THE STATE, MULTINATIONAL CORPORATION AND THE PEOPLE IN INDIA : POPULAR OPPOSITION TO FOREIGN DIRECT INVESTMENT SINCE 1991

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CERTIFICATE

Certified that the dissertation entitled "THE STATE, MULTINATIONAL CORPORATION AND THE PEOPLE IN INDIA : POPULAR OPPOSITION TO FOREIGN DIRECT INVESTMENT SINCE 1991" submitted by NIHARA RANJAN NAYAK in partial fulfilment of the requirements for the award of the degree of MASTER OF PHILOSOPHY, has not been previously submitted for any other degree of this or any other University and is his own work.

We recommend that this dissertation may be placed before the examiners for evaluation.

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Dedicated to my Parents

CONTENTS

PREFACE

Economy along with politics has played a dominant and decisive role in shaping the agenda for the twenty-first century. Particularly the last decade and a half has been very crucial in this respect. The end of the Cold War and the aftermath of the disintegration of the erstwhile U.S.S.R in the political sphere and with the thrust on globalization and liberalization in economic arena have been able to change the facets of globe. This has affected the pattern and dimension of the state policy of many a countries in general and third world countries in particular. A direct offshoot of this development is the spread of multinational corporations and their increasing role in the affairs of the host country.

The multinational corporations (MNCs) have diverse effects upon the society which goes beyond the realm of trade and commerce. They affect the social, economic and political life styles of the people of the host country. Multinational corporations have played major role in the developments of the host countries. The technological supremacy , sophisticated management system and economic power of the MNCs have a positive effect on the local market and business system. They have been able to provide a greater choice, better quality to the consumers besides enthusing the virtues of competition and quality control among the local business enterprises. Despite of their enormous influence over the local market and increasing role in the development, the MNCs do face popular opposition from the masses as well intellectuals and environmental activists. The cause of this opposition may be traced to the interference of MNCs in the socio- cultural life styles of the people which is endemic to the ethos of a heterogenic change agent. They are also opposed on the count of their nefarious manipulation of the environment.

The study of social movement has been quite fashionable in the 90s as they provide a dynamic tool to investigate malaise of the society. Social movements are essentially popular reactions against the state policy which puts checks over their access to the natural resources. Social movements are the products of social discontents. Social discontents are caused by various factors namely, cultural drift, social disorganization and social injustice. Social movements are the consequences of large scale disillusionment and discontentment among the people which led to direct collective action in the form of protest movements.

This dissertation is divided into five chapters. In Chapter-I efforts have been made to analyse the developments in India in post-liberalization period., and role of various agencies to promote FDI inflows in India. The next Chapter deals with people's reaction to MNCs' investment in India. Further, Chapter-III discusses about FDI responses to India since 1991 along with economic reforms and the nature of FDI in India. In Chapter- IV focus is given to the role of the state and individual in the country's socio-economic development. Add to this, it also discusses the relationship between democracy and development. Moreover, the concluding Chapter envisages the impact of economic reform in India and the concomitant reaction reflected in the social movements against the MNCs.

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The responsibility for any errors in this work, however, is mine.

Date : 21.07.1997

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ABBREVIATIONS

BJP	Bharatiya Janata Party
BKU	Bharatiya Kisan Union
CWPRS	Central Water and Power Research Station
FDI	Foreign Direct Investment
FERA	Foreign Exchange Regulating Act
FIPB	Foreign Investment Promotion Board
FIPC	Foreign Investment Promotion Council
GATT	General Agreement On Tariff And Trade
GDP	Gross Domestic Product
GOM	Government of Maharastra
GOI	Government of India
IMF	International Monetary Fund
IPR	International Property Right
KFEC	Kentuky Fried-Chicken
KPT	Kandla Port Trust
KRRS	Karnataka Rajya Raitha Sangh
KSSMA	Kutch Small Scale Salt Manufactures Association
LNG	Liquified Natural Gas
MNC	Multi-National Corporation
MOU	Momorandum of Understanding
MSG	Monosodiumglutalate
MTP	Monopolistic Trade Practice
PPA	Power Purchasing Agreement
RBI	Reserve Bank of India
RTP	Restrictive Trade Practice
SJM	Swadeshi Jagran Manch
TNC	Trans-National Corporation
UN	United Nations
WB	World Bank

CHAPTER-I

DEVELOPMENT IN INDIA : ROLE OF FDI, LAW, INSTITUTIONS AND PUBLIC POLICIES

Introduction

Since the end of World War II there has been an increasing realization on the part of the majority of underdeveloped countries about the need for economic development programmes to enable the people to lead a more varied and richer life. The programme of economic development in a long term path of development means the shift of an underdeveloped or a developing economy like India, which is characterized by huge degree of unemployment, inadequate techniques of production, underutilized national resources and inequalities of income and wealth, into an advanced economy where there is full employment at higher standard of living, given the rate of growth population and technology. In other words, the objectives of economic development in developing countries is to attain 'Optimum Golden Age."[1] Alternatively, one may describe the objective of development in simple terms as 'Growth with Social Justice'. The of Five Year Plans, of India or Seven Year Plans followed in U.S.S.R. are examples of a long term plan of development streching over a time span of a generation or more.

To attain the broad objective of growth with social justice, under-developed countries in view of the paucity of their domestic capital resources, need foreign capital resources, either in the form of foreign direct investment (FDI), foreign collaboration, foreign aid grants from foreign countries or through imports. As shortage of capital is regarded as a major obstacle to development in the third world, FDI seemed to offer an attractive way to come out from this 'vicious circle of poverty.'[2] According to Neo-classical, "the effects of foreign investment regarded FDI as simply a capital flow which increased the stock of capital in the host country. As a result of this capital

1 G. Mathur, *Planning for Study Growth*, (Oxford, 1965), p. 199.

2 Rhys Jenkins, *Transational Corporations and Underdevelopment : The Internationlisation of Capital and Third World*. (London, 1887), p.18.

inflow the total output of the recipient economy would be increased, and under a number of assumptions including that of perfect competition and no negative effects on the stock of locally owned capital, the income of host nationals after deducing profits to foreign capital would also increase".[3] Thus, foreign capital resources are required to supplement domestic capital resources in the realization of the objectives of economic development. It is generally believed that foreign capital (FDI, or foreign callaboration or grants from other countries) has played an important role in the development of most of the countries of world. "Nearly every developed state has had the assistance of foreign finance to supplement its own paucity savings during the early stages of its development. England borrowed from Holland in the 17th and 18th centuries, and in turn come to lend to almost every other country in the world in the 19th and 20th century. The United States of America, now the richest country in the world, borrowed heavily in the 19th century and is in turn called upon to become the major lender of the 20th."[4] Though it is true that every country in its early phases of development needs foreign capital resources, the sectors in which they are used, the purposes for which they are used, are important factors for consideration. Thus, foreign capital resources are to be utilized by the developing economics such as India, to set get the capital equipments, raw materials or any other critical goods and services, which cannot be domestically fabricated but at the same time are essential from the point of view of promoting the objectives of the development strategy, adopted. So, for rapid socio-economic development, foreign exchange crisis and the problems of Balance of Payment (BOP), intensive economic reforms were launched in June 1991 under the Premiership of Mr. Narasimha Rao, which is

3 ibid., p. 18.
4 W. Arthur Lewis, *The Theory of Economic Growth* (London, 1956), p. 244

better known as the 'New Economic Policy or Economic Reform Programme.'[5] Reforms were undertaken to decontrol private sector, reform of public sector, delicensing of the industries, liberalization of financial market, decontrol of foreign trade and entry of foreign capital. 'Industrial licensing for most projects was abolished and the limit of foreign equity was raised to 57% per cent in several high priority areas.'[6] (See Appendix).

Concept of Growth and Development

The term economic growth is used interchangeably with such terms as economic development, economic welfare, economic progress. But, certain economist like Schumpeter and Mrs. Ursula Hicks have made a distinction between the more commonly used terms economic development and economic growth. Economic development refers to the problems of underdeveloped countries and economic growth to those of advanced countries. Development, according to Schumpeter, is a discontinuous and spontaneous change in the stationary state which forever alters and displaces the equilibrium state previously existing, while growth is a gradual and steady change in the long run which comes about by a general increase in the rate of savings and populations.[7]

Mohbub ul Haq, a leading Pakistani economist remarked, "The problem of development must be defined as a selective attack on the worst forms of poverty. Development goals must be defined in terms of progressive reduction

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5 Nirmala Sachdeva : "Multinational corporation in India." Third concept, October-November, 1996, p. 27

6 Statement on Industrial Policy, India Investment Centre, July 1991, p. 16.

7 J.A. Schumpter, *The Theory and Economic Development* (Oxford), pp. 63.

and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment, and inequalities."[8]

So, no country can be regarded as fully developed if it can not provide all its people with such basic needs as housing, clothing, food and minimal education. A major objective of development must be to raise people out of primary poverty and to provide basic needs simultaneously. The challenge of economic development lies in the formulation of economic theory and in the application of policy.

Transnational Corporation (TNC) and Development

The Transnational Corporation (TNC) activity as discussed in the social scientific literature is Foreign Direct Investment (FDI). However, FDI is only one of a number of business activities carried out by TNCs. In fact, it is more sensible to think of FDI as an integrated package of the range of business operations available to firms. The word 'TNC' is used differently and interchangeably with other concepts. At the same time, there in no unanimity regarding the definitions of TNC. In India, a specific definition of Multinational Corporations as such appears in Foreign Contribution Regulation Act, 1973 as follows: For the purpose of this Act, a corporation shall be deemed to be a multinational corporation if its :

(a) Is a subsidiary or a branch or has place of business in two or more countries or territories.

(b) Carries on business or otherwise operations in two or more countries or territories.[9]

8 Mahbub ul Haq, "Employment and Income Distribution in the 1970's : A New Perspective," *Pakistan Economic and Social Review* (Karachi), June-December 1971, p.6.

9 V. Gouri Shanker, "Taming the Giants : Transitional corporations in Would Arena, Vidya Vahini (New Delhi, 1980), p.21

The shortest possible definition of a Multinational Corporation (MNC) is a business enterprise which lowers and controls income-generating assets in more than one country.[10]

It is a company which is operating through parent organization in many countries having competitive business interest all over the world. They produce things at one place and sell those goods in other countries. They exploit natural resources of developing countries and sell finished good in different countries, with an aim to maximise the profits. So, from above definition we knew that the word Transnational Corporation (TNC) would be more appropriate than Multinational Corporation (MNC). This is the expression used in the 'Charter of Economic Rights and Duties of States' in the General Assembly Resolution 3281 (XXIX). (Article), and in Resolutions 1913 (LVII) of the Economic and social council establishing the commission on Transnational Corporations.[11]

Since nineteenth century TNCs have been playing an important role in world Economic development. Operation of TNCs, and their investment in different countries has both positive and negative effect. Sitting astride national boundaries., it is seen as peculiarly able to be both helpful and destructive to he objectives of the countries where its units are located.[12] Much comment on the TNC and development can be called polemical, emanating, on the one hand, from those who believe that any foreign corporate presence in a developing country entails the loss of post-colonial virginity and, on the other, from those who view such presence as a simple augmentation of the lower developing countries (LDCs) capacity for doing what it wants to do in a south new colonial context.[13], So, these are, views on TNCs and development.

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10 J.N. Dunning (ed). *Economic Analysis and the Multinational Enterprise* (London, 1974), p. 13.

11 United Nations, *General Assembly* Resolution no. 3281 (XXIX) of 12 December 1974.

12 D.E.Apter and L.W. Woodman, *The MNC and Social Change*, (New York 1976), p. 55.

13 In arching this dimartation I have tried consistently to use the term TNC as opposed to alternative such as MNC, ibid., p. 96.

Neo-Classical Views

TNC acts as efficient allocaters of resources internationally so as to maximize world welfare. As mentioned earlier, neo-classical attempts to evaluate the effects of foreign investment regarded FDI as simply a capital flow which increased the stock of capital in the host country. As a result of this capital inflow the total output of the recipient economy would be increased, and under a number of assumptions including that of perfect competition and no negative effects on the stock of locally-owned capital, the income of host nationals after deducting profits to foreign capital would also increase. At a time when shortage of capital was regarded as a major obstacle to development in the third world, foreign direct investment seemed to offer an attractive way of breaking out of the vicious circle of poverty'. In 1960's, some mainstream development economists advocated FDI as a means of supplementing domestic savings and providing valuable additional foreign exchange required for economic growth. Any problems which TNC operations create are generally ascribed to misguided government policies. Thus a major recommendation is the removal of government-induced distortions such as high protective tariffs. Such tariffs may give rise to a situation where foreign direct investment reduces income in the host country but the TNCs themselves are not blame for this. The assumption of most neo-classical thing is that the alternative to FDI is complete absence of local production.

Global Reach

Central to this approach is the view that foreign investment should be seen as part of the strategy of oligopolistic firms and not simply as a resource flow. The existence of oligopolistic markets means that firms enjoy considerable discretionary powers rather than being the atomistic firms of neo-classical theory which respond to market condition. According to Global Reach thinkers TNCs are institutions.

Individually and collectively, TNCs act in order to restrict competition in various ways. Individually, they impose restrictive clauses on subsidiaries and licenses through technology contracts. Collectively, they form cartels or engage in informal collusion through market sharing agreements or the allocation of spheres of influence. Again, TNCs use their market power to create demand for their products rather than responding to consumer preferences expressed through the market. This leads to 'taste transfer' via the TNC and the expansion of the market for products which are inappropriate for local conditions. A major implication of this view of foreign investment is the need for state control of TNCs either on a national or an international basis. The emphasis on TNCs as oligopolists which generate monopoly rents in their activities has also led to the view that state in the third world should actively intervene in bargaining with TNCs in order to ensure that a greater share of such rents occur to the host country.

Neo-imperialist Approach-

The neo-imperialistic thinkers are of the view that TNC is a major mechanism blocking development in the third world and acts as an important obstacle to socialist transformation. The main exponent of this theory are Karl Marx, Lenin, Bukharin, Samir Amin, A.G. Frank and other dependency theorist who started writings against capitalist imperialism. Foreign investment in the Third World is seen as contributing to the blocking of development or the development of underdevelopment. The TCNs are viewed as a 'vast suction-pump' for obtaining resources from the periphery. At the same time they are a major part of the Balance of Payment (BOP) problems which are so chronic in most third world countries. Again they argued that foreign capital, far from supplying basic goods for the mass of the population, tends to concentrate on the production of luxuries for a small elite.[14]

Neo Marxists

Neo-Marxists arguing that TNCs' impact on the Third World is overwhelmingly positive. According to Warren, "the impact of imperialism on the Third World is progressive, in the sense that it is developing the productive forces in these areas. He argues that 'private foreign investment in the Lower Developing Countries (LDCs) is economically beneficial irrespective of measures of government control 'and 'must normally be regarded not as a cause of dependence but rather as a means of fortification and diversification of the host countries. It thereby reduces 'dependence' in the long run".[15]

Last few years, especially after the collapse of Soviet Union, Marxists view of TNC , are polarised around two positions which, in terms of many of their arguments, are not very different from those found against non-Marxist writers. From above approaches we can say that except neo-imperialist views, other three approaches are more or less similar.

There are also some unanimity between both liberals and socialists regarding TNCs' activity in third world. Both see a common problem arising from TNC domination, the politicization of the market.' Also, the liberals and socialists agree on development as a generally unilineal process.[16]

Despite negative views against TNCs after 1950s many nearly independent Afro-Asian countries their market for direct foreign investment for

14 ibid., n.2, pp. 18-30.
15 ibid., p.31.
16 ibid., n.12, pp.2-7.

rapid socio-economic development. Though there are some peoples reaction against TNCs in countries like India, in mid 1970s and again in 1990s, these movements against TNCs are partially successful. Despite complaining against TNCs in India recently central government has adopted more liberal policies towards FDI. Even it has raised equity percentage for foreign companies in more-export oriented sectors.

Foreign direct investment has contributed in the process of growth in the world economy in general and the developing countries in particular. In the early phase of 20th century FDI outflows have been mainly from the USA and UK. But since 1950s, some other countries emerged on global FDI scene. For example, during the decades of seventies, European Economic Community (EEC) was one of the largest investors in the world. In recent times, Japanese investment abroad is on the rise. It has been estimated that in 70s the share of developing countries in global FDI outflows have been 2 per cent, whereas the share of this group of countries in global FDI inflows has been around 19 per cent.[17] It shows that the group of developing countries, has received substantially larger FDI from other countries than the rest of the world during 70s. Against this global background of FDI flows to and from developing world, the case of India stands in prominence.

Foreign Direct Investment And India's Policies

Prior to independence foreign investment was associated in public mind with foreign domination and exploitation[18] and therefore demand for nationalization of foreign and domestic enterprises was voiced all through the

17 Quaterly Economic Report on Indian Institute of Public Opinion, vol. 37, no.3, 147; july-September 1994, pp.28-45.

18 Administrative Staff College of India, "Industrial Policy: A Course of Studies Paper", (Hyderabad, 1963), p.1.

struggle for Independence. Immediately after Independence, there were many uncertainties in the minds of domestic and foreign investors with regard to future policy of India. Keeping this in view the, Indian official policy towards foreign direct investment was first announced by then Prime Minister Mr. Jawaharlal Nehru, in April 1949. This policy, while recognizing the positive and supplementary role in foreign capital in India's programme of industrial development emphasized the need to regulate foreign capital in the larger national interest. Seven years after the adoption of the policy resolution another industrial policy known as Industrial Policy Resolution of Government of India (1956) was announced to take into account important changes and developments which took place. Since 1956 policy changes have been announced from time to time indicating the approaches of the government towards foreign investments and foreign collaborations.

Between June 1948 and March 1974, total FDI flows to India increased from Rs. 2,558 million to Rs. 19,430 millions. This represents simple rate of growth of 28.6 percent. During the period 1980-89 total amount of FDI flows to India increased form U.S. $87 million in 1980 to U.S. $225 in 1989. During this period major investing countries, were the U.S., Germany, Japan, the U.K. and Italy. During the decade of eighties, 7,128 number of foreign collaborations were signed by India.[19] (See Appendix-2)

The growth pattern of inflows of FDI has changed in nature, due to the introduction of New Industrial Policy since 24th July, 1991. While there were changes in emphasis the basic policy frame remained the same up till July 1991. Foreign private capital, it was envisaged; would promote national

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19. Quaterly Economic Report on Indian Institute ofPublic Opinion, vol. 37, no.3, 147; july-September 1994, pp.28-45.

objectives in the overall framework of planned development. The major policy objectives were :

(i) to treat foreign investment as a vehicle for obtaining modern advanced technology, and

(ii) to have it play a supplementary role for resource mobilization. especially in terms of foreign exchange.

(iii) to bring about rapid and sustained improvement in the quality of life of the people of India. Central to this goal is the rapid growth in incomes and productive employment. Which requires investment: in farmers, roads, irrigation, Industry, power and, above all, in people.

