.9	4.2	4.1	3.7	3.5
Others	4.0	5.0	5.8	5.6	6.3	5.8
Of which Food Beverages & Tobacco	100	100	100	100	100	100
U.K.	94.8	93.1	92.2	92.4	91.9	91.9
U.S.	1.0	1.1	1.1	1.0	1.0	1.0
Textile Products:	100	100	100	100	100	100
U.K.	100	100	100	100	100	100
Transport Equipment	100	100	100	100	100	100
U.K.	80.9	83.4	79.5	79.0	77.5	77.5
U.S.	.9	.7	.6	.6	.7	.6
West Germany	18.2	15.9	19.9	20.4	19.6	19.7
Others	-	-	-	-	2.2	2.2

Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
<b>Machinery and Machine Tools</b>	100	100	100	100	100	100
U.K.	43.5	45.8	45.2	51.1	49.6	52.1
U.S.	14.5	14.0	15.4	11.8	14.5	13.5
West Germany	4.0	4.0	4.4	4.3	4.2	4.0
Switzerland	-	-	-	3.2	3.1	2.9
Sweden	39.0	36.2	35.0	29.6	28.9	27.5
<b>Metal and Metal Products:</b>	100	100	100	100	100	100
U.K.	66.0	65.6	69.1	68.6	55.4	55.6
U.S.A.	2.7	2.7	3.1	3.1	2.5	2.5
West Germany	.4	.4	.6	.8	.9	.9
Switzerland	28.3	28.1	23.6	23.5	27.9	37.8
Canada	2.6	3.2	3.6	4.0	3.2	3.2
Sweden	-	-	-	-	.1	-
Others	-	-	-	-	-	-
<b>Electrical goods &amp; Machines</b>	100	100	100	100	100	100
U.K.	36.8	40.5	38.6	36.6	39.0	32.4
U.S.A.	23.9	22.7	20.7	20.9	21.2	34.5
West Germany	7.7	6.5	8.0	8.9	5.9	4.8
Switzerland	11.9	12.8	11.4	11.5	11.6	9.7
Sweden	1.3	1.1	.9	1.4	1.4	1.2
Others	18.4	16.4	20.4	20.7	20.9	17.4

Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
<b>Chemicals and allied</b>	100	100	100	100	100	100
U.K.	69.8	67.7	65.3	65.4	65.8	67.6
U.S.A.	10.7	10.6	9.4	11.0	10.5	11.0
West Germany	5.0	4.3	3.7	3.9	3.7	3.5
Switzerland	6.6	6.9	10.0	9.1	7.8	7.3
Sweden	5.3	4.6	6.0	5.5	4.8	4.4
Others	2.6	5.9	5.5	5.1	7.4	6.2
<b>Rubber goods</b>	100	100	100	100	100	100
U.K.	42.5	49.4	54.7	55.8	56.5	55.5
U.S.A.	35.7	31.4	28.1	27.4	27.0	26.6
Switzerland	21.8	19.2	17.2	16.8	16.5	17.9
<b>Stationary and office equipment</b>	100	100	100	100	100	100
U.K.	69.6	69.9	69.9	72.1	75.8	78.8
U.S.A.	30.11	30.1	30.1	27.9	24.2	21.2
<b>Miscellaneous</b>	100	100	100	100	100	100
U.K.	66.2	66.2	49.3	49.2	54.9	55.0
Switzerland	18.8	18.8	30.9	31.0	27.5	27.4
Others	15.0	15.0	19.8	19.8	17.6	17.6

Source: Reserve Bank of India, Foreign Collaboration in Indian Industry: Second Survey Report, 1974 (Bombay), p.146.