Control Over Transnational Corporations: (TNCs)

The responsibility of controlling the activities of TNC in India is assigned to various government agencies. These agencies are:

(i) The Ministry of Finance;

(ii) The Reserve Bank of India,

(iii) The Ministry of Company Affairs.

(iv) The Ministry of Industrial Development,

(v) The Foreign Investment Promotion Board (FIPB)

(vi) Foreign Investment Promotion Council (FIPC)

All these agencies are functioning under the Ministry of Finance which is the premier finanncial policy making institution in India. It is not directly related to FDI but delegates its power to RBI, FIPB, FIPC and IIC. In India. Reserve Bank of India and FIPB the matters relating to FDI.

Reserve Bank of India (RBI)

The RBI, like any other central bank, performs almost all traditional central banking functions. But, due to the specific nature of the country's underdeveloped economy it has undertaken some development and promotional functions also. As far as FDI is concerned,

1. No foreign investment will be materialized without prior approval of RBI.
2. RBI has given full right to increase or decrease the percentage of equity, which will be invested by TNCs in priority sector.
3. The RBI is required to stabilise the external value of rupee. For this purpose, it functions as the custodian of the nations' foreign exchange reservoir. It is obligatory for RBI to buy and sell currencies of all the members of the IMF.
4. The liberalised foreign investment policy provides for automatic approval by the RBI for direct foreign investment up to 50% foreign equity in high priority industries specified in Annexture III to the statement on Industrial Policy, 1991 (Appendix -1) and up to 50% in the mining sector[20]
5. As regards proposal for private sector banks, the applications would be considered only after "in principle" permission is obtained from the Reserve Bank of India.[21]
6. In 1947, the Foreign Exchange Regulation Act (FERA) was passed and with it foreign exchange management and control became a distinct function of the RBI.

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20 Foreign Investment policy of the government of India, India Investment Center, New Delhi, October, 1995. p.2.

21 Ministry of Industry Department of industrial Policy and Promotion, Press Report, No. IIC/GLI/RSS/97/PN-3

Foreign Exchange Regulation Act-(FERA)

FERA was promulgated in 1973 and implemented on January 1, 1974. Section 39 of this act referred directly to the operation of TNCs in India. Guidelines for administering this section of FERA was announced in 1973 & later amended in 1976. (See Appendix). Under new Industrial and trade policy in 1991 and subsequent period, the government announced major concessions to FERA companies in November 1991 and January 1992. On January 8, 1993 the government promulgated an ordinance to amend FERA with immediate effect. The ordinance has removed a large number of restrictions on companies with more than 40 percent non-resident equity, removed FERA controls on Indian firms setting up joint ventures abroad and allowed Indians to hold immovable property abroad, subject to certain condition stipulated by the RBI.[22] (See Appendix)

Foreign Investment Promotion Board (FIPB)

The FIPB is especially empowered to engage in purposive negotiation and also consider proposals in totality free from pre-determined parameters or procedures. The FIPB is headed by the Principal Secretary to the Prime Minister and has some other members. The approach of FIPB is liberal for all sectors and all types of proposals. All other foreign investment proposals where the parameters for automatic approval are not met such foreign investment proposals are considered and approved by the FIPB or the Secretary for Industrial Approvals (SIA). The FIPB normally clears the foreign investment proposals within a period of four to six weeks.[23] There are some guidelines are

22 Foreign Investment policy of the government of India, India Investment Center, New Delhi, October, 1995. p.2.

23 Ibid., p.4.

laid down to enable the FIPB to consider the proposals for FDI and formula its recommendation. (See Appendix)

Foreign Investment Promotion Council (FIPC):

The government has constituted a FIPC under the chairmanship of Sri N.Vaghul, Chairman, ICICI to undertake vigourous investment promotion and marketing activities.

Setting up of the council follows the Government's decision to strengthen the institutional mechanism relating to the consideration and approvals of the FDI proposals. The Common Minimum Programme (CMP) of the United Front states that the nation need and has the capacity to absorb at least US $10 billion a year as FDI. This will require considerable promotional efforts apart from facilitating foreign investment approvals.

The strategy adopted is a two-pronged one with one relating to the approvals and clearance required as per the transparent guidelines and other relating to full time investment promotion and marketing. Accordingly a revamped Foreign Investment Promotion Board with fresh guidelines was put under the direct of the Industry Minister thereby reducing one level in the decision making. The FIPC will undertake the investment promotional activity which entails making extensive contact with potential investors, lobbying and interacting with individual companies etc.[24]

Monopolies And Restrictive Trade Practices (MRTP)

The MRTP Act was adopted by the government in 1969. The preamble to the Act described it thus: "An act to provide the operation of the economic system does not result in the concentration of economic power to the common

24 Industry, *ASSOCHAM News and views*, (Weekly), 23rd, August, 1996.

detriment for the control of monopolies, for the prohibition of monopolistic and restrictive trade practices and matters connected there with or incidental there to."[25]

According to the MRTP Act, a Restrictive Trade Practice (RTP) means a trade practice which has, or may have, the effect of preventing, distorting or restricting competition in any manner and in particular:

(i) which tends to obstruct the flow of capital or resources into the stream of production.

(ii) which tends to bring about manipulation of prices or conditions of delivery to effect the flow of supplies in the market relating to goods or services in such manner as to impose on the consumers unjustified costs or restrictions.

A Monopolistic Trade Practice (MTP) is a trade practice which has, or is likely to have, the effect of

(i) maintaining prices at an unreasonable level or

(ii) unseasonably preventing or lessening competition,

(iii) limiting technical development or capital investment to the common detriment

(iv) allowing the quality to deteriorate.[26]

MRTP Act has been amended many times. A significant amendment was made in 1991. The New Industrial Policy announced in July 1991 scrapped the assets limit for MRTP companies altogether. The MRTP Act was amended and chapter III on monopolies dropped so that now a company no longer needs prior permission of the commission for foreign investment decisions. The

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25 Government of India, *The Monopolies and Restrictive Trade Practices Act, 1969*, (New Delhi, 1972), p. 1

26 . ibid.

government hopes that this will enable Indian firms to become large enough to compete effectively in global markets.

A significant aspect of the changes in economic policy was introduced since July 1991 with regard to the role and place of foreign private capital. The new policies represent a package that seeking to change foreign investment perception of India. Further, if the restrictive and control regime is replaced by an open door policy and all barriers to entry are removed, the country would attract large foreign investments. The Industrial Policy Resolution of 1956 (and the industrial policy statement of (1948) visualized ressention of basic and strategic industries for the public sector. The approach towards public sector was adopted by the widely prevalent sentiment of the national struggle for political independence in India. Under the new economic policies a radically different view has been adopted. The basic industries and infrastructure are no more reserved for development by the public sector. Power, oil, communication, and a number of other areas have opened for development by national and international private capital.

The provisions of the "industrial policy resolution of 1956 stand revised. secondly, the restrictions imposed under the FERA have mostly been abandoned. Private companies have been permitted to use foreign brand names in the domestic market. Thirdly, the provision of the MONOPOLIES AND RESTRICTIVE TRADE PRACTICES Acts, relating to concentration of economic power are no more operative. The ban on 'trading' area for foreign capital is also no more valid.

In brief, the new policies have vastly increased the scope for foreign capital by

(i) throwing open larger area to the participation of private sector ;

ii) taking the liberal attitude towards foreign share in Indian companies ;

iii) abolishing industrial licensing ;

iv) doing away with provisions relating to concentration of economic power under the MRTP Act, and

v) allowing foreign brand names in ht domestic market.

Development Under Foreign Direct Investment

Inflows of Foreign Investment

The growth pattern of inflows of foreign direct investment into India has changed in nature, composition direction and in totality because of the introduction of New Industrial Policy (NIP) in July 1991. The new Industrial policies were introduced at a time when the country was in the grip of an external payment crisis. Till the end of 1991 the total FDI inflow amounted to Rs. 3514 million.

Table 1.1

Foreign Direct Investment : Actual Inflows Vs Approvals						
	1991	1992	1993	1994	1995	Total (91-95)
Approvals	-	-	-	-	-	-
Rs. Crore	739.1	5256.0	11189.3	13590.5	15805.2	46580.1
US$ Million	324.8	1781.3	3558.5	4331.7	4999.0	14995.3
Actual Inflows						
Rs. Crore	351.4	675.2	1786.0	2971.7	4729.4	10513.7
US $ Million	154.5	233.1	573.8	958.5	1517.4	3437.3
Actual inflows as % of Approval	47.5	12.8	16.0	21.9	29.9	22.6

1- upto September, 1995

Note - Approvals and inflows include NRI investment as well.

Source :- India, Economic Survey, 1995-96.

Table -1 reflect the trends in approvals of FDIs and actual inflows on year-wise basis. Approvals for FDI in 1991 were only US $ 325 million. In

1994, these rose to US $ 4.33 billion and further increased to about US $5 million during the first nine months of 1995. this level of approvals highlights the prospect of a continued up trends in there flows during the coming years.

Foreign investment flows supplement domestic efforts at augmenting investments in the economy. These inflows, direct and portfolio, are in the nature of non-debt creating flows and, therefore, they are a desirable form of capital flows to the country. Foreign direct investments are allowed in the priority areas like power, oil refinery, electronic equipments, chemicals, food processing, industries, telecommunication, industrial machinery etc. Many of them also have export linkages. FDI in consumer good industries are selective. Investments are coming in largely with Indian partners and only a small shares of projects fall in the category of ventures exclusively by TNCs or foreign companies. This would ensures that the Indian companies would have the benefit of upgraded technology, marketing and management inputs apart from the additional capital injection and increased employment.[27]

Due to development in FDI since 1991, the foreign currency assists increased by about 7 times during 1991-92 to 1993-94 from US $ 29. Further, according to the Economic Survey of India mentioned 2.24 billion at the end of 1990-91 increased to US $ 20-81 billion at the end of 1994-95.[28]

Industrial Development

The major policy changes initiated in the Industrial sector on 9 July 1991 include removal of entry barriers, reduction of areas reserved exclusively for public sector, rationalization of the approach towards monopolistic and restrictive practices, liberalization of foreign investment policy, measures to

27 . Government of India, *Economic Survey* New Delhi, 1995-96, p. 98
28 . ibid., p. 99.

bring about regional balance, especially the development of backward areas and encouraging the growth of employment intensive small and tiny sector (See Appendix, Industrial Statement) (1991-96)

An important achievement of India's reform has been the faster growth of Gross Domestic Product (GDP). GDP rose to 6.3 percent in 1994-95 and accelerated to 7 per cent in 1995-96. For the first time since the 1950s, it has achieved a growth rate of 7 percent despite a low agricultural growth rate of only 2 to 4 per cent in 1995-96.

Table 1.2

Pattern Of Industrial Growth

	Weights	**(% change over previous year)**				
		1991-92	1992-93	1993-94	1994-95	1995-96
General	100.00	0.60	2.30	6.00	9.40	12.10
Mining	11.46	0.60	0.50	3.50	7.30	6.90
Electricity	11.43	8.50	5.00	7.40	8.50	8.10
Used Based						
Basic	38.40	6.20	2.60	9.40	5.50	8.60
Capital	16.40	-12.80	-0.10	-4.10	24.80	19.40
Intermediate	20.50	-0.70	5.30	11.70	3.70	10.80
Consumer	23.60	-1.80	1.90	4.00	8.70	12.90
Consumer Durables	2.60	-12.50	-0.70	16.10	10.20	38.50
Non consumer non-durables	21.00	1.20	2.50	1.30	8.30	6.60

Source: Economic survey (varies issues) and RBI Annual Report 1995-96.

Overall industrial production grew by 12.01 per cent in 1995-96 as compared to 9.4 per cent in 1994-95 and 6 percent in 1993-94. The recent growth in industrial production has been encouraging than the very slow growth of this sector in the first two years immediately after the reforms when Industrial production grew at 0.6 per cent and 2.3 per cent respectively.

The overall growth in the Industrial sector was largely due to the Impressive growth rate in the manufacturing sector which increased from 0.6 percent in 1991-96 to as much as 13.7 percent in 1995-96. The mining sector also grew satisfactorily. However, the growth rate of the electricity sector did not show any significant increases. This perhaps reflects the slow pace of reforms in the infrastructure sector in general, and in the power sector in particular.

Agricultural Development

The year 1995 was a good year for agriculture because in that year food production reached at record level than previous years. Some agriculturists and economists were of the opinion that favourable monsoon resulted in this unexpected food production. Food grain production in 1995-96 was 191.1 million tone and the sugar production reached all time high of 146 lakh tonnes during 1994-95 (September-October) which can be attributed to the substantial increase in sugar cane availability. Cotton production at 12.3 in year 1994-95. The over all growth in agriculture production in 1994-95 was about 5 per cent as against 3.4 percent in 1993-94 (see Appendix- for details).

In addition to the favorable monsoon other reasons behind the good harvest are:-

(i) Application of foreign technology;

(ii) Transnational corporations' investment in agriculture sector;

(iii) Minor irrigation schemes include ground water and surface water schemes;

(iv) highly developed and scientifically proved seeds; and

(v) the, use of chemical fertilizers. which was provided by the government under the agriculture-subsidized scheme. The major direct contribution of TNCs in agriculture sectors are latest technology and high yielding seeds loans to farmers.

If we would make a comparative study between Agricultural sector with other sectors it is the most neglected investment area. Governments projectionist industrial & trade policy is the main obstacle behind it.

Development in Social Sector

Social sector is the most priority sector in every state. Development in social sector, is the yardstick of the overall development of the country. After 199,1 there are remarkable changes in India especially in social sector. Due to tremendous growth in Gross Domestic Product now the central government is investing more & more money in social sector.

Education:

The most important aspect of the development of human capital is our education system. The number of primary schools increased from 2.10 lakhs in 1950-51 to 5.51 in 1994-95. This has contributed to rise in the overall literacy rate at 52.2 per cent in 1995 from 18.3 per cent in 1951.

Other Developments are like - the crude birth rate has dropped from 41.2 per thousand population in 1971 to 28.6 in 1994. Since the introduction of economic reforms the Central Plan outlay for programmes of the Department of Health has been stepped up from Rs. 302 crore (BE) in 1992-93 to RS. 670 crore in 1995-96 (BE).

Table - 1.3

Major Schemes Of Social Sectors

Ministry/Department/Scheme	1992-93		1993-94		1994-95		1995-96	Percent 1995-96	Change 1995-96	Over BE 1995-96
	(BE)	(Actual)	(BE)	(Actual)	(BE)	(RE)	(BE)	1994-95	1993-94	1992-93
1. EDUCATION of which	952	965	1310	1232	1541	1600	1825	18.4	39.3	91.7
a) Elementary education	284	309	442	387	532	548	651	24.5	47.3	129.2
b) Adult Education	120	98	178	166	214	207	234	9.3	31.5	95.0
2. HEALTH	302	383	483	402	578	599	670	15.9	38.7	121.9
3 FAMILY WELFARE	1000	1190	1270	1523	1430	1672	1581	10.6	24.5	58.1
4. WOMEN AND CHILD DEVELOPMENT, of which integrated Child	452	481	569	573	662	662	730	10.3	28.3	61.5
Development Services	360	372	474	474	537	537	588	9.5	24.1	63.5
5.RURAL DEVELOPMENT of which	3100	3596	5010	5437	7010	7320	7700	9.8	53.7	148.4
a. Jawahar Rojagar Yojana	2046	2545	3306	3306	3855	3535	3862	0.2	16.8	88.8
b. Employment Assurance Scheme (EAS)				438	1200	1140	1570	30.8		
c. IRDP	390	394	654	657	675	675	656	-2.8	0.3	68.2
D. Rural Water Supply and Sanitation	480	481	770	770	950	870	1170	23.2	51.9	143.8
7.OTHER PROGRAMMES										
A. Nehru Rozgar Yojana	71	71	75	75	70	70	71	1.4	-5.3	
b. Scheme for self Employment for Educated Unemployed Youth	45	40	40	38						
c. Prime Ministers Rozgar Yojana				35	145	125	145			
Total (including other Sectors)	48407		63936		70141		78849	12.4	23.3	62.9

* Provision made at RE stage, as the schemes were launched on October 2, 1993. RE for EAS was Rs. 600 crores and Rs. 35 crore for PMRY.

** Integrated with PMRY.

*** BE as par the Department of Rural Development and Planning Commission. it was revised upward within total BE the Deptt. of Rural Development . In the Budget papers BE were Rs. 375 crore. Rs. 630 crore, Rs. 624 crore and Rs. 640 crore for the years 1992-93. 1993-94. 1994-95 and 1995-96 respectively.

Source: Budget Papers and concerned Departments as cited in Economic Survey of India, 1995-96.

Special employment and anti-poverty programme like Integrated Rural Development Programme (IRDP), Training of Rural Youth for Self Employment (TRYSEM), Jawahar Rojgar Yojana (JRY) and Prime Minister Rozgar Yojana have been a central feature of India's development strategy (See Appendix)

Environment

A country's environmental problems are affected by the level of its economic development, the availability of natural resources, and the life style of its population. Environment problems have become serious in many parts of our country and it should not be neglected. Environment, ecology and development must be balanced to meet the needs of the society. This main environment problem in India relate to air pollution and water pollution, particularly in the metropolitan and industrial zones, and population density.

Investor Problems in India

The problem faced by the companies, as reported are varied nature. Among the major reason for the major reason for the delays in implementing projects are:

1. non co-operative attitude of government officials;
2. inconsistency in government policies;
3. delays in obtaining clearance from pollution control boards.[29]
4. lack of coordination between central and state policies;
5. getting electric power connection, etc., other important problem like loan problems poor infrastructure facilities and lack of professionalism in handling the cases.[30]

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29 ibid., p. 148

Lack of coordination :-

Lack of co-ordination among government departments and ministries to be one of the major causes responsible for the delaying in executing their respective projects. as a result most of the companies are still finding it difficult to identify the final approving authority to be approached for different types of approvals.

Financial Institution:-

Another cause, for the delay in implementing the projects is regarding the time taken by the financial institutional commercial banks in sanctioning term loans. The time taken by financial institution in appraising project proposals is also another reason for the delay.

Reserve Bank of India (RBI) :-

Requirement of dual approvals from government of India and the RBI for obtaining foreign currency which involves lots of time and paper work is another reason of delay in implementing projects Tax policy-Investors, especially foreign investors, find it very difficult to take long term investment decisions due to lack of uniform tax policies. Absence of long term tax policy both for Direct and Indirect Taxes making it different for foreign investors to take a long view on their decisions.

Pollution Control Clearance :-

This is another policy issue on which almost all investors have some reservation for getting 'No objection certificate'. Some companies raised objections to the impositions of environmental clearance on environment force industries.

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30 D.P. Bhatia, "Turning the Economy for a Steep Rise in FDI", *Economic Growth and Social Change* (New Delhi), March 1996, pp. 51-52.