APPENDIX V

CORPORATE INDUSTRIAL AND COMMERCIAL ENTERPRISE OF  
UNITED STATES IN INDIA (IN CRORES)

	1964			1965			1966			1967		
	DC	OC	Total	DC	OC	Total	DC	OC	Total	DC	OC	TOTAL
	82.2	83.8	166.0	92.9	125.3	218.2	92.9	151.6	244.5	96.7	210.1	306.8
Plantation	-	.1	.1	-	.1	.1	-	.1	.1	-	.1	.1
Petroleum	45.8	1.8	47.6	44.2	7.6	51.8	38.2	10.5	48.7	35.7	10.8	46.5
Manufacturing	33.5	64.9	98.4	44.2	83.5	127.7	50.7	105.8	156.5	57.5	142.1	199.6
Services	2.9	17.0	19.9	4.5	34.1	38.6	4.0	35.2	39.2	3.5	57.1	60.6
	1968			1969			1970			1971		
	DC	OC	Total	DC	OC	Total	DC	OC	Total	DC	OC	Total
	110.2	312.7	422.9	116.7	317.2	433.9	127	304.3	431.3	140.6	316.1	456.7
Plantation	-.1	.1	.1	-	.2	.2	-	.2	.2	-	.2	.2
Petroleum	41.7	28.3	70.0	42.8	35.6	78.4	41.2	37.9	79.1	36.1	34.2	70.3
Manufacturing	64.0	212.7	276.7	69.3	211.6	280.9	80.3	199.6	279.9	98.8	182.5	281.3
Services	4.5	71.6	76.1	4.6	69.8	74.4	5.5	66.6	72.1	5.7	99.2	104.9
	1972											
	DC	OC	Total									
	154.8	331.1	485.9									
Plantation	-	.2	.2									
Petroleum	40.4	29.4	69.8									
Manufacturing	107.8	185.7	293.5									
Services	6.6	115.8	122.4									

Source: Reserve Bank of India Bulletin,  
July 1975, pp.452-56.

DC - Direct Capital

OC - Other Capital

APPENDIX VI

COUNTRYWISE DIVIDEND REMITTANCES OF SUBSIDIARIES  
(IN LAKHS)

INDIA

Country	1964-65	1965-66	1966-67	1967-68	1968-69	196970
United Kingdom	1106	1113	1365	1525	1447	1506
United States	381	212	190	295	326	516
West Germany	18	18	32	39	34	31
Switzerland	46	58	75	94	85	98
Sweden	27	27	31	29	32	31
Canada	-	59	59	57	69	84
Netherlands	19	23	24	53	40	42
Others	68	31	48	43	71	68
Total	1665	1541	1824	2135	2104	2376

Source: Reserve Bank of India, Foreign Collaboration in Indian Industry: Second Survey Report 1974 (Bombay), p.39.

COUNTRIESWISE DIVIDEND REMITTANCES OF SUBSIDIARIES  
( PERCENTAGE )

Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
U.K.	6.6	6.0	7.1	7.6	6.9	6.9
U.S.A.	8.1	4.1	3.6	5.2	5.3	7.8
West Germany	3.6	3.2	4.5	5.3	4.2	4.4
Switzerland	3.8	4.2	4.9	5.3	4.2	4.4
Sweden	4.1	4.0	4.4	3.7	3.6	3.1
Canada	-	5.9	5.8	4.8	4.2	4.7
Netherlands	7.1	7.4	6.8	12.9	8.6	7.3
Others	14.6	4.9	5.9	4.7	6.9	5.9
Total :	6.6	5.5	6.2	6.8	6.2	6.6

Source: Ibid.

**COUNTRYWISE ROYALTY REMITTANCES OF SUBSIDIARIES  
(IN LAKHS)**

Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
U.K.	59	55	62	52	79	102
U.S.A.	71	34	116	83	104	141
West Germany	8	12	32	13	23	23
Switzerland	-	-	2	7	8	23
Others	3	2	1	4	10	10
<b>Total :</b>	<b>141</b>	<b>103</b>	<b>213</b>	<b>159</b>	<b>224</b>	<b>299</b>

Source: Ibid., p.47.

COUNTRYWISE TECHNICAL FEES OF SUBSIDIARIES  
(IN LAKHS)

Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
U.K.	46	53	155	247	161	127
U.S.A.	27	21	43	48	30	39
West Germany	-	18	-	24	3	2
Switzerland	26	21	42	21	36	16
Others	19	37	42	40	121	48
<b>Total :</b>	<b>118</b>	<b>150</b>	<b>282</b>	<b>380</b>	<b>351</b>	<b>232</b>

Source: Ibid, p.49.

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