Corruption Among officials :-

This problem obviously cannot be specific to foreign collaboration projects only. It is related to the overall administrative mechanisms and responsiveness to individual needs. In any case, the problems of inefficiencies, bottleneck, bureaucratic attitudes and corruption should be dealt with in a serious manner. lack of proper infrastructure and communication are problems faced by all including industry. Therefore, we should find solutions to curve these problems, from the point of view of attracting foreign investment. So, once investors' basic needs will be fulfilled, they will invest more and more in India.

Reactions against MNCs

Despite socio - economic development (as discussed earlier) in 1990s, there are some peoples reactions and criticisms has been demonstrated either by public gathering or by media. Social scientists, economists and environmentalists have criticised the activities of MNCs from the social, economic and environmental point of view. Since 1991 man foreign projects have been scraped and re-negotiated due to popular opposition.

The Bharatiya Janata party (BJP) emerged as strong political force in the 1990s and part of its agenda seemed to be "economic nationalism".[31] One view from the BJP is that we should be more self reliant. The main argument of BJP is MNCs should not invest in consumer goods, which will bring in elitist goods and so further aggravate social tensions. Mr. Yashwant Sinha of the BJP say that, "We stand not only for a level playing-field, but also for greater support to these (i.e. big Indian) companies".[32] The BJP tried to aggressively pursue a

31 V.Krishna Ananth "Swadeshi and Left", *The Hindu* (New Delhi); 18, October 1996, editorial page.

32 . *Business Today*, (New Delhi), November-December 5, 1995, p.3.

confrontationist attitude vis-a-vis MNCs -*Karnatake Rajya Raitha Sangh* activist attacked the Kentucky Fried Chicken outlet in Bangalore. There was a big company against Europe. The RSS (Rastriya Swayam Sevak Sangh) and its new front-the Swedish Jagaran manch have been opposing the entry if multinationals.

There are some other apprehensions against MNCs like :-

1. They are exploiting our natural resource the ruthless exploit the resources of the country leaves behind barren land, polluted river and soiled atmosphere.
2. Once MNCs start operating in a country they repatriate huge amount of profits to their home country.
3. They can interfere in our state politics and influence in our policy formulation.
4. Entry of the MNCs is threat to our small scale, and indigenous industries.

In spite of such economic reform and euphoria (on discussed earlier), the flow of FDI has been rather small. Not only has this flow been small its composition is such that it does not provide the advantages claimed for it. If we would take a comparative study with China, we could measure our development trends are closely.

The factors behind slow growth in India are :-

(i) Political instability is the biggest cause for lower foreign investment. When MNCs see that Government is not stable they hesitate to invest due to fear of policy changes. As a result, they adopt the wait & watch method.

(ii) Poor insfrastructure is another cause of slow growth, compared to China, India's power and transport sectors are still much weaker.

(iii) India faces a problem of multiplicity of authority. For a project clearance a company has to get clearance from both center and states. Such problems are not found in China.

(iv) There is a vast gap between economic policy and implementation

(v) Dense population, illiteracy, unequal distribution of wealth in society & lack of public awareness regards liberalization as major causes of slow growth in India.

(vi) MNCs are investing more in consumer sectors and less export oriented area like energy & oil sectors.

The most important thing is that MNCs should operate under a proper regulatory framework. There must be transparency from government side, as far as infrastructure sector are concerned. The condition should be so created that country is in a position to absorbs the inflows of FDI as in the case of China that invites and absorbs $ 30 billion per year. The tariff also should not be low. For rapid development the country should invest more and more money in public sectors.

CHAPTER-II

POPULAR OPPOSITION TO MNC INVESTMENT:SELECTEDCASE STUDIES

The policies of liberalization and subsequent opening of Indian market to various Multinational Companies and business-houses has not only changed the very texture of Indian economy but also affected its social fabric. Along with the arrival of foreign companies there were also exodus of a new culture into Indian society, apart from its products. This dual process of market economy and consumerist culture has unleashed a debate in academic as well as political set up. The debate is about the social repercussions of an economic activity which has been allowed to play a vital role in a nations course towards new century. The arrival of Coke, Pepsi, KFC, Pizza Hut and Enron etc. has not only changed economic structure but also has been able challenge the predominant ideological bastion of Indian society. The ideological issues largely address to the ethics and morality of the consumer, the choice of the youth and the role of the state. The uprising of MTV generation and the new brand of youth activity indulging in an entertainment culture that allows sexual permissiveness and alcoholism which has been traditionally a matter of open secret.

This dichotomy of culture and economy firmly competing to engulf the consumer, has set a new dimension to analyse the courses of contemporary history. If economic benefits are to be regarded as soul parameter of social development then suddenly we have national consensus on the entrance of MNC into India. But as far as cultural invasion is concerned there has been a dominant desenting voice. The opposition to economic liberalization in general and admission of Multinational Companies in particular has been a major bone of contention between the protagonist and antagonist of Indian economy.

The major plank of argument that comes from antagonist of liberalization each of culture and history. Those who provide a cultural critic of economic liberalization are of the opinion that the Multinational Corporations (MNCs) unleash a new brand of culture heather alien to us and destroy our own culture. Historian like K.N. Pannikar and many of his Marxist college hold the view that philistinism is a bi-product of consumerist culture which globbles of individuality and uniqueness of other cultures.[1] They also propagate the view the culture acts as a major weapon of conquering distant territories through economic passages. The whole matrix of culture represented by capitalism viz. Pizza to pornography is deliberately played to brake the sting hold of originality and make them dependent upon the new culture. This makes the original culture inactive cripple and unsung.

Another opposition to economic liberalization in general and to permit MNCs enter into Indian market in particular has come from the historical perspective. Our encounter with colonialism and subsequent agony has made us entirely cryptic to the whole notion of giving license to business particularly to the foreign companies. The turbulence and turmoil of colonial history which is reprehended with the brutal and savages destruction of cottage industries, ruthless exploitation of peasantry and complete annihilation of artisan is a sad commentary on the rule of foreign companies. Following the maxim, 'once beaten twice shy', Indian intelligentia is some what ambivalent in its approach to MNCs. Their suspicions to the MNCs, also gets strengthen from the experiences of Latin American and African countries where national economy is entirely dependent on MNCs. So, this historical experience acts as deterrent to welcoming MNCs into Indian market. Besides that history also provides ample example where despite of maximum foreign investment and adequate

1. *The Hindu*, 5th and 6 th October, 1995.

infrastructure facilities developing nations or states have failed to graduate it into developed with the help of MNCs.

Social criticism to the economic liberalization in partially an extension of cultural criticism. Social criticism is also popularly known popular upheaval in largely reflected in mass protest, picketing and gheraos. So, at the level of action it has a political connotation while theoretically it is embedded to economic and cultural relations. When a MNC by using its larger resources, technology, capture local resources, and taps it market, it creates a problem of survival for the local people. The earlier means of life and subsistence which is generally available in locality and used by local is transferred to agencies alien to them and they are deprived of their immediate needs, they turned rebel. The share of indigenous people over indigenous resources is moral right, which legitimacy largely comes from tradition, if snatched away it automatically lead to violence. Where the immediate agencies becomes the butt of aggression.

India which was traditionally followed 'Socialist economy' decided to set its protective gear and opened up its market has stirred a honestness which has given rise to volumes of views. The economic critics of market economy has its basis in Marxian dialectics. The Marxist believes in active state intervention and emphasis on the acquisition of more and more material goods and the creation of social and economic infrastructures conducive to the production and expansion of these goods and services.[2] This basic premise does not contradict the notion of development but centrally planned economy where equity and equality will be achieved. And they vehemently oppose private ownership and profit maximizations by private houses.

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[2] Sushil Mittal and Varma Rao, *Development and Change in India*, (Delhi, 1993), p. 10.

The non-Marxist economic criticism of liberalization in India comes from the tenets of economic nationalism of 'Hindutva'. The brand of RSS (Rastriya Swayam Sevak Sangh), and the Bharatiya Janata Party (BJP), and cultural and political outfit of 'Hindutwa' along with *Swadeshi Jagaran Manch* (SJM) profess a doctrine of neo-liberalisation. These organisations are not against liberalization as policy per se, but they disagree with the mode of liberalization. To quote the statement of Mr. Murli Manohar Joshi 'that we do not need potato chips but computer chips'.[3] These organisations want a selected liberalization, where entry of MNCs in atomic energy, space, software technology is welcomed but not in consumer sector. In all, in areas of high technology, technology transfer through MNCs is prescribed. They also incorporate the 'Gandhian Ideology of "Swadeshi'[4] and want an internal ban on MNCs largely through the consumer himself. There by they want to promote indigenous product and give a fare degree of space for competing with big MNCs.

Ecological critic of liberalization is a major theme in all contemporary debate. The environmental activist as well as environmentalist believe that MNCs are major culprits of environmental degradation. They not only pollute the environment by using large quantity of chemical gases and various sources of powers but also a threat to ecological balance by using technologies, which unsettle the nature's maneuverability. The use of modern machines equipment's and synthetic variables, not only pollute our water, air, and soil of developing countries but also brake the peace of the land and particularly in

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[3] The Hindu, 2 November 1992.

[4] Ramesh Diwan, *Aparigraha and Swadeshi: An Attempt at Gandhian Economics, Development: Seeds of Change* 1986: 3 pp.85-91. Ruddan Dutt "Multinationals vs Swadeshi", *Mainstream*, Annual Issue, 1993, pp.65-67.

ecological sensitive areas and in the field of pissi culture, chemical industries, paper pulp etc.

These criticism which remain in the academic and political circle for longer time gradually turns into a theory. These theories palpitates action which manifest itself in the various forms of protest. Any action that taken place has normally a motivational point in theory at conceptual level. The movements which are taking place today against MNCs are not self emerging, they have their crisis in theories. Social Movement generally emanate from a theoretical paradigm. Therefore, it becomes important to understand various theories of social movements to go deep down into the root of a movement. So, from vintage point of theory we can look into various dimensions and ramification of any social movement.

The term 'social movement' and 'popular opposition' are now used interchangeably in the areas of social sciences. Here, in this study, we use both terms simultaneously, without going deep into their technical and other differences.

Theories of Social Movements

Social Movements are generally perceived as the conscious effort of collectivities mostly of bring about changes in society and sometimes to resist the change in a particular direction. The genesis of social movements is often attributed to the breakdown of the social system or the formation of new interests, new forms and solidarity and identifies.[5]

[5] C. Tilly, *The Rebellious Century, 1830-1930*, (Cambridge, 1975), p.

According to Anderson and Parker, Social movement is "a form of dynamic pluralistic behavior which progressively develops structure through time and aims at partial or complete modification of the social order".[6]

Social movement as an organised attempt on the part of a section of society to bring about either partial or total change in society through collective mobilisation based on an ideology.[7]

According to *structuralist approach,* social movement as index of systems malfunctioning. They are concerned with identifying the type and resources of strain in the society.[8] Structuralist feel that, the source of change usually exogenous, But they don't see social movements as the key factor in the systems change and maintenance. As Burridge writes, Social Movements are not structures but transition from 'no rules to new rules'.[9]

While the structuralist focus on the system as a whole and upon the objective data which describe that system, the socio-psychologist perspective to explain it in the subjective levels. This perspective some extent confirm to a voluntaristic theory of action in which individuals are seen as responsive and 'willing agents' in the process of collective behavior and not as more or less mechanical respondents to objective situations. The concept of relative deprivation has been used to explain social movement through this perspective.

This *social psychological* prospective mainly explain the individuals perception of deprivation and link it to the deprivation of the group with reference other groups. Movements which have economic, political and status

6 Anderson and Parker, *Society* (New York, 1964); p.

7 M.S.A Rao, ed., *Social Movements in India*, vol.1, (New Delhi, 1978).p.2.

8 Daniel Bell, ed., *The Radical Right* (New York, 1964), chalmers Johnson, Revolutionary Change, (Boston, 1966), Neil Smelser, *Theory of Collective Behaviour* (New York, 1963).

9 Burridge, Kenelm, *New Heaven, New Earth* (Oxford, 1969), p.165.

goal can be better explained through this approach. Generally the type of deprivation is seen as something related to wealth, power and status. Although deprived groups are generally identified as those who are repressed, marginalized, exploited or disrespected, in the case of environmental movement the deprived group at a broader level include all social groups at least in the near future if not at present.

There are attempts to study social movement through another theoretical perspective which also originally comes from Social Psychology. Modern society is termed as "man society" by social psychologists. According to this theory, the source of the proliferation of mass behavior and mass movements in modern society has to be sought in the characteristics of its social structure, more specially in the weakness of modern societies integrative functions.[10] The main proposition of man society theory is that a society with mass tendencies, because it lacks restraining mechanisms, can not prevent its members from turning to mass behavior and to mass movements in his critique of mass theory, Pinard says that all groupings, whether characterized by a restraining, mobilizing, or neutral potential, can exert communicating effects and as such can be conducive to the raise of new movements.[11]

One of the most widely employed approach to study social movements today in the '*Resource mobilization theory*'. The theory holds the assumption that movement participation are at least as calculatively rational as are more conventional political actors and that they will devise strategies of action which makes most use of the resources they have and which minimize the

[10] William Korhauser, *The Politics of Mass Society* (Glencoe, 1959).
[11] Maurice Pinard, "Mass Society and Political Movements: A New Formulation" in Hans Peter Dreitzel ed., *Recent Sociology*, vol.1,(London, 1989), 104.

requirements for resources they do not have.[12] This is an intellectual reaction' against a previous generation of theory which regard social movements as essentially non-rational instances of 'collective behavior'. Social movements are traditionally seen as extensions of more elementary forms of collective behaviour and as encompassing both movements of personal change (e.g. religious sects, cults, and communes) and these focused on institutional changes (e.g. legal reforms and changes in political power). Resource mobilization theorists have, in contrast seen social movements as extension of institutionalised actions and have restricted their focus to movements of institutional change that attempt to alter "elements of social structure or the reward distribution in society" organise previously unorganised groups against institutional elites or represent the interest of groups excluded from the quality.

Mobilization is the process by which a group secures collective control over the resources needed for collective action. The major issues, therefore, are the resources controlled by the groups prior to mobilization effort, the process by which the group pools resources and directs these towards social change and the extent to which outsiders increase the pool of resources.

The most significant contribution of resource mobilization theory has been to emphasize the significance of outside contributions and the co-optation of institutional resources by contemporary social movements.

New social movements.

Since the beginning of the 1980s the social science has increasingly dedicated attention to the so called new social movements. The adjective 'new'

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12 C.A. Rooter, "The Rationality of Student Radicalism", *Australian and New Zealand Journal of Sociology*, vol.14, no.3, October 1978, pp.257-258.

is often used to indicate the unique nature of new social movements compared to the other traditional social movements.

Muleci in his analysis of New Social Movements said that they are struggling, not only of re-appropriation but also for collective control over socio-economic development i.e., the reappropriation of time of pace and of relationships in the individuals daily existence.[13] The problems and the issues which the New Social Movements deal with are those related directly to a combination of personal-individual situation and behavior and policies and activities of social system. Thus the movements arose as a result of a situation when and where the personal worries transform to collective issues. New Social Movements are less socio-political and more socio-cultural.. The distance between civil society and state is increasing while the separation between private and public life is fading away. The continuity from social movement to political party is disappearing; political life tends to be a depressed area between a stronger state in a changing international environment and, on the other side, socio-cultural movements. The main risk is no longer to see social movements absorbed by political parties, as in communist regimes, but to complete separation between social movements and state. In such a situation, social movements can easily become segmented, transform themselves into defense of minorities or search for identity, while public life becomes dominated by pro or anti state movements.

The New Social Movements are historically speaking a second wave of protest of the honest man, which managed to have a significant and ambivalent moral, political and social influence in the nineteenth century. It is not the upper class which represents high in society. It is objectively locked out from

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[13] A. Melucci, "The New Social Movements: A Theoritical Approach", *Social Science Information*, vol.19, no.2, p.228.

the top because it does not have the power to make its need the socially accepted and legitimate one.

The New Protest Movement of the petite bourgeoisie is based on the central position they give to moral issues. "Morality becomes the subject of collective protest. Protest action is nothing but the reversal of institutional action"[14]

Thus we see new type of movements such as environmental movements, consumer movements, women movements etc. in modern society. Another notable point to be mentioned is, the emergence of Social Movements with strong urban character or urban social movement. They are "characterized by collective consumption demand - making community culture and self-management or autonomy.[15] It is true that the objective of New Social Movements is not the acquisition of political power, But they may select this strategy for the fulfillment of their primary objectives.

Ideology and leadership

The formulation of ideology is an important aspect of any social movement. The leaders workout different themes by which the concerned section in the movement attempts to improve its self-image, aspect and honour. The leaders of a movement select different elements of relative deprivation and combine them in different ways to formulate an ideology. The ideology provides the source of legitimisation of the new values, norms and relationships envisaged by the leaders. It provides the basis of interest articulation and of establishing a new identity.

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[14] K. Elder, "The New Social Movements: Moral Crusades, Political Pressure Groups or Social Movements ?", *Social Research* vol.52, no.4, Winter 1985, p.879.

[15] G. Olofsson, "After the Working Class Movements? An Essay on What's New and What Social in the New Social Movement", *Acta Sociologica*, vol.31, no.1, 1988, pp.18-34.

Protest Movement in India

India is passing through and unprecedented crisis. The ruling elite has lost its contact with the Indian people and even the genuine demand and popular aspirations of the people remained unfulfilled. Public protest in India assumes many forms. For example, "there are legal and illegal forms of protest. The illegal forms come in two varieties : violent and non-violent. Satyagraha, a non-violent civil disobedience, is a non-violent but often illegal form of protest. Violent illegal protest refers primarily to riots, although it may include assassination and coups d' 'etat'[16]

The historical legacy of protest movements of pre-Independent India has left a deep imprint on the minds of Indian people. Obviously, therefore, Indian masses use those very modes of protest which had been used by our nationalist leaders for raising their grievances against the British. Numerous protest movements are going on in our country and no serious effort has been made to find solution to them. Since 1991, many protest movements has been erupted against Multinational companies and government policies. Protest movements emerged against cultural invasion by MNCs, economic inequality, imbalance development and ecological problem in post liberalization period. In addition to these movements, protest movements from several segments of the Indian Society are raising their voice of anguish and resentment for being ignored by the ruling elite.

Cargill Salt Company

The protest movement against the Cargill Corporation of United States of America in the Kutch region of Gujarat, was one of the biggest popular

[16] Bayley, D.H., "Public Protest and Political Process in India", *Pacific Affairs*, vol.XLII, no.1, Spring 1969, pp.5-16.

reaction against MNCs activities after 1991 economic reforms period. It was the first and most successful protest movement against MNC during 90's. The industrial policy of 1991 laid down clearly that in order to invite foreign investment in high priority industries, requiring large investment and advanced technology, it was decided to provide approval for direct foreign investment up to 51 per cent foreign equity is such industries. Similar facilities were made available for other industries as well. As a result, U.S. based Cargill corporation wanted to establish a salt project near Kandla port of Gujarat. Gujarat, India's largest salt manufacturer state. Of this, region around Kandla alone is responsible 65 per cent of the production of the country. On 12th August 1992 Cargill corporation got Foreign Investment Promotion Board (FIPB) approval and it also got special sanction from Prime Minister office to set up project. Before that the Kandla Port Trust had rejected Cagill's application thrice on the grounds that the proposed land belongs to the port. This arbitrary step had been cited by the protesters as evidence of *mala fides*. As a result public reaction loomed large against Cargill corporation. Cargill which was under attack by farmers in Karnataka over its seeds project based in Bangalore, the proposed salt work, another reaction against it became more problematic.

There were multiple reason behind that popular opposition to Cargill salt project. The protesters had raised numerous objections, the most important being that the mechanized operations that Cargill is planning would kill the existing salt works, where much of the work in still done by hand. Then there is the question being raised about national security, ostensibly because Kandla is located close to the Pakistan border the Cargill project proposal includes permission for private jetty right up to the navigation Channel.[17]

More significant, how ever were the two environmental question of the sharp increase in salinity and consequent degradation of soil. The soil over a period of years, soaks in brine with 28% salinity, left behind after the salt extraction through the solar process.

Local environmentalists said that project would also lead to the siltation of the Kandla channel, as his mega salt works will trap long volumes of ocean water to make its operation effective. The soil that flows in with this ocean water remains trapped instead of flowing back with the tides as normally happens, possibly suffocating marine life in the creek. Dr. P.P. Vaidyaraman, Director of Central Water and Power Research Station (CWPRS), Pune, is a letter to the KPT authorities had listed many negative effects of the Cargill project : "The salt pan activities within the tidal limits of the port would have the effect of reducing the tidal flows through the creek system which in turn have effects on navigational channel and approaches to the Kandla port. As far as hydraulic aspects and siltation of the approaches are concerned, leasing out of any more land of large size for salt pan activity within the tidal limits would not be desirable due to possible effects on tidal propagation, siltation, etc."[18]

Salt extraction is a sordid story of exploitation as about 4000 salt farmers, toil almost from don to dusk through out the week for about seven months to extract subsoil brine and process into salt. "The laborious manual process of digging 25 to 300 feet deep wells at selected spot to get salt is very difficult. One salt pan yields about 300 to 400 metric tones of salt in the season. The sale of this much salt bring about Rs. 13,000 of which around Rs

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17 *Bussiness India*, (Bombay),19 July- 1 August, 1993, pp.85-87.

18 *The Radical Humanist*, "Kandla Salt Project: Way to the MNCs", January, 1994, pp.19-20.

8,000 is spent in paying off expenses incurred in extracting the subsoil brine and in land preparation. This leaves a salt manufactured family with an average income of Rs. 5000 for the whole year. Due to Cargill project 20,000 people in Kutch who are involved in salt manufacturing would have been adversely affected.

Another thing indigenous salt farmers would not be able to compete with Cargill says Bhikubjai Nanthulal, a salt former owning four hectors of Kandla, "we would have to close shop and think of something else. How would we able to with stand the power of a large company ?"[19]

Cargill's worldwide record in the area of environmental protection make an interesting account. Each time the company has been severely criticized for its lack of environmental responsibility, it has responded by promptly setting claims and effecting upgradation. Back home in the US, its critics argue that the company owes its prosperity to the exploitation of the worlds small farmers. They blame the company for inducing the farmer to over produce by plying him with fertilizers, feed and seeds and then buying his crops and livestock at rock-bottom prices. Fortune magazine, covering this giant in 1992, pointed out how Cargill had been recently reprimanded for neglecting worker safety and polluting the environment.

Due to all these shortcomings in Cargill project the Kutch Small Scale Salt Manufactures Association (KSSMA)[20] raised voice against proposal in 1993. This association obtained a stay order from local civil court in February 1993 to prevent the Kandla Port Trust (KPT) from handing over the 15,000 acres of land.

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19 "Salt and Protest", *Business India* (Bombay), 19 July-1 August, 1993, pp.86-87.

20 JED Greer and Kavaljit Singh, "Cargil Quit India: TNCs and India" (*Public Interest Research Group*) New Delhi, 1996, p.31.

In 1993 Protest movement against Cargill intensified. The campaign to drive out Cargill, spearheaded by various socialist groups, and had apparently been successful. The "Samajawadi Abhiyan" against MNCs convened by George Fernandes, the crusader against Coca-Cola in 1970, had been indulged in more intensified satyagrahas at all state capitals and district head quarters from August 9 onwards.[21] Beginning of 19 May 1993 hundred of social activists, politicians, and trade union leaders brand a scorching sun to march to Kandla port and register their anger at the Government's action Mr. V.P. Singh then Janata Dal MP, who flew down to Kandla, to personally participate in the agitation, told that " salt once the symbol of out freedom movement, is today a pointer to our economic serfdom," trying to invoke the spirit of Gandliji's Dandhi March.[22] Around 1794, people courted arrest from May 19 till 60th day of the satyagraha started by the Samajwadi Abhiyan.

In September 1993, some 8000 people from all walks of life had participated in the Satyagrah. Among these people were political leaders from variety of parties including Members of Parliament and Members of State Legislative Assembly : as well as freedom fighters, students, trade unionist, non governmental organisations, citizens groups, and domestic salt manufacturers. A march - Ulta Dandi March - from Dandi to Ahmadabad began on 31 August, 1993. This march reversed the route of Mahatma Gandhi's historic Dandi march in 1930, which was part of a crusade to make India Independent in salt production, and which became closely linked to the country's struggle for national independence.[23]

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21 ibid.

22 *Business India*, 19 July-1 August, 1993, p.85.

23 *Public Research Interest Group*, n.20, p.32.

The fight against Cargill reached at its climax when Samajwadi Abhiyan fixed 2 October 1993 with an indefinite blocked of Kandla port. The Abhiyan had decided that it would be a "do or die" movement, and all participatory organizations were agreed to fight against US company. This was are of the peculiar experience, in which different groups with various objectives came together and consolidated their strength. Both Cargill company and central Government shocked by this type of protest movement, and finally central Government reconsidered its earlier decision.

The success of the salt satyagraha will help to intensify the campaign against neo-colonial penetration of MNCs into various vital sectors of the country's economy. The Cargill, corporation's decision to scrap the project should send clear message to the other MNCs and their local agents who are trying to penetrate the various sectors of Indian economy at the cost of national sovereignty and economic independence.

Cargill Seed

The seed industry of India entered into a new phase by the new seed policy announced by the government in September 1988. The main thrust of the new policy was to upgrade seeds and provide the Indian former with the best planting material in the world so as to optimise his output. By the new policy some international companies entered into joint ventures while others, like Cargill and Pioneer, set up research outfits and left the marketing of their hybrids to Indian companies familiar with local markets. US based Cargill seed corporation Pvt. Ltd. also got FIPB clearance to establish its company at Bangalore. It also started its seed business under the Uruguay Round of

General Agreement on Tariff and Trade (GATT) negotiation which started in September 1986 had concluded in December 1993.

But there was a farmers reaction in Karnataka against Dunkel proposal and Cargill seed India Pvt. Ltd. The Bangalore based subsidiary of the United States multinational Cargill inc. The Karnataka Rajya Raitha Sangha (KRRS), which started the assault, demanded a ban on the entry of multinational corporation in the seeds sectors and the preservation of the Indian patent Act, 1970, which excludes patents on all life forms. The Sangha , had joined hands with the Delhi based Gene - campaign, feared that if the government of India sign the Dunkel proposals, farmers would not be allowed to preserve seeds from the harvest for the next crop, but would buy fresh such from multinationals at exorbitant rates.

As its (KRRS) leader Dr. M.D. Najundaswami argued, "Compulsorily, under the Dunkel proposals there would be imports of all kinds of agricultural products. The developed world wants to convert the region into a global trade region so that they can dump their surplus production.[24] The Sangha also believed that the intellectual property claim of the MNCs were unjustified as the varieties to be patented were bred from Third world germplasm.[25] As a result, present movement against, not only Cargill Seeds India private Ltd, but also Dunkel draft emerged, took a new turn in 1992. KRRS argued that, Dunkelism had been identified with the ideology of domination, colonisation or recolonisation of the third world countries for the benefit of Western capitalist countries. This process can be seen both as capitalist domination and political domination.

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[24] "Seed of Discord", *Business India*, 18-21 January, 1993, p.125.
[25] ibid.

The discourse that KRRS advanced before and after the attack was marked by an intense empirical study of the Cargill company in particular and the agriculture in general (KRRS 1992). These pertained to the loss of traditional varieties of seeds, productively per hectare from the seeds distributed by the company, and differences in the price paid to seed producers and seed consumers. The hybridization that the company was following, the KRRS argued, was a form of "patenting itself". There are certain traditional varieties of seeds on which hybridization cannot work. Hence control over agriculture would ensure their control over the seeds. The KRRS also contended that the Cargill had earned huge profit by keeping a large margin between prices paid to seed producers and seed consumers. For example, Cargill was buying seeds from seed producers at Rs.40/- per Kg. and selling it to seed consumers at Rs. 180/-. The KRRS also claimed that the seeds of Cargill had not been giving expected results - in fact, it was much below the proclaimed one.[26]

The KRRS viewed that Dunkelism violates basic human rights, freedom, liberty, and dignity of the Individual. This was based on the assumption that Dunkelism provided space for monopolies to operate on seed production, "to the exclusion of the individual farmer's rights to produce his own seeds and fertilizer. This was combined with an inherent fear that Dunkelism opens up space for privatisation and commercialization of research. As a consequence secrecy would prevail on the dissemination of knowledge. Knowledge, being a product of social interaction and social development, any

[26] Karnataka Rajya Raitha Sangha, *Whomsoever it May Concern*, Dunkel Draft : A Violation of Human Rights", (Bangalore), 1993.

patenting would finally impinge on the freedom of thought and expression, and finally human rights"[27]

The first expression of anti-Dunkelism came in 1991 at a time when the central Government was withdrawing fertilizer subsidies to agriculture. The KRRS then confronted the issue from there different angles : one, by analyzing the implication of cost prices. This was being done by empirically arguing that prices of fertilizers might escalate, if the administering prices were withdrawn ; two, exposing the dualism in the policy of aid and loan. The argument advanced that the loan was being used to trap countries like India in the vicious circle of subordination and structural backwardness (KRRS-1992-93). Lastly, It was contended that where compared to other countries like Japan, South Korea, China, U.S. etc, the subsidies given to Indian agriculture was comparatively low.[28]

In the October rally of Hospet in 1992 the KRRS decided to carry out a nationwide "Seed Satyagraha". Next month the KRRS adopted fine resolutions exclusively on the Dunkel draft ; one, decisions should be taken in consultation with the representatives of all the farmer's organization ; two, demanding consultation of all state legislatures before signing the Dunkel draft ; three, opposing patenting of intellectual property protection on living organism, four, preserving the rights of farmers to produce, modify and sell seeds ; and finally ; to "ban the entry of International companies in the seed sector" .[29]

The first confrontation with the multinational company (or, its crudest form, Dunkelism) came when the peasantry ransacked CARGILL company at Bangalore on December 29, 1992. "sangha activities entered the fourth floor of

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[27] ibid.

[28] ibid.

a commercial complex. They ransacked the office, damaged the computers, removed all the documents before setting ablaze some of the files, documents and the flag of the U.S. kept in the offices".[30]

The real boost to the peasant movement came at an all India level when different peasant organizations viz., Bharatiya Kisan Union, (BKU) of U.P, BKU of Punjab, KRRS of Karnataka, organized a massive rally at Delhi on March 3, 1993, throwing up a Chapter of demands. There were four exclusive demands on Dunkel." One, an outright rejection of the proposal, two, restraining "any International control on domestic policies"; three, retaining the right to have import restriction, and, finally, the charter of demands said, "we should not give up our sovereign right to frame our own system of invention for the development of new varieties of plants. Intellectual Property Rights should not be made part of GATT negotiation. Further, we must not compromise on our right to have unrestricted multiplication of seeds".[31]

All these culminated in the second attack on the Cargill Company at Bellary on July 12, 1993. The KRRS then contended that, "it is a second attack. It is in fact the continuation of the first round. It is the continuation of the first against the multinationals".

Finally, this peasant movement became successful, when Cargill seed India Pvt. Ltd, decided to withdraw from seed business. It was of the biggest peasant movement in post liberalization period. The demands of this peasant movement was not only supported by Indian Non-Government informations, but also international organisations. This movement was a great blow towards multinational companies who were trying to hijack our peasant is natural rights over agriculture.

Enron

On 3rd March 1995, Siv Sena and BJP Government of Maharashtra scraped the controversial Enron power project.[29] The US-based Enron Corporation has proposed to establish a 2015 megawatt gas-fired, combined cycle Dabhol power project[30] in 1992, after the declaration of new energy policies by Narasimha Rao Government at the centre. To attract foreign investment at power generation sector the then congress government amended the electricity Act and other rules and regulations.

The First Indication on Enron putting up a power project in Maharashtra came after a high power delegation led by the then cabinet secretary, Naresh Chandra including power secretary, S. Rajgopal returned from a tour to U.S. in June 1992. In the first week of June, 1992, Naresh chandra at an unusual news conference in his chamber broke the news about Enron investing in a mega power project based on Liquified Natural Gas (LNG) technology on west coast.

Cronology of Enron Dealing

- June 10, 1992, Enron officials visited sites on the coastline.
- June 20 1992, Maharashtra state Electricity Board under administrative control of the state Government signed a Memorandum of Understanding (MoU) with Enron.
- February 1993 FIPB grants approval.
- March 1993 CEA clears Dabhol project
- December 1993 Maharashtra State Electricity Board sign Dabhol Power Purchasing Agreement.
- February. 1994 GOM sign guarantee.

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29 *The Hindustan Times*, 4 August 1995.
30 *Financial Economy*, 2 August 1995.

- September. 1994 GOI signs guarantee.[31]

Political Opposition

From the very beginning, the Enron project raised controversy due to many reason. The first controversy started by state opposition party, like Siv Sena and BJP. Under mentioned reason behind Enron controversy were used as populist measure during state election by Siv Sena and BJP candidates. Again also in the state Legislative Assembly. Chief Minister Mr. M. Joshi read out those reasons for which his Government scraped multi-billion dollar Enron deal.

Explaining the reason for Scrapping the Rs. 9,000 crore power project Mr. Joshi said that the previous government had reached an agreement with the Dabhol power company without inviting competitive bids, maintained strict secrecy, not cared about the environmental consequences, the exorbitant capital cost and the recurring increase of power rates.[32]

The Chief Minister pointed out that the World Bank (WB) had advised that the gas-based project was not economically viable, Dabhol power project had been opposed by WB tooth and nail on six specific counts including guarantees and counter guarantees, viability, large size, wrong choice of fuel, plant design and high cost option.[33]

He also pointed out that foreign investments were essential for development of the state and that such investors would want profits on their investments. But it was important to consider that excess benefit would not be given to investors at the cost of the people.

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[31] *The Observer*, 4 August 1995.
[32] *Financial Express*, (New Delhi), 6 August 1995.
[33] ibid.

Consumer Reaction

On 12th May 1995 around 1,000 protesters marched towards project site. The Konkon Sangharsh Samiti and SJM, spearheading the protest against the power project, told that repeated provocation by engineers working for Bechtel, the contractors, entrusted with the construction job, and the workers initiated the attack.[34]

Villagers from Guhagar, which is about 50 km from Chiplum in the Konkan, agitating against the project had claimed that angry villagers of Anganvel, Veldur, Katalwadi and Dabhol, all adjoining the 600 hectors plant zone, stripped and beat up two of Bechtel engineers.

The combined population of the five hamlets surrounding the project site is about 10,000. Their main fear stems from the LNG storage plans of the Dabhol power company. Residents of Guhagar and the Samiti representatives say the storage of large quantities of LNG is a major safety hazard.

Besides, the hot outflow of coolant water into the Veldur Bay will affect the fisheries industry along the coast there and the operation in the plant will attract more industries into the coastal belt, thereby destroying the thriving horticulture and agriculture industry.

At this time, the orchards in Guhagar and chiplun *talukas* of Rantnagiri district are alive with the frantic picking of mangoes and the sorting of betel nut. Also, a major industry is the picking of cashew.

On 12 May 1995, nearly 400 hundred citizens of villages affected by the project stormed at the project site and ransacked the office. Construction of the project's first phase (a 695 megawatt facility) came to a halt for four days after the attack. Enron Hatao Kruti Samiti launched a month-long satyagraha (series

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[34] *Business Standard*, (New Delhi), 19 May 1995.

of demonstrations) in front of the state legislature beginning on 5 July. The Samiti's members organised many public meetings to discuss the ill-effects of Enron project in various parts of Maharashtra during the satyagraha.[8] As a result of this pressure, the newly-elected Shiv Sena-BJP government set up a review committee to look into the project. Headed by the Deputy Chief Minister of Maharashtra, the committee recommended in late July that the project should be cancelled.

Kentucky Fried Chicken (KFC)

In Banglore, M.D. Nanjundaswamy, President of Karnataka Rajya Raitha Sangha (KRRS) which tried unsuccessfully to send to the American seed company; Cargill, packing two years ago, had now turned his attention to the menace of Junk food chains".

The Karnataka Rajya Raitha Sangha on Monday (1st Aug. 1995) threatened to attack the American fast food chains Kentucky Fried Chicken's outlet in Brigade Road Bangalore as part of its drive against Multinational companies. Former union Minister Meneka Gandhi had also criticized the entry of the fast food chains in India.

According to Prof. Nanjundaswamy "the food dished out by there fast food outlets were harmful to health and could cause cancer".[35] Mr. Swamy quotes a US senate committee study of 1992 which traced all diseases to junk food, and other which says that one American develops cancer every seven seconds and one dies of it every 55 seconds.[36]

Following the reaction from KRRS founds KFC, Bangalore Multinational Corporation conducted a food test, carried out by the public

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35 *Business and Political Observer* (New Delhi), 1 August 1995.
36 *Business Line*, 10 August 1995.

analyst which found the chicken served at KFC "adulterated, misbranded and unfit for human consumption." According to analysis, KFC's chicken has a high percentage of monosodiumglutamate (MSG) (2.8 per cent) against 1 percent recommended by the prevention of food adulteration Act. MSG can lead to nervous disorders and pregnant women face the risk of giving birth to mentally retarded children.[37] Constant use of sodium salt can cause hypertension as well as heart and brain problems.

Chemists and Public Analyst at the Bangalore city corporation, James Alexander, points out that the presence of pesticides in the grains fed to the chicken could lead to complications. It is a vicious circle. The pesticides consumed by the birds are transmitted to their meat and from there to humans".[38]

Greed activists find the alleged seeding of hormones equally difficult to digest. Environmentalists opposing KFC's Indian venture allege that while hormones cause neurological disorders in children, MSG is carcinogemi.

Protest movement not only started at Banglore but also under leadership of environmentalist Menaka Gandhi, Green revolutionist started movement against opening of new outlets in Bombay and Delhi. Menaka Gandhi claimed that the Chief Minister of Delhi, Madan Lal Khurana and Chief Minister of Maharashtra Mr. Manohar Joshi have assured their co-operation to keep the restaurant chain out of Bombay and Delhi.

In Delhi another organisation the Sawadeshi Jagaran Manch (SJM) demonstrated on 1st November 1995, demanding the closure of the restaurant on or before December 31st 1995. Members of the RRS and Animal Rights International also participated in the demonstration. The demonstrators were

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37 *Business Line*, 4 September 1995.
38 *Indian Express*, 17 September 1995.

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not allowed within 150 meters of the restaurant as the KFC authorities had obtained a court injection earlier in the day. Amidst cries of "Shame Shame", "KFC go back", "multi-nationals *murdabad*,"[39] the demonstrators were dragged away by men from the Delhi Police.

The agitators addressed a crowd which had gathered beyond the 150 meters limit at the community centre in New Friends Colony. The speakers said that they strongly opposed the entry of MNCs to the country and warned Pepsi Foods limited, makers of KFC, that if the outlet was not closed down by the year end it "shall take the initiative and close down the restaurant". The SJM claims the chicken sold by KFC in liable to give rise to health hazards, from obesity and high cholesterol to heart disceases and cancer.[40]

Addressing the demonstration, Arun Vijay, editor of Panchajanya (the RSS mouthpiece) stated the MNCs were coming to India after being hounded by the people in western countries.

Rajesh Ganga, said, "the freedom struggle that started with the East India Company would come to an end with the oust of the MNCs.[41]

When in Bangalore protest movement started against KFC for using MSG, its sodium aluminum phosphate in the capital, threatened with closure for its use of this chemical.

Chief Minister Mr. Madanlal Khurana on 6th Nov. 1995 ordered the municipal corporation to take necessary action as per the rules regarding cancellation of license of KFC on the basis of the analysis of food samples". Mr Khurana also ordered the corporation not to allow KFC to open any more outlets in Delhi.[42] Three weeks after its entry into the capital MCD canceled its

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39 *Times of India* (New Delhi), 2 November 1995.

40 ibid.

41 ibid.

42 *Times of India*, 7 November 1995.

license most surprisingly on grounds of "insanitation". The corporation invoked clause 421(2) and 423 of the MCD Act, 1957 to cancel the license of KFC's newly opened outlet. Earlier, two show cause notices were served on KFC. One of these accused KFC or violating the terms of its licence as an inspection team reportedly found flies in the restaurant's Kitchen. The manner of garbage disposal was also dubbed "improper".[43]

The first two movements are peasant movement in nature. Because in Cargill seed project Indian farmers were suffering a lot. They were paying extra charge for hybrid seeds. They also deprived from their natural rights as far as choosing indigenous seeds are concerned. Due to arrival of Cargill Seeds Company, former though that, indigenous seeds would be destroyed, and foreign seeds will control over our agriculture. In Cargil salt project, local salt farmers were being deprived from their economic rights. So in both these protest movements were against social inequality, environmental problem, and to protect and preserve national security and culture.

As far as protest movement against Enron is concerned it was people's reaction against Enron deal. Because in Enron Power Purchase Agreement a consumer had to pay extra one rupee per unit. There was also ecological reason behind protest movement for ecological and protect Indian consumers from Multinational Company's exploitation. In case of KFC, it was a protest movement against cultural invasion by MNC's.

These protest movement were both legal and illegal in nature. Because protesters adopted both violent methods like, ransacking offices, destroying shops and project sites. There was also peaceful demonstration, Dharanas, Gheraos against companies.

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[43] *The Hindu*, 12 November 1995.

Regardless, these campaigns reaffirm the hope that popular movements can weaken and on occasion render powerless the mightiest of transnational corporation. The achievements of India's TNC campaigns are all the more striking because while such challenges have never been easy, recent economic and political trends worldwide have made the struggle more difficult.

CHAPTER-III

FDI IN INDIA: AN ASSESSMENT

The most dynamic component of the global economy today is Foreign Direct Investment (FDI). Last year, new FDI around the world increased faster than both world output and global exports of goods and services. And the early sales of the 270,000 subsidiaries and officiates of multinational corporations (MNCs) now exceed the annual value the exports of all country. The new world order based in the logic of globalisation was legally established on Jan. 1,1995 with the coming into being of the world trade organisation to implement the final agreements of the Uruguay Round of GATT.

In India, our experiment with globalisation had begun four years earlier with the new economic policy of 1991 as a result of the world bank , IMF structural Adjustment programme.

While the International financial and trade organisation coerce and push the government into a blind and indiscriminate experiment with globalisation, the Indian people are engaging in an enlightened response to put in its ecological and social globalisation context. In region after region where foreign investment is diverting local resources from survival needs of local people to the limitless appetite of global market people are putting investment to the text of ecological and Social accountability. They are also redefining the principles of government. As the state withdraws from environmental and social regulation in the "free-trade" era, local communities are getting organized to regulate commercial activity by assenting their environmental rights to natural resources land, water and bio-diversity and their democratic right to decide how these resources are used. If globalisation in the corporate driven agenda for removing all barriers or blocks to profits, localisation in the people driven agenda for introducing ecological limits and social responsibility in this process of globalisation. Localisation involves reclaiming the state to protect people's interest and not be reduced to being a mere instrument for foreign investors. The contest between the transnational corporation, the force behind globalisation and the citizen and local communities, the force behind localisation, seems to be getting most vividly played on the Indian soil.

On the other hand the Indian Government has argued that economic reforms are essential for the Indian economy. The argument in its favour goes as follows. FDI follows from the recognition by the foreign investors in a particular country's potential for making profits. Foreign investors bring in their own capital and take the necessary risks. The beneficial effects of the FDI are derived from the proposition : (i) It is a supplement to domestic savings, (ii), It brings in technological improvements, (iii) it promotes exports, and (iv) it ensures productivity, profitability follows.[1]

In assessing the overall effects of foreign investment, however, it is relevant that many of the principal benefits and costs can be substantially affected by the economic policies of the host country. In particular, the types of investment projects chosen will depend on relative prices in the host country, if these are not inappropriate, the investment will also be inappropriate and of less benefit to the economy. The foreign investors themselves can also help to ensure that the investment process is mutually beneficial by co-operating with a host country's choosen development strategy and showing willingness, where necessary, to consider alternative arrangements, such as joint ventures and minority equity participation

Types of Investments

There are two kinds of foreign investment. One is foreign direct investment (FDI) and the other is foreign protfolio investment (FPI). FDI often implies setting

1 Diwam, Romesh, "*Economic Reformers, Swadeshi and Foreign Investments*", The Hindu, (New Delhi), 30th October 1996.

up of new projects. "portfolio investment, by contrast, is essentially a financial transaction purchase of stocks, bonds and currencies as assets".[2]

FPI investment is quite frequently speculative in nature. It is also considered to be "foot loose capital" which leaves the country suddenly. It does not involve long-term investment decisions and such speculative flows do not indicate that the economy has successfully achieved adjustment. The recent liberalisation of Indian economy has attracted FPI. Thus, on account of this liberalisation stock markets in India have been receiving FPI at the tremendous rate of four million dollars per day. Prabhat Patnaik makes a very interesting observation in this connection, viz., "As a matter of fact what has become highly mobile across the world is not productive capital but financial capital, especially in the form of hot money."[3]

FDI has many advantage over FPI. FDI makes of possible for a country to get access to superior technology, improved managerial practices and better marketing network besides getting additional finance. Further, "It also generates employment, foreign exchange and taxable income for the host country. The presence of foreign investment in the country could raise the productivity of locally owned farms".[4] FDI is long term commitment. But unfortunately in India FPI in more than FDI.

According to the classical theory, foreign investment increases per-capital income of either the capital exporting or capital importing country in proportion to the country's improvement in the terms of lending or borrowing on the capital account. For a capital exporting country, the improvement mean a higher rate of

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2 Sau Ranjit, "Feoreign Direct Investment, Portfolio Investment and Macro Economies Stability", *Economic and Political Weekly*, (Bombay), Feb. 12, 1994, p. 356.

3 Prabhat Patnaik, "Macro Economic Policy in Times of Globalisation", *Economic and Political Weekly* (Bombay), April 16-23, 1994, p. 921.

4 Saibaba, P. and M. Saqib, "Liberlisation and its Impact on FDI and Capital Flows", in S.P. Gupta, ed., *Liberlisation : Its Impact on the Indian Economy*, (New Delhi, 1993), p.216.

return ; for a capital importing country, the improvement means a lower rate of return. Foreign investment pays, because we can borrow foreign capital at a rate lower than what is available under authority. The gain from foreign investment approximately equal the amount of foreign investment times the reduction in the real rate of interest.[5]

In the neo-classical models of growth, there is very simple engine growth : capital accumulation and exogenous technical progress. In the steady : State in the slow model, the basis effort of foreign investment in to raise per capita income. A large income increases savings. The resulting accumulation of capital will raise the country's assets per capita in the pace of a growing population. Capital mobility increases the assets of either capital exporting or capital importing countries and increases long run per capita incomes. This happens in either the capital importing country or in the capital exporting country because the former gains from getting its capital cheaper and the later gains from earning more on its capital.[6]

According to a World Bank Study FDI was found to be strongly associated with higher GDP (Grown Domestic Product) growth in several developing countries during the period 1970-89.[7]

Foreign Direct Investment projects may be initiated for one or more purposes. Market size is one of the most important consideration in making investment decisions because larger markets imply a larger potential for local sales, it also implies greater profitability of local sales than export sales, generally the relatively diverse resources make local source more feasible too. The size of the Indian market based on its population of over 900 million and large middle class is the most frequent reason for global firms presence in India or their desire

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5 Ruffin, R.J., "Growth and the Long-run Theory of International Capital Movements", *American Economic Review*, Vol. 96, December 1979, pp. 832-843.

6 Ibid.

7 The World Banks, *World Development Report*, (New Delhi, 1991), P-96.

to be present in India. Other element for inflow of FDI into host countries are Foreign exchange rate, wage rates, inflation rates, investment rates, existing infrastructure, political stability and host government's FDI policies are also important factor in attracting FDI. Since the mid 1980's many developing countries have made their policies more hospitable and less restrictive. India embased on this path in July 1991 and since then FDI inflows into India growing rapidly. But, it we would make a comparative study with other countries, this growing trend in not satisfactory.

Changes in Industrial and Investment Policy Towards FDI

The New industrial policies were introduced at a time when the country was in the grip of an external payment crisis. The foreign exchange reserves had touched a point which suggested a near surety of 'defalt'. In this background it may be natural to keep a watch over the contribution of foreign investment to help meet the Balance of Payment (BOP) crisis.

The Industrial policy of August 1991 nearly abolished the long entrenched Industrial licensing system. It drastically reduced the number of Industries reserved for the public sector from 17 to a mere 6. there are : (1) Defense; 2. Atomic Energy ; 3. Coal and Lignite ; 4. Minerals ; 5. Mining ; and 6. Railway Transport. India still retain a positive list of 15 Industries requiring compulsory licensing. These accounted for only 15 per cent of value added in manufacturing sector in 1994-95. In addition, there are some restriction on location of Industries within specified boundaries of 23 Indian cities with a population of more than one million as per 1991 census of India.

The Govt. of India has allowed 'automatic approval' of FDI upto a maximum of 51 per cent equity in selected 'high priority Industries" which currently number 35 Industries (See Indian Investment center, 1995, for complete listing.) This is an important innovation permitting foreign investors "majority shareholding" (i.e percent foreign equity) in a joint venture with Indian partners in selected 35 Industries considered an "high priority" and therefore most welcome for participation by foreign investors for upgrading Indian technology and supplementing domestic envistable resources.

The Government allows FDI in specified 22 consumer foods Industry subject to condition of 'dividends balancing'. The govt. has provided a few special relaxation in policies and procedures for motivating the NRIs and the Overseas Corporate Bodies (OCBs) dominantly operated by the NRIs.[8]

With the aim of modernizing Indian's industrial and export infrastructure and also for facilitating larger inflows of FDI into hi - tech, export oriented and employment generating manufacturing sector, the Government. had offered packages of special incentives to foreign investors in selected infrastructured sectors. These mainly include-

(i) Power Sector I (ii) Telecommunication.

(ii) Petroleum exploration : (iv) Refining and Marketing Activities: (v) Transportation sectors; (vi) ports and shipping; and (vii) Air taxi operation. The government has also liberalised its policies for participation by the foreign investors in the 'Drugs and Pharmaceuticals' sector and the 'Banking Services Sector.'[9]

Trade Policy Reforms

The trade policy reforms since 1991 have ensured high degree of deregulation and incrementally lowering of import traits from peak level of 250 per cent before reform to 50 per cent in 1995-96. Import tariffs on capital goods

8 *Industrial Policy Report*, (NRI section), Indian Investment Center, New Delhi, 1995.

9 The Details of the Sector, Specific Policies, *Documents Published by the Indian Investment Center*, (New Delhi, 1995).

and raw materials have been progressively lowered in each central Budget since 1991-92. India has adjusted the external value of the rupee dramatically in 1991 and moderately in 1995 and 1996 largely through the play of market forces.

Financial Sector Reforms

Several reforms have been introduced by India in the financial sector which are of direct interest to the foreign investor. Prominent among them are the following :

(i) More liberal policy towards opening of new banks in the private sector including foreign banks. This adds to competition for the existing banks in the public sector. The latter have also been permitted to tap the Indian capital market for raising resources to finance additional equity of these banks and in the process diluting the share of equity held by the govt. in there banks;

(ii) To avoid banking "scams", the Reserve Bank of India has set up an Independent Board of Financial Supervision;

(iii) Rupee has been made freely conertible in the "forex market" for current account thr ough recognised banks and other authorized foreign exchange dealers ;

(iv) The Government of India has further liberalized the rules governing outward FDI by the Indian entrepreneurs to facilitate their presence in the global market."[10]

Recognising the importance of an appropriate institutional infrastructure to attract FDI inflows., the Government of India has endeavoured at both the central and the state levels to create a "Single window clearance" mechanism. There are Secretariat for Industrial Approvals (SIA) Reserve Bank of India (RBI), Foreign

[10] *Indian Investment Center*, 1995 Guidelines Applicable to Indian Ventures Abroad.

Investment Promotion Board and Free Trade Zones (FTZ). All these Institutions we have previously discussed.

FDI Response

The positive signals generated by the new policies and supportive administrative infrastructure since 1991 have considerable improved the investment climate for FDI and (FPI) in India. The foreign investors have so for provided encouraging response. This can be appreciated better especially when are compare India's experience is regarded in 10 years prior to the liberalization of FDI policies in 1991 and in the short period of four years since then.

Table 1.1 provides available data in summary form regarding FDI's response to the favorable changes made towards attracting FDI in the period 1991 to 1995 (upto September 1995). It may be noted from this table that aggregate FDI approvals have shown a quantum jump from the expectedly low base level of Rs. 730 crore ($ 325 million) in 1991 to Rs. 15,805 crores ($ 1.5 billion) in 1995 January to September. The latest data in financial year April to March basis presented in Table - B shown that FDI approvals in 1995-96 had touched on all time high of Rs. 37, 113 crore.

The actual inflows of FDI have shown high rates of annual growth. This an table a shown actual inflow of FDI almost doubled every year in the post-reform period. In dollar term, India used to attract an average annual inflow in FDI of $ 150 million during 1980 to 1990. In 1991 it was ($ 1.55 million) when India beget it journey on the market oriented inflows it FDI increased to $ 233 million in 1992 and further to $ 574 million in 1993 and still further to nearly $ 1 billion in 1994 and had crossed $ 1.5 billion mark in the first 9 months of 1995 (See Table 1.1). On official year basis, FDI inflows in 1995-96 had touched Rs. 6.750 crore mark ($ 2 billion). (See Appendix)

An important parameter in judging the effectiveness of FDI policy and the efficiency of the working of the various governmental agencies approving FDI at all lends in the observed ratio of actual inflows to approved FDI over the years. As Table - 1.1 shows, starting with the year 1992, the ratio of actual FDI inflows to FDI approvals increased from 12.8 per cent in 1992 to its 1995. This averages but to a realization ratio of 25 per cent. Considering that most of the cumulatively approved FDI in India has been in the infrastructural which usually have when larger gestation lags (than projects in the food processing sector for example), the realized ratio of FDI inflows to approvals at an average of 25 per cent during the last 4 years (1992-95) is not all that satisfactory.

Along with increasing the inflows of FDI in the post-reform period, India has also attracted increasing volumes of foreign portfolio investment since it permitted Foreign Institutional Investors (FIIS) across of the Indian capital market in 1992. The inflows of FDI through FIIS from no where in 1992 increased to $ 1.7 billion in 1993-94 but more slightly lower at $ 1.5 billion level in 1994-95. But the stage thing s during the last 6 years portfolio investment in 65.67 per cent to the total FDI inflows. It are came mentioned earlier that foreign portfolio investment quite frequently speculative in nature.

Changing Importance of Financial Collaboration

The number of approved collaborations have rives sharply sine the opening up of the economy. During 1992-93 and 94 the number of collaborations approved stood at 1520, 1476 and 1832, respectively. The highest number of collaboration reached during a year in the 80's cases 1024 in 1985. The number stood at 1832 during 1994. The relative significance of financial collaborations in the total industrials approvals has increased rapidly. the share of the financial collaborations exceeded more than half of the total during 1993-94. The number of technical collaboration in 1994 were 7892 as condoned to 828 in 1992 and 661 which were approved eventually in the second half of the 91 i.e. after the announcement of new industrial policy in July 91. Against this, the peak number of technical collaborations approved during the eighties was 786 in 1985.

Industry wise Pattern

Foreign Exchange Regulation Act (FERA) route to chanalised foreign investment into high technology and export intensive sectors.

The Industry wise distribution of the stock of foreign direct investment at the end of the 1989-90 reveals that almost 85 per cent of the investment was engaged in the manufacturing activities. Plantation accounted for a further 9.45 per cent including trading, construction, transportation, etc. accounted for about 5 per cent. Foreign capitals presence in mining and petroleum refining sectors was practically negligible.[11] Though the current policies retain some of the selective features of the earlier regime, considerably large number of industrial activities and services are now open for private industry and consequently for foreign investment.

From official statistics it becomes evident that some of there areas such as power, oil, iron, Steel, telecommunications equipment etc. together accounted for large position of the foreign investment approved during the post - reform period. (See appendix)

These include (with their percentage shares in total FDI approvals) as follows : Telecommunication (30.0 present); power (10.3 per cent); oil refinery (7.6 per cent); and automobile industry (5.5 per cent). Food processing industry (with 4.0 percent share) and chemicals (6.2 per cent share) have been prominent

[11] "India's Foreign Liabilities Assets as on March 31, 1990". *Reserve Bank of India Bulletin*, (Delhi), vol. XL, VII, No. 8, August 1993, pp. 1031-1051.

among the manufacturing industries which have attracted longer portion of FDI approvals. The service sector had attracted around 11 per cent of total FDI approvals during the post -reform period. It is important to note that electrical and non-electrical machinery, machine tools, instruments, etc. not only attracted comparatively low volumes of investment. It is also surprising that leather and leather products industry which has a high degree of export potential did not attract much foreign investment.

While India is not yet anywhere near south east Asian standards and for too behind the standards for attracting FDI inflows-it has done inflows it has done ever compared to its own recent performance in this respect.

Although FDI flows to India substantially increased ever since the announcement of new industrial policy (1991), it is behind that India is not able to attract foreign investments as much as china which also has introduced structural reform and has been following a policy of liberalization. Prof. Giblet Stienne, a Swiss Economist, who extensively wrote on both India and China, commented that though India scores over China in respect of legal system, political institutions and system of higher education, China on the other hand scores over India in the area of FDI.[12] According to him Chinese seem more open towards FDI and do not have any kind of inhibition or reluctant towards it. Prof. Entienne feels that China,because of enjoying certain geographical and cultural advantage, which India does n't possess, is able to attract larger FDI.

China embarked upon her economic reforms programme in two phases. The first phase was during 1978-84 which mainly concentrated on rural reforms by ending the commune system. Even in this regime foreign investment was absent. when china opened up in 1978 she did not let her domestic enterprises to direct dealings were allowed domestic enterprises to complete directly in foreign

[12] *The Hindu*, 29th December 1993 (New Delhi)

markets China decentralised them to province and regions. As a result its exports manufactures requested a tremendous increase from about \$ 5 billion in 1978 to about \$ 68 billion by 1992

FDI in China

The FDI strategy of China depends on Myrdal's back-wash effect theory.[13] They have on Area Specific Approach. This approach has ensured that the limited infrastructure and respective policy vis-a-vis labour does not have its effect on the free play of market foresee within the stipulated region. Compare India's position with that of China in regained to FDI. It has been seen that China attracts much larger amount of FDI then India In 1991 India attracted \$0.1 billion FDI, when China had & 4.4 billion. But it third of year 1995 India reached at & 1.8 billion above China increased about \$37.5 billion which is 35 times more than India. There are many advantages to China as compound to India behind this success.

What is compressing in the case of China is that foreign investors had practically no security in China. "China does not have a strong legal tradition.[14] Secondly, Chinese domestic market consists of about are billion customers. Thirdly, Chinese workhorse has certain characterstics that are mining from Indian labour force. 75 per cent of all Chinese are liberate and about 90 per cent of all new extracts into the labour force have primary admission.

Fourthly, China has exhibited a very high rate of savings resulting from very old auterity policies, Chinese enter prices have a strong performance for accumulation and acquisition it assets over current outlays. This resulted into a rapid growth it Income and further income in savings. Fifthly, China has strong

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[13] Satynarayan, B., "A Comparative Study of FDI in India, China", *Economic Growth and Social Change*, March, 1996, p. 53.

[14] Perkins, D., "Completing China's More to the Market", *Journal of Economic Perspective*, spring 1994, p. 34.

infrastructure. Compound to China, India's power and passport seaports are still much overseen.

And lastly there is no political instability in China. Lack of bureaucratic system and transparency in Economic policies are main reason behind Chinese success. On the other hand in India we do not have good infrastructure facilities. (ii) Political Instability is another came for lower foreign investment. (iii) Less information regarding market and small size of Indian companies stools FIIs to invest in companies. (iv) Bureaucratic hurdles (v) Corruption. (vi) Lack of clear and transparent policies specific sector like power, fuel etc. (vii) Our tarrif rate should be reduced, or high tarrif rate in India. (viii) Controversy regarding Intellectual Property Rights (IPR) should be solved immediately,

These are the main reason behind lower FDI inflows into Indian market. Other blackspot Indian economic policies in the total absence of exit policy, Firms do not want to employ large number of labourers and set stuck with them for the rest of the life. Further, India has concentrated mainly on the foreign exchange that the FDI will bring in. There are largher number of other benefits, like employment generation, increasing the tax revenue etc., to which we have not given serious attention. Not only this but in India the duration if collaboration is relatively short i.e. about 8 years. Till today, 6 years after India initiated its economic reform, not a single megawatt of power has been generated under any large approved FDI projects. Fortunately, negotiation and renegotiation have not broken down and political controversies have subsided. The environmental lobbies have also failed to stall renegotation of approved projects. Both Enron and the Cogentrix Power Projects are expected to become operational as per the new time schedule mutually agreed to.

There are several protest movement against FDI particularly MNC investment in India. (See Chapter 2). Protesters are demanding that, foreign investors one investing more in consumer sectors (the food, procuring, consumer durable etc), And they are neglecting infrastructure sector. Protesters are also demanding that, government should take special care towards hazardous chemical industries in which foreign investors are investing more.

To attract FDI India gives concession to foreign capital which are not extended to Indian capital. As an example of this policy take the case of foreign banks who do not have to fulfill any social objectives which Indian banks are oblidge to fulfill. Further, take the case power sector. Foreign capital is guaranted a not return of 16 per cent in the power sector. Not only this but majority of FDI in the last two years has been in low and intermediate technologies, e.g. potato wafers, Coca-Cola, KFC etc. Instead of making recent superior technology available to us FDI has made "Screw driver technology available to us, like assembly of Zen and Cielo cars. Another disuniting feature of FDI in India in that "Indian management in firms with foreign collaboration are being replaced by direct TNC control and Indian brand names are losing out."[15] They have entered India with an intention to capture Indian market rather than establishing long-term investment interest.

To conclude without FDI them is no substitute for growth especially people one dying without food, lock of infrastructure, poor health facilities, lower percentage of literate, high rate of unemployment, and public purchasing capacity in very low. It is growth which creates jobs and generates income. The Country's GDP needs to row 7 per cent year in the next 10 years to abolish endemic poverty and unemployment To encourage new investment especially in infrastructure and agriculture.

Sector to create new jobs without allowing inflation to touch double digits, keep fiscal low, make public expenditure more productive, investment in human

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[15] Kumar, Arun, "New Economic Policies: An Assessment", *Economic and Political Weekly* (Bombay), 11 December, 1993, p.2738.

development and social sectors are several good things that can serve an informal agenda for policy makers to go by.

The United Font Government despite being a loose coalition has set before the country an ambitious programme of absorbing $ 10 billion year a foreign direct investment to take the country to the third millenium as a leading industrial nation. The key to faster economic growth is rapid, labour intensive industrialization and the governmet committed to maintain 12 per cent annual growth in the industrial sector. The common minimum programme of United Front government has estimated that investment in infrastructure has to be stepped up from the present 3.5 per cent of GDP at least six percent in the next five years. It is now recognized that the economy can not grow and the needs of the people can not be met without more capacity in power, oil, telecom, railways, roads and ports. "The cumulative requirement of these sectors over next five years is estimated $ 200 billion out of which the Finance Ministry expects to ensure domestic private and public investments totaling $ 50 billion will be mobilized by the foreign investors".[16]

Above all for rapid Socio-Economic development of a country a well prepared economic policy and its porter implementation is very essential only economic policy and implementation is not enough without proper vigilant of TNCs activities in a country by government authorities. Alongwith, public awareness regarding government policies is very essential.

[16] *The Hindu*, (New Delhi), 19 February, 1997.

CHAPTER-IV

DEVELOPMENT AND DEMOCRACY

This chapter deals with development and democracy and further about economic development as a prerequisite for democracy. During the initial three decades after World War II, the central economic planning system was believed to be the surest and most direct route to the growth and development of third world. The main rational for central planning in the "mixed" economies of the third world is that an uncontrolled market mechanism will bring about disparity in income, and uneven wealth distribution, economic stagnation, uncertain price varieties, and insufficient employment opportunities. Sole reliance on a free market system is viewed as being incompatible with the principal operational tasks of the economically poor countries : mobilizing scarce resources to initiate a process of structural transformation in order to stimulate a continuous and sustainable process of balanced long term growth of the entire economy.

The main preconditions for the emeregence of political democracy are market, development and religion. Market is for the existance of a market oriented economy. Market orientation results in the dispersion of political power and provision of private property rights. The free market mechanism requires active participation and effective competetion in making fair allocative and distributive decisions to improve economic wealth which, in turn, provides and infrastructure for democracy. Further, development is mean to achieve a high economic growth with social justice. An affluent society can moderate the tension of political conflict and other greater economic resources for accomodation and compromise. Economic development will give rise to a large middle class which constitute the majority rule in making broad based social , political and economic decisions. Add to these religion is a precondition for political democracy. Religion is the practice of cultural tradition conducive to diversity, compromise and individualism. Religion favours individual choice in seeking prosperity and influence over the human environment which are more likely to facilitate political democracy and economic progress.

The Concept of Development

The concept of "development" has a number of meanings. Social scientists also differ on the definition of this concept. Joseph La Palombara is of the view that the concept of development is integrally connected with the building of democracy and inculcating 'values' of a democratic order in the minds of the people[1] . Defining further, F.W. Riggs laid stress on the point that stability is legitimately linked with the concept of development in that any form of economic or social advancement does generally depend upon environment in which uncertainty has been reduced and planning based on reasonably safe predictions is possible.[2]

Furthermore, Myrdal in his Asian Drama : An Enquiry into the Poverty of Nation, treats development as an upward movement of the whole social system by providing better living conditions viz. adequate food, better housing, improved facilities for health, educational training and general improvement of cultural facilities which are all desirable to further development of human personality.[3]

In another definition, Bernstein is of the view that the movement for development embodies a value judgement with which a few could disagree the desirability for overcoming malnutrition, poverty and disease which are the most immediate and wide-spread aspect of human suffering. In positive terms, scholars advocate a commitment to development that transcend the limiting term of economy growth to embrace such features of social justice, equality of

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1 Lucian Pye, *Aspects of Political Development* (Boston , 1966), pp. 40-41.
2 ibid, pp.41-42.
3 G. Myrdal, *Asian Drama : An Enquiry in to the poverty of nations* (London, 1968).

opportunity, full employment, equitable distribution of income and basic political freedom.[4]

Aformentioned description of development help us to infer that development has been conceptualised as a process of economic growth fostered by industrial investment and a competetive culture of enterprise and profit maximisation. It has been viewed as a state of welfare in which ordinary people enjoy freedom from want, disease, exploitation, ignorance, insecurity and oppression. In other words development aims at equitable redistribution of natural resources, improvement of quality of life, social justice, and motivation towards rational understanding.

Development is a multi-dimensional process involving the realisation and reorientation of entire economic and social system. In addition to improvements in income and output, it also includes radical changes in institutional, social and administrative structure as well as in popular attitudes, and in many cases even customers and benefits.[5]

Development implies not only economic growth but also the tarnsformation of society in a progressive manner. D. Seers, for instance, drawing a sharp line between growth and development, argues that development should be treated as a normative concept that is synonymous with improvement. For him the are central problems faced by under-developed countries are poverty, unemployment and inequality. He argues, if all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central

4 H. Bernstein, (ed.) *Under Development and Development*, (London, 1973).

5 M. P. Todaro, *Economic Development in Thisd World* : (New York, 1981), p.p. 5-6.

problems grow worse, especially if all three have, it would be strange to call result developemnt even if per-capita income doubled.[6]

Hence development means the economic growth with socil justice and a prerequsite to democracy. From the above definitions and analyses, some of the features of development can be drawn which are of the following :

i. increase in material welfare through increased productivity;

ii. improvement in social welfare programmes like education, health care and so on;

iii. improvement in the social context of human life : a rich family life, community feeling music and so on depending upon individual intrests and preferences;

iv. increased safety, freedom and opportunity and also sense of participation in local regional and national affair;

v. an equitable distribution of the fruits of development among different groups of people among various regions of the country.

These features of development have been further interpreted on various ideological approaches and within a varied theoritical framework.

Developemnt Design : Approaches of Development

Ideological premises of developemnt rests on various theoretical frameworks of that provide different views to explain developemnt, its means and ends, perspectives and path.

A. Liberal View

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6 D. Seers, " *The Meanining of Development* " : *A Paper Presented to 11th World Conference of Society for International Development* (New Delhi, 1969).

Capitalist approach of development is also known as classical economic theory of developemnt. This school thought represents early economic theorist like Adam Smith, Ricardo, Marshal and Keynes. The theory of Adam Smith and Ricardo are important in the liberal context of development whereas Marshal and Keyens have propounded no original theory except reformulating the previous framework. A. Smith inductively studied the economic structure from a holistic perspective and outlined some basic features of economic structure, its function and inter-relationship between parts. The driving force behind economic development, according to Smith, is the accumulation of parts of social product and its allocation for production investment. Apart from the idea of accumulation he also examined the role of technical progress in terms of appropriate division of labour. For Smith division of labour is continuously stimulated by the intervention of the invisible hands revealed on the interaction of demand and supply.[7]

Further, Ricardo was the first economist to formulate a systematic theory of economic development. Emphasising on the role of accumulation and productive investment, Ricardo perceived capitalism as new system, a model of economic development under the condition of capitalism, the surplus product takes on two forms; profit from capital and land rent. Ricardo believes that in practice the only basis of development is profit. Though Ricardo accepts Malthusian principle of population and 'diminising return' from land but believes that the values of all goods depend upon the relative quality of labour necessary for their production and the rate of profit earned from that capital which is looked up without bringing in revenue unit goods sold. Furthermore. Ricardo mentioned that technological development and improvement in

[7] Y. S. Brenner, Theories of Economic Developemnt and Growth. (London . 1966). p.p. 33-40.

mechanical production are powerful enough to absorb continually newly redundant labour and thus as a consequence rate of capital formulation.[8]

B. Marxian Approach

Maxian theory of development is the product of the voluminous works of Marx, Engels and their followers. Marxian theory is a watershed in the history of development theory. Developing his theory in the context of growing working class movement, Marx transformed all the achievements of political economy. Marx included political economy in the general theory of social development, based on the materialist interpretation of history. Distinguishing between labour and manpower, he stated the fact that the value produced by the labour or the worker, is greater than the value of product necessary for the production of manpower, in the conditions determined by the social and historical level of development of a society. The wages for work are determined by the value of these products while the surplus of the value produced by the workers over and above their wage is surplus value appropriated by the capitalists owning means of production. Marx underlined the antagonism between the internal contradictions of capitalism. Marx propagated socialism as an alternative theory of development urging to dismiss private property, laissez-faire principles and employ greater state intervention in matters of economic growth.[9]

C. Humanist Approach

Leading humanist, Mahatma Gandhi believes that the development process must aim at reducing absolute poverty and inequaility and achieveing

8 Oscar Lange, *Papers in Economics and Sociology* (Warsaw , 1970), p.p 180-213.
9 K. Mary, *Critque of Political Economy* (New York , 1904).

full "realisation of the human potential."[10] Another humanist thinker, Adelman, argues that the goals of economic development are two fold : to improve welfare of the poorest segment of the population and to establish conditions for removing barriers to self-enrichment like (education, health, work satisfaction, social status security, expression and power). The long term balance between these goals will enable a developing nation to achieve the realisation of its human potential.[11]

Further; D. Goulet specifies three development objectives : to provide life sustaining goods, to improve individual and national self-esteem, and to promote freedom social servitude (to nature, ignorance, othermen misery and dogmatic beliefs). These development objectives relate to fundamental human needs which must be satisfied in all times.[12] Using the institutionalist approach, Myrdal defines developemnt as a process of long-term growth of the per-capita real income plus a sustained improvement in the " social system".[13] He argues that the development process requires institutional reforms to improve social descipline and genuine mass participation in the decision-making process in effort to eliminate absolute poverty and inequality. Defining further, another humanist thinker, W. A. Lewis views development as a process of establishing greater control over the human enviornment and thereby improving knowledge, equality of opportunity and freedom to choose.[14] He asserts that autocracy is not required for economic growth and that economic growth does not necessarily increase happiness and freedom.

10 M. K. Gandhi, *An Autobiography : The Story of My Experiments with Truth*, 8th ed. (Boston , 1968).

11 I. Adelman, "*Development Economies : A Reassesment of Goods*," American Economic Review, 65,2, 1975 : 302-9.

12 D. Goulet,. *The Cruel Choice : New Concept in Theory of development*. (New York ,1973)

13 G. Myrdal,. *The Challange of World Poverty*. (New York, 1970).

14 W. A. Lewis, Theory of Economic Growth. (New York , 1970).

Dependency Theory

Among the dependence theories, Nyerere, who attributes under-development to the historical revolution of highly unequal international relations, views the disease and to improve political rights and mass participation in the decisionmaking process.[15] A. G. Frank and Samir Amin argued that a self-reliant strategy of economic development is only possible through the gain from unequal exchange relations and unfair surplus transfer mechanisms which, in turn, create and perpetuate conditions for the development of under-development.[16] The advocates of dependency theory assumed that the model of development, essentially a product of western thinking, is intended to perpetuate economic imperialism in developing countries that have recently attained independence from their colonial masters.

Dependency theory came into being in 1960s as a direct challange to the theories of modernisation and development. They criticised both classical economic theory of development as well as Marxist-Leninist theory. In an attempt to provide alternative strategy they postulated "three lines of development" which emerged out of the industrial revolution. While the first line was towards western Europe and resulted in industrial capitalism. and the second was basically a "development of frontiers" and hence an extension of Europeean "Industrial Economy", the third was radically different. It was towards the areas which were densely populated and whose economy was different.

Democracy : The Notion

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15 J. Nyerere, *"The Process of Liberation"* in H. Goulbourne, ed., Politics and State on the Third World (London , 1979).

16 A.G. Frank, *The development of Underdevelopment*. (New York , 1966), S. Amin., *Unequal Development : An Essay on the Social Formation of Peripheral Capitalis*, (New York., 1976).

Democracy has been defined as an ideal situation of human achievment. Dahl asserts that a democratic political system is one which is completely or almost completely responsible to all its citizens.[17] According to Schumpeter, a political systemis defined as democratic to the extent that its most powerful collective decision-makers are selected through periodic elections in which candidates freely compete for votes and in which virtually all the adults population is eligible to vote.[18]

Lipsets defination of a democratic political system is that "democracy in a complex society may be defined as a political system which supplies regular constitutional opportunity for changing the governing officials and a social mechanism which permits the largest possible part of the population to influence major decisions by choosing among contenders for political office.[19]

Social scientists have argued that only one affluent society can experience a situation in which the masses of the population intelligently participate in politics and develop a self-restraint mechanism necessary to avoid the concentration of political economic power in the hands of an elite group.

Lipset also states that economic development involving industrilisation, urbanisation, high educational standards, and steady increase in overall wealth of the society, is a basic condition for sustaining democracy which is a mark of efficiency of the total system.

However, a growing number of studies refute the democracy growth incompatibility hypothesis. Finer observes that some one party-system have brought about economic disaster, while others perform reasonably well

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17 R.A. Dahl, *Polyarchy : Participation and Opposition* (New York , 1971).

18 Schumpeter, J. A. *Capitalism, Socialism, and Democracy*, 2nd ed (New york, 1947), pp. 269.

19 Lipset, S.M., "Some Social Requisites of Democracy : Economic Development and Political Legitimacy", *American Political Science Review*, 53, 1959, p.p 69-105.

economically.[20] In a survey of African countries, Berg-Schlosser concludes that authoritarian states have the highest rate of Gross National Product (GNP) growth, but are unable to improve the overall standard of living as measured by the Disparity Reduction Rate (DRR) Physical Quality of Life Index (PQLI).[21] Socialist States record a lower rate of GNP growth, but the highest DRR.

According to B.P. Koirala, "Democracy alone, without economic development, becomes meaningless. our slogan is : "We need democracy for development purposes also". Development starts when we mobilize the prople. So-Democracy for Development. He told that, democracy not only for political rights and democratic righrts but also for the purposed of mobilizing people, setting people invelved in the process of development, getting people involved in the process of the formulation and implementation of policy. Where-ever there has been authoritarian rule, development has been slowed.[22]

Disk Berg-Seh. has examined African regime on the basis of topology with four forms of state : Polyamarchic (democratic), Socialistic, Authoritarian, and Practorian (military rule), Evaluating their economic. performance since independenc he finds :

"A differentiated pattern that contradicts many commonly held assumption concerning the developmental advantages of (civil or military) authoritarian rule in Third world countries. Thus polyarchic system is quite well both in term of GNP growth and the improvement of the basic quality of life. They also have the best record concerning normative standard".[23]

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[20] Finer, S.E., *Comparative Government* (New York , 1971).

[21] Berg- Schlosser, D., "African Political System : Typology and Performance", *Comparative Political Studies*, 17, 1984/85, 121-151.

[22] Koirala, B.P. *Democracy IndispensibleforDevelopment*, (Varanashi, 1979), pp. 6-10

[23] Berg-Schlosser, D. "*African Political System : Typology and Performance*", Comparative Political Studies, Volume 17, No. 1, April-1989.

It should be noted, however, that authoritarian systems are found to have "strong positive effect on the overall rate of GNP growth";[24] it is the overall performance on several dimensions which tends to favour polyarchic regimes. A similar conclusion is reached by Dwight Y. King in his analysis of six Asian countries. Its performance is evaluated in terms of material quality and welfare rather than growth, and is examined diachronically over the past decade and within differentiated population groups (rural-landless and mear-landless), have performed better than bureaucratic authoritarian ones (Indonesia, Philipines, Thailand).[25]

Western Concept of Economic Development

Economic development refers to a process of generating equal opportunities to prosper for all members of the society. It consists of a long term growth of the per-capita real income plus a continuous improvement in the distribution of income and economic goods. Self-sustained growth of the per-capita real income is a necessary condition to satisfy the basic human needs including food, shelter, health and protection. Employment opportunities are increased by investments in physical capital to expand output and by investments in social and physical infrastructure to facilitate and integrate productive activities.

Improvements in the distribution of income and availability of economic goods enable the poorest segments of the population to increase their purchasing power. Economic developments reinforce political liberty. It can moderate the tension of political conflict, provide alternative economic

[24] Ibid, p. 143.
[25] King, D. Y. *"Regime Type and Performance : authoritarian rules, Semicapitalist Development and Rural Inquality in Asia,"* Comparative Politiocal Studies, Vol. 13, No. 4, Jan. 1981, p.p.477.

opportunities for unsuccessful political elite, and more importantly, offer greater resources for accomodation and compromise.

Democracy and Peace

Democratic development is enhanched by gaining greater international leverage. A prosperous economy can improve its bargaining position in world economic affairs by pursuing a deliberate strategy of export promotion and by establishing economic and political alliances to expand its markets. Increased international trade and the transfer of technology result in higher levels of interdependence, which, in turn, create growth opportunities as well as conflict of interests. Improved national prosperity and self-esteem will enable the nation to contribute to international peace and prosperity.

Development plans have to be translated into concrete policy measures and plans formulated have to be implemented. The mere existence of development plans alone does not gaurantee successful economic development. In Asia, we have seen cases of rapid economic growth and development with little efforts as well as existance of comprehensive development plans but with less successful growth.[26]

Third World Experience

The principal factors behined economic success achieved by South-East Asian countries and identified as repidly growing private investments and a rapid improvement in human capability. Although the private sector and the market have played crucial roles in acheiving the miracle, there have been

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26 Tambunlertchai, S., and Gupta, S.P., (ed.) *Development Planning in Asia Kuala Lumpur* ; (Asia and Pacific Centre, 1993), p.p 2.

strong government interventions applied systematically and through multiple channels, in the economic aganda of all these countries.

The sub-Saharian countries have been pursuing structural adjustment under IMF and WB supevision and support over the past 10 or 15 years. But, the region, being a home to most of the world's poorest countries has continued its downward slide. Moreover, the debt burden has been eating away most of whatever foreign exchange and savings these countries have been generating. Also, in each of these countries, the withdrawal of the state, under reform coorditianality, from economic and social function has created an utter vacuum, which has remained unfulfilled and perhaps can not ever be adequately filled by private sectors. Only a people-centered democratic governance structure can carry such a process forward; and the hopeful sign in that most African countries are now, as elsewhere, going through a process of democratization. Though Latin American countries started market economy in 1970s still they are not cosidered an developed.

Indian Experience

Liberation from colonialisn in India brought, for the first time, the state apparatus and the instrument of state power into the hands of the nationalist leadership bounded to development as a political programme. In the aftermath of colonialism, therefore, they promptly gave a tangible shape to their achievement and aspiration in terms and a welfare state, the logical epitomization of democracy. Economic development in India, without doubt has been conciously pursued as a state objective and not just left to a sui-generis process of gorwth. In course of time economic development and its objectives have grown in importance as a matter of vital concern to the state. At the same time the adoption of a democratic political framework and the concomitant growth of new public, new elites and new pressures points in the social structure have meant that Indian society must pursue various goals "Simultenously" rather than "Sequentially" as happened in most western demoeracies ; and that continuous pursuit for fineness of goals has become a legitimate and demanding exercise for leadership and governmental institutions.[27]

The model of development that India opted for has been described as the model of "mixed economy" – an economy which provides for private ownership of capital, for an open market and yet for state enterprise and state intervention in regulating the economy. The intervention of the state was expected to ensure that the social justice aspects of development were not lost sight of in the pursuit of the goals of economic growth. Through the creation of public sector undertakings and ensuring the growth of private enterprise simultenously a mixed approach was operated for development. There was an honest effort to develop and improve agricultural sector even through Nehru was clearly looking forward to industrialization. But the emphasis was on green revolution to show the inclination torwards the development of agricultural sector. Gandhi's ideas of rural reconstruction and village autonomy was identified in the development planning attempted to realise through 'Community Development Programme' and 'Panchayati Raj'.

India did follow a Soviet model of planning and strived for the patriarchal role of the state through centralization of planning and nationalization of various agencies including banks, neverthless, individual autonomy and private enterprise was never seriously challenged, let alone thwarted.

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27 Kothari, R., *Rethinking Development*, (New Delhi, 1988).

In a recent lecture at Delhi's Indian Institute of Technology, Mr. Jeffrey Sachs a renouned economist, sketched out an optimistic vision of India's growth prospects, linked primarily to its centuries old tradition of a democratic body politic. In stark contrast, he felt that China, now ahead of India by leaps and bounds, having grown consistently at a phenomenal 9 to 10 per cent for about a decede, would be left far behind largely because of its failure to develop an open democratic society with civil rights. The argument marshalled in favour of democracy going hand in hand with market reforms hinge not just on India's future role in global economy, but on the shift from authoritarianism in large parts of the world. In Mr. Sach's world view, transformation from controlled to market-led economies in numerous countries over the last decade has been accompanied by a shift to more democratic systems. Apart from Asia where China began the process of opening up in 1978, followed by India in 1991, the move towards free societies swept Latin America about 15 years ago. Several countries, formerly closed and militaristic, have now become market economies with a democratic form of govenrment. Many, like Chile, have shown mostly improved economic performance after the end of the military rule. Mr. Sachs also says that the combination of democratic institutions and market-led reforms can lead to a higher rate of the world economic growth.[28]

The world has witnessed the operation of the two systems namely, the Capitalist and the Socialist in different countries. Although both the systems have underlined the 'Welfare of All' as the basic goal, both have left a legacy of poverty, hunger and human inequality. Some 1,000 million people don't get enough to eat including some 20 million in the US. The inequitious situation in the present day world has sparked off fierce controversies among conventional economist and the new radical economists, who champion a Third

[28] *The Hindu*, (New Delhi), 16th February , 1997.

Way, as the alternative method to serve the primary goals of all humanity. "Third Way was suggested by Ted Trainer. His Third Way System lays stress on a highly localised class, cash-reliant and simply structured set up. It should not be dependent on the transport of goods, but concentrate on more local production to meet local needs with a role for barter and free exchange".[29]

Thus the development process is complex and never complete. Significant and positive co-relations between indication of economic development and political liberty suggest that improvement in the democratic process and enhancement of political freedom and civil liberty will expand the range of socio-economic opportunities and enable individuals to establish greater control over the human enviornment in an attempt to promote personal and national development. Moreover, the socio-economic development stands as prerequsite to the democracy of a country.

[29] *The Hindustan Times* (New Delhi), Aug. 1996.

CHAPTER-V

CONCLUSION

This chapter in brief is a re-examination of India's economic policies of 1990s. In this chapter we have examined the role of the multinational corporation in India, along with the cost - benefit analysis of various foreign direct investments for setting up production units. We have also investigated the rate and dimension of development in a liberalized Indian economy. It has often argued that development in India in the aftermath of liberalization has been both qualitatively and quantitatively unsatisfactory. The benefits are few and far between while disparities and abberations are glaring.

The Chapter 1, titling Development in India : Role of FDI, Law, Institutions and Public Policies , discusses about developmental trends in Industrial, Agricultural and Social sector of India since 1991. It is true that, after liberalization our balance of payment problem has been solved and there are some improvements in our Foreign Exchange reserve. But if we will compare our growth rate with China, this growth rate is low and this becomes further evident when we compare our growth rate with that of China during same period. There are many hurdles before our upward movement. The experiences of colonialism and memories of post- independent neo-colonialism as well as that of Gandhian principle of Swadeshi has influenced Indian thinking about foreign investment. These ideological legacies have an apparent dislike for foreign investment. The factor which discourage foreign investors is the lack of infrastructure facilities. To set up any industry or business firm, infrastructure is very essential. Due to poor infrastructure foreign companies are showing less interest to invest in India than in China.

Since 1991, two unfortunate developments have taken place in India. First , in India, the rate of portfolio investment is more than direct investment. As a result, Reserve Bank of India and other financial institutions of India report that investment rate of India has been increased. Generally all kinds of investment are not good for nation. The nature of portfolio investment is that the money could be withdrawn by the investor at any moment. If this money will be withdrawn suddenly, then the country's GNP will comedown and balance of payment condition will be critical.. so growth of portfolio investment at any cost will not satisfy the needs of India.

Another factor is, in India, MNC's are showing lack of social responsibilities. As mentioned in chapter 1 and in "Democracy and development", that without foreign investment in social sector no country can prosper. In India, MNCs are investing more in profit- oriented or consumer sector. They are not investing in health, education, rural development and agriculture. So in India, the rate of development is not satisfactory for rapid socio-economic development. Hence central government should perform significant regulatory functions in order to achieve a minimum level of social development.

Since 1991 several popular protest movements have taken place against MNCs and liberal economic policies. Here the fundamental question that strikes to mind is of a social -psychological one i.e. why do men protest ? Why do individuals join together for collective action to attain some objectives? When the government fails to act according to the interest of a large number of people. It has been observed that, private farms formulate policies which benefit them at the cost of people, they have a narrow self-interest to serve which has little or nothing to do with the mass or their problems. So individuals join together for collective direct action to change government policies which have miserably failed to cater their basic needs while allowing MNCs to reap rich harvests. This action come through by protest movement, *Dharana,* hunger strike etc. So protest movement or popular reaction in India during 1990s are generally against multinational companies. These movements are motivated by the desire to protect the interest of the large masses of people. Protesters have adopted various approaches and methods according to the specific need and demands of the situation though the basic tenets and objectives of these movements were to check the entry of the MNCs into Indian market.. Protesters have perceived many deleterious effects of MNCs on society which have been the corner stone of these movements. These were ecological, economical, social, cultural and physical. Irrespective of their negative effects on society and ecology MNCs are setting up and investing in hazardous industries in India, which were banned in western countries. Government agencies are neglecting environmental acts, when issuing licenses to industries. As a result, there were protest movements against KFC, Enron and Cargill

Seed company in India. But these have little effects on the multinational companies and they are running their business smoothly. Despite of stiff opposition and criticism from various sectors MNCs continue to invest in consumer sectors and have not changed their attitude.

India is a democratic country and the idea of democracy revolves round the notion of equity, equality and excellence. Democracy not only aspires popular participation in decision making but it also emphasizing on the tenets of equal distribution and social justice. Therefore, the agenda of democratic nation -state is to provide economic, social and spiritual satisfaction and fulfillment to its citizens. Democratic states are also welfare states this also refers to their commitment to peace, prosperity and progress. This means a march towards all round development, the development of material, moral and managerial aspects. This approach of policy formulation encompasses the notion of development. Here democracy and development becomes complementary to each other. Development provides operational parameter to achieve the material and social benefits while democracy through public participation and assertion of individual liberty enriches the human face of development. To preserve and protect our democratic pillars, economic development is very essential. Without economic development, social justice, equality, and liberty are meaningless. Individuals can express their views freely, and participate actively in national mainstream when they feel self sufficient and are not being exploited by others. A balance economic development is possible only in a democratic society. because in a democratic country every individual suppose to get equal right and opportunity for his personal development. A democratic state is expected to follow universal principle like equal distribution of nation wealth among individual. Democratic states generally follows liberal market policies. Due to its independent judiciary, written constitution and strong civil rights, foreign investors feel more secure than totalitarian states. As mentioned in chapter III, "FDI in India: An Assessment" MNCs are feeling more secure in India than China, and within ten years India is likely to be the biggest foreign investment target in the world.

So we found that, in this shrinking world no country can follow isolationism. Because, now countries are giving priority on human development, acquisition of sophisticated technology and expanding their economy. At this juncture countries should open their market for economic and technological development. Economic and technology development means not that we should ignore our environmental problem. Every country should adopt sustainable development for the well- being of our future generation. In this context, people's reaction has to play a major role in between misguided government policy and individual liberty. Popular opposition will be more effective and influential in a democratic country. So far as development of a country is concerned, it should follow democratic principles and open its market for foreign investment.

In conclusion, it can be said that the popular movements in India, are expressions of public sentiments against loopholes in public policy. They are infact, public attempts to correct the maladies of policy making. Protest movements against foreign direct investment, are aimed at correcting the excess committed by the MNCs upon the local people as well as local resources while establishing their units. These companies at times have damaged the social, cultural and economic fabrics besides interfering with their access to natural resources-their source of livelihood. These damages can be in the form of environmental destruction, cultural invasion, economic exploitation and loss of individual autonomy and freedom. All protest movements are not aimed at criticizing their economic hegemony nor do they try to dislodge their structural set up but they want these companies to observe a bit restraint while dealing with socio-cultural institutions. Hence popular movement does not oppose foreign direct investment but only try to subject foreign direct investment to democratic control and regulation. In the sense, that they perform very useful role. India should take cognizance of the values and objectives of popular protest movements while evolving liberal economic policies.

APPENDICES

APPENDIX-I

Table - 1
Trends in FDI Flows in the 70s, 80s, and 90s

Decade	FDI Projects	FDI Approved (Rs. in crores)	% to FDI Projects
1971-80	399	60.0	15.0
1981-90	1839	1274.0	69.3
1991-94 (June)	2205	15736.1	7.1 Times

Source : SIA News Letter July, 1994.

APPENDIX - II

Table - 2

India: foreign direct investment (FDI) approved and actual inflows:1 1991-92 to 1995-96*

Year	Financial Collaboration proposals approved (in numbers)	FDI (in Rs. Crore)				Percentage FDI Actual to Approved
		Approved	% Change	Actual	% Change	
1991-92	363	1,170	-	158	-	13.5
1992-93	677	5,525	372.3	881	457.6	16.0
1993-94	847	7,467	35.1	1,314	49.1	17.6
1994-95	1,082	9,973	33.6	4,132	214.5	41.4
1995-96	1,472	37,113	272.1	6,750	63.4	18.2

Source: Computed from data from the Government of India, Ministry of Industry as reproduced in the Centre for Monitoring Indian Economy, *Monthly Review of the Indian Economy June 1996*, p.51.

APPENDIX - III

Table - 3

Actual Inflows of Foreign Direct and Portfolio-investments

(US $ Million)

	1991-92 to 1996-97 Dec.
(1)	(2)
A. Direct Investment	6,234
B. Portfolio Investment	19,887
Total	18,101
Share of Portfolio Investments in total inflows (per cent)	

Source : Based on India , Economic Survey -1996-97.

Table - 4

FDI Inflows

(Billions of US dollars)

Country	1991	1992	1993	1994	1995
India	0.1	0.2	0.3	0.6	1.8
Taiwan Province of China	1.3	0.9	0.9	1.4	1.5
Korea	1.2	0.7	0.6	0.8	1.5
Phillipines	0.5	0.2	1.8	1.5	1.5
Thailand	2.0	2.1	1.7	0.6	2.3
Indonesia	1.5	1.8	2.0	2.1	4.5
Singapore	4.9	2.4	5.0	5.6	5.3
Malaysia	4.0	5.2	5.0	4.3	5.8
China	4.4	11.2	27.5	33.8	37.5
South, East and Southeast Asia	20.8	27.2	46.5	53.6	65.0
Developing Countries	41.3	50.4	73.1	87.0	99.7
World	157.8	168.1	207.9	225.6	314.9

Source : United Nations Trade and Development Report, 1995.

APPENDIX - IV

Table - 5

India: foreign investment flows by category

($ million)

	1991-92	1992-93	1993-94	1994-95[1]	1995-96[1] (Apr-Nov)
A. Direct Investment	150	341	620	1314	1269
a. RBI automatic route		42	89	171	72
b. SIA/FIPB route	87	238	314	701	762
c. NRIs (49% & 100%)	63	61	217	442	435
B. Portfolio Investment	8	92	3490	3581	879
a. Flls	-	1	1665	1503	764
b. Euro equities	-	86	1460	1839	60
c. Offshore funds & others	8	5	365	239	55
Total (A+B)	158	433	4110	4895	2148

1 Provisional

Note: Figures shown in this table are based on actual Inflows. These may differ from foreign Investment flows given in balance of Payments Table 6.1 which are on accrual basis.

Source: Government of India, *Economic Survey 1995-96*, p.97.

APPENDIX - V Table - 6

Foreign collaboration including FDI approvals-comparative figures:
route-wise, 1991 to February 1996

		1991	1992	1993	1994	1995	1996	Total (1991 to FEb 1996)
1.	Total No. of Foreign Collaboration (Technical + Investment approvals by:							
	i) SIA	760	585	307	382	593	92	2719
	ii) RBI	188	736	676	702	799	141	3242
	iii) FIPB	2	199	493	770*	945#	182$	2591
	Total	**950**	**1520**	**1476**	**1854**	**2337**	**415**	**8552**
2.	Total No. of Foreign Collaboration Technical) approvals by:							
	i) SIA	541	342	248	290	428	69	1891
	ii) RBI	147	485	441	501	552	84	2210
	iii) FIPB	-	1	2	1	2	2	8
	Total	**661**	**828**	**691**	**792**	**982**	**155**	**4109**
3.	Total amount of foreign investment involved (Rs.in Billions)							
	i) SIA	246	243	59	92	165	23	828
	ii) RBI	41	251	235	201	247	57	1032
	iii) FIPB	2	198	491	769*	943#	180$	2583
	Total	**289**	**692**	**785**	**1062**	**1355**	**260**	**4443**
4.	Total amount of foreign investment involved (Rs. in Billion)							
	i) SIA	3.6	4.2	1.6	3.2	3.0	0.9	16.5
	ii) RBI	1.4	7.8	6.6	5.3	5.4	1.8	28.3
	iii) FIPB	0.3	26.9	80.4	133.4 *	312.3	27.8 $	581.1
	Total	**5.3**	**38.9**	**88.6**	**141.9**	**320.7**	**30.5**	**625.9**

Note: (i) 1 Billion = 100 Crores.
(ii) `*' - includes 22 proposals for Global Depositary Receipts (GDR) involving investment of Rs.52.3 billions.
(iii) `#' - includes 4 proposals for Global Depositary Receipts (GDR) involving investment of Rs.11.9 billions.
(iv) `$' - includes 1 proposals for Global Depositary Receipts (GDR) involving investment of Rs. 1.7 billions.
*(v) Figures for 1996 updated to 29-02-1996
SIA=Secretariat for Industrial Approvals; RBI=Reserve Bank of India; FIPB=Foreign Investment Promotion Board

Source: Government of India, Secretariat for Industrial Approvals, *SIA Newsletter*, March 1996, p.2.

APPENDIX - VI

Table - 7

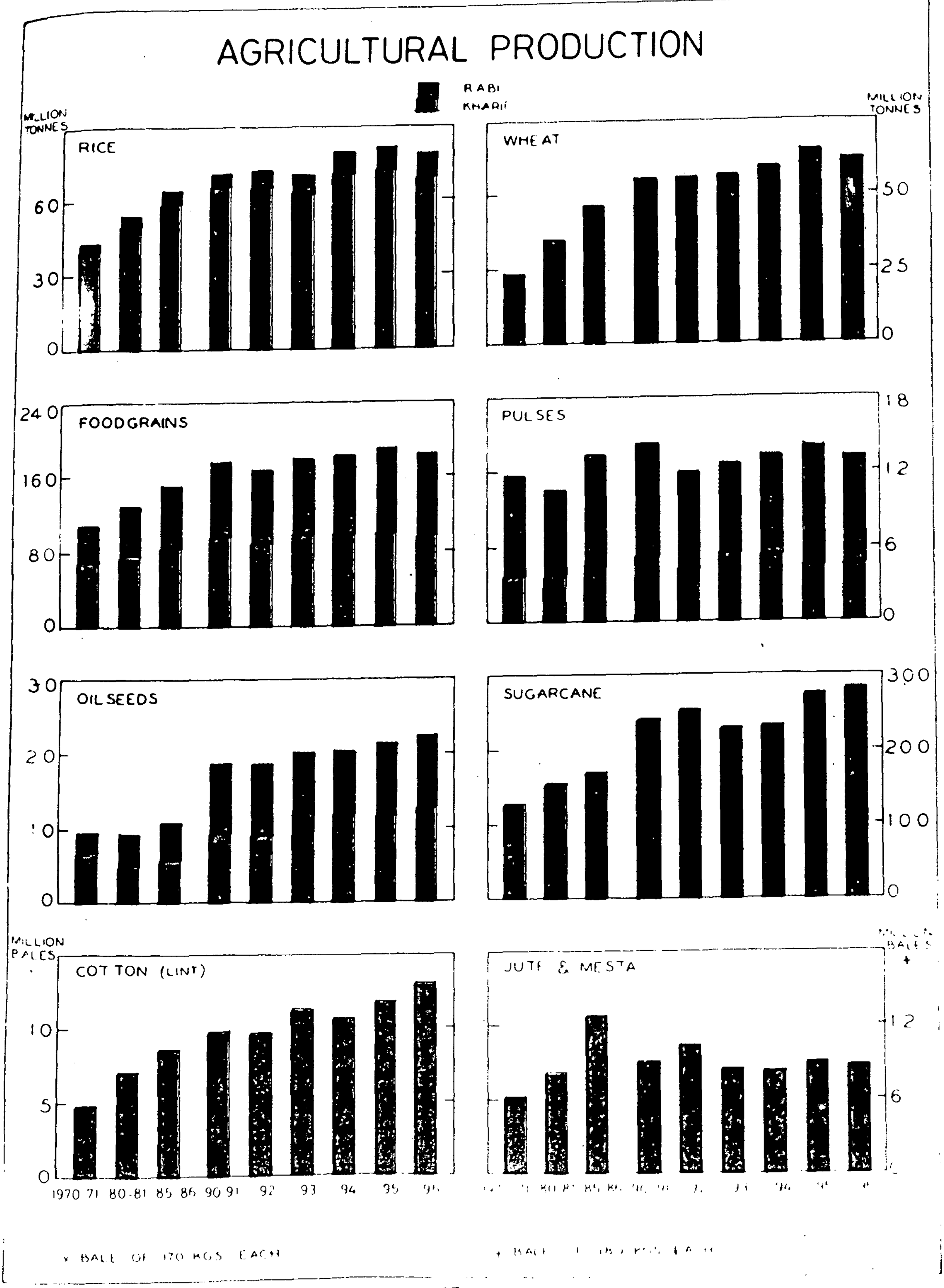
India sector-wise break-up of foreign direct investment during post-policy period (August 1991 to February 1996)

Sl.No.	Name of Industry	Value of FDI Approved (Cumulative)	Per Cent of Total Value FDI Approved
1.	Metallurgical Industries	42,157.0	6.8
2.	Power (Fuel)	64,296.9	10.3
3.	Oil Refinery (Fuel)	47,423.5	7.8
4.	Electrical equipments beilers and prime movers (other than electrical)	31,962.4	5.1
5.	Telecommunications	187,572.9	30.0
6.	Transportation Industry (mainly automobiles)	34,535.9	5.6
7.	All other industries (including Food processing)	38,082.9	6.1
8.	Services Sector (Including Hotels, restaurants and tourism)	55,231.0	8.9
9.	Grand Total Including misc.)	624,774.5	100.0

Source: Computed from the Government of India, *SIA Newsletter*, March 1996, pp.7-9.

APPENDIX - VII

Table - 8



APPENDIX - VIII

Table - 9

Top 10 country sources* of foreign collaborations approved by the Reserve Bank of India under automatic approval route and by the Government of India under "non-automatic" route

Cumulative Total of Approvals from August 1991 to September 1995

Rank No.	Country/Category	Number of Approvals			Foreign Investment	
		Technical	Financial	Total	Value (Rs. Million)	% of Total
1.	USA	730	704	1,434	1,16,128.1	30.0
2.	U.K.	437	368	805	37,564.9	9.7
3.	Japan	327	146	473	14,944.6	3.9
4.	Switzerland	154	140	294	13,091.2	3.4
5.	Germany	508	367	875	11,988.1	3.1
6.	Mauritius	4	53	57	11,727.3	3.0
7.	Thailand	19	27	46	10,815.3	2.8
8.	Netherlands	157	191	348	8,219.5	2.1
9.	Singapore	56	140	196	8,117.9	2.1
10.	Australia	72	77	149	6,188.7	1.6
Excluding following Special categories:						
(i)	Euro-Issues	0	24	24	59,403.1	15.3
(ii)	Non-Resident-Indians(from all countries)	4	454	458	24,314.0	6.3
Total	(All countries and Categories	3,487	3,714	7,201	3,87,537.8	100.0

Source: Compiled by the Government of India, Indian Investment Centre on the basis of official data collected by the Reserve Bank of India and the Secretariat of Industrial Approvals (including approvals by the Foreign Investment Promotion Board).

APPENDIX - IX

Schematic presentation of major government agencies with whom a potential foreign investor has to interact for doing business in india

1. For Information and Advice on the prevailing policy, procedures and the appropriate approving authorities to be contacted:

1.(a) <u>At the Central Government level:</u>

Secretariat for Industrial Approvals (SIA)
The Entrepreneurial Assistance Unit
Ministry of Industry, Udyog Bhawan
New Delhi: (Fax 91-11-3012626)

The Indian Investment Centre New Delhi or any of its branches abroad located in selected cities in selected countries.

Embassy/High Commission of India.

1.(b) <u>At the State Government Level</u>:

Director of Industries of the concerned State Government in the State Capital

Specialised Agency set up by the State Government for Industrial Investment Promotion

2. CENTRAL GOVERNMENT AGENCIES:

2.1 For Filing Industrial Entrepreneurs Memoranda (IEMs)/Receiving Letter of Intent (LoIs) of Investment Intentions when no industrial licence is required (Industries other than those listed in Exhibits 3 and 4 as also specified list of industries reserved for small scale ancillary sector subject to satisfying environment and urban area limitations.

Secretariat of Industrial Approvals
New Delhi

2.2 For filing Applications with the SIA for routing to appropriate approving authority where either Industrial Licence is required or where prior approval of the Government of India for Foreign Collaboration (Technical and/or Financial with specified foreign equity limits) is required (see Exhibit-7 for some further details).

<u>Secretariat for Industrial Approvals</u>

2.3 Three primary channels and a fourth special channel are available to potential foreign investor (routes) for getting approvals for Foreign Direct Investment:

(i) The "Automatic Approval" procedure for FDI in specified 35 high priority industries (see Exhibit-5) apply directly on the prescribed form to:

<u>Reserve Bank of India, Bombay</u>

With routine check on the fulfilment of the conditions for the grant of "automatic approval", can be expected quickly normally within 3 weeks) if the application is complete in all respects.

(ii) "The Foreign Investment Promotion Board" (FIPB) Route for mega Investments; and all cases not covered by the "Automatic Approval "Route or the Residual approval" SIA 0 Route" (see below) without any application for approval on any prescribed form:

Foreign Investment Promotion Board (FIPB)
Prime Minister's Office, New Delhi (upto June 1996) Care of the Minister of Industry, Udyog Bhawan, New Delhi (since July 1996)

(Case-by-case, Negotiations on "merits" of proving FDI's long term benefits to India; Possible opportunity provided to intending Foreign Investor to reorient and re-negotiate the originally submitted proposal).

(iii) The "SIA" approval route with "residual" powers to approve in specified sectors:

<u>Secretariat for Industrial Approvals</u>
<u>New Delhi</u>

The SIA through empowered (Inter-Ministerial Committees) approves foreign direct investment in the following specified areas:

(a) Medical clinics, hospitals, shipping, oil exploration, deep sea fishing industry;

(b) Industries reserved for small scale industry subject to meeting 75 per cent export obligations; and

(c) FDI in 100 per cent Export Oriented Units (EOU) in Free Trade Zones and Export Processing Zones is approved by routing such applications either through SIA (for EOUs in Domestic Tariff Area) or directly through:

(iv) Development Commissioner of the Concerned Export Processing Zone/Free Trade Zone

2.4 The extent of permissible foreign equity limits in various industrial and trading/services sectors with special relasatins for the Non-Resident Indians (NRIs) or their Overseas Corporate Bodies (OCBs) and for the Person of Indian Origin (PIO) under 40 per cent ceiling scheme for some sectors and 100 per cent ceiling scheme for certain other specified areas are listed in Exhibit 7.

2.5 Environmental/Pollution control clearances have to be separately obtained from the Central (State) Government level. The authority to be contacted at the Central level is:

Ministry of Environment
New Delhi

3. STATE AND LOCAL LEVEL GOVERNMENT AGENCIES

3.1 For State Level approvals required for purchasing/leasing land in greenfield condition or in the specially developed"industrial estates" with adequate infrastructure, "the single window" for coordinating all approvals (subject to municipal government's zoning laws:

Director of Industries of the Concerned Government

3.2 Separate permission for meeting environmental and pollution control standards is to be obtained from the

Directorate of Pollution Control/Environment
of the Concerned State Government

3.3 For obtaining essential services (like power, water, sewerage, etc. and supporting facilities like telephone/telecommunication, approval is required from the concerned

Local Authorities

Like: (i) Electricity Corporation; (ii) Telephone/Telecom Corporation

4. Once Commercial Production Starts, the concerned business entity with foreign equity is treated on part with an Indian Company and has to deal with the following major government organisations:-

4.1 For purely statistical data collection on industrial production etc. at the Central level;

Secretariat of Industrial Approvals
(On prescribed proforma B)

The State Directorate of Industries also may require similar information

4.2(a) For getting a fiscal incentives (like Income Tax concession; Tax holidays; and excise and customs duty drawbacks),

Union Minister of Finance, New Delhi

4.2(b) For getting State Level incentives (Sales Tax rebates, etc.)

Department of Finance
Concerned State Government

5. For: meeting performance conditions such as export obligations; dividend balancing (see Exhibit-11); and local environmental standards etc.

SIA Monitoring Cell ----> Reserve Bank of India ----> State Govt.'s concerned agency

APPENDIX - X

India: progressive reforms in industrial sector and investment policies

- The number of items, in respect of which industrial licensing remains, reduced to 15. These industries account for only 15 per cent value added in manufacturing sector.

- The number of industries reserved for the public sector reduced to 6.viz. defence products, atomic energy, coal and lignite, mineral oils, railway transport, minerals specified in the schedule to the Atomic Energy Order 1953. Private participation in some of these sectors is also permitted on a case by case basis.

- More and more private initiative encouraged in the development of infrastructure like power, roadways, telecommunication, shipping and ports, airports and civil aviation etc.

- The manufacture of readymade garments - an item reserved for exclusive manufacture by the ancillary/small scale industrial undertakings opened to large scale undertakings, subject to an export obligation of 50 per cent and investment limit of Rs. 3 crore.

- Automatic approval of foreign investment upto 51 per cent and foreign technology agreements permitted for 35 priority industries which account for about 50 per cent value added in the manufacturing sector.

- Foreign investment has also been liberalized in many other sectors (details are given in Exhibit-7).

Source: Government of India, *Economic Survey 1995-96*, p.113.

APPENDIX - XI

India: extent of permissible foreign equity by nris/ocbs/fls/flls

	Areas of Investment	NIRs/OCBs/PIOs	FIs/FIIs
1 a)	35 High priority industries	100% equity, repatriable, automatic approval by RBI	51% equity repatriable, automatic approval by RBI
b)	Export/Trading/Star trading House	Investment upto 40% Scheme	
c)	Hotels & Tourism related industry	Non Residents of Indian Nationality or origin are allowed to invest in New issues of new and existing companies, raising capital through a public issue, with prospectus, upto 40% of the New Capital issue, with full repatriation benefits of capital invested and income earned on it, provided it is a manufacturing activity Investment may also be made in the capital raised by a private limited company other than through a new public issue	
2.	100% EOUs and units in FTZ and EPZ	100% equity, automatic approval by SIA/DC (EPZ)	100% equity, automatic approvals SIA/DC (EPZ)
3.	Sick industries	100% private placement prior approval by RBI	
4.	Mining	50% automatic approval	50% automatic approval
5.	Telecommunications	upto 49% with approval	49% with approval
6.	Power	upto 100% with approval	100% with approval
7.	Medical clinics Hospitals, Shipping, Oil exploration, Deepsea fishing. Ind with licenses	upto 100% equity, repatriable, prior approval by SIA	case by case prior approval by SIA even up to 51%
8.	Industries reserved for SSI	upto 24% repatriable prior approval by SIA, export obligations	upto 24% equity prior SIA approval export obligations
9.	Housing, real estate, business centres, infrastructural facilities	100% equity on repatriation basis, automatic approval	ownership of company property allowed
10.	Portfolio Investment (inv. in shares & debentures)	individual ceiling 1% collective ceiling 5%, relaxable to 24% by General Body Resolution	Foreign Institutional Investors are permitted to invest subject to a ceiling of 50% for individual FLLs and 24% collective investment ceiling applicable to FIIs, NRIs including OCBs.

11 .	a) Govt securities b) Units in UTI c) Public sector mutual funds d) Private sector mutual funds	NRIS/OCBS and PIOs are permitted to invest now on a repatriable basis either in the Units of UTI or in Mutual Funds floated either by public sector or private sector financial institutions and both through primary and secondary market.	Investment in units of UTI, Mutual Funds floated by public sector private sector financial institutions is permitted only to FIIs.

NRIs=Non resident Indians	PIOs = Persons of Indian origin .	EOU=Export Oriented unit
OCBs=Overseas Corporate Bodies	FIs = Foreign Investors	EPZ=Export Processing Zone
FIIs=Foreign Institutional Investors	SIA=Secretariat for Industrial approvals	FTZ=Free Trade Zone

Source: Government of India, *Economic Survey 1995-96*; p.133.

APPENDIX - XII

I. FDI Law:

1. Foreign Exchange Regulate Act, 1973 (46 of 1973) The Act was published in the Gazette of India Extraordinary, part II, Section 1, dated both September 1973. Date of Assent : 19th September 1973 Effective: April 1974;
   Source: Notification NO.S.O. 3043 of 27 October 1973.

2. The Monopolies and Restrictive Trade Practices Act. 1969 (54 of 169).
   Date of Assent: 27th December 1969
   Effective: 1st June 1970; Source: S.O. 1981 dated 30 the May 1970, Gazette of India, Extraordinary, part II, Section 3 (ii), p. 833.
   Last amendment: The Monopolies and Restrictive Trade Practices (Amendment) Act no. 62 of 1988. The Act was published in Gazette of India Extraordinary, part II, Section (Sec) 1, No. 86 dated 13th December 1988.
   Date of Assent : 10th December 988.
   Other Amendments:

1. Monopolies and Restrictive Trade Practices (Amendment) Act, 1980 (60 of 1980).

2. Monopolies and Restrictive Trade Practices (Amendment) Act, 1982 (30 of 1982)

3. Monopolies and Restrictive Trade Practices (Amendment) Act, 1984 (30 of 1984).

4. Monopolies and Restrictive Trade Practices (Amendment) Act, 1985 (38 of 1985).

5. Monopolies and Restrictive Trade Practices (Amendment) Act, 1986 (74 of 1986).

6. The Monopolies and Restrictive Trade Practice of Rules 1970. Effective: 10 July 1970.

Sources: Gazette of India Extraordinary of 10 July 1970, Part II, sec., 3(I).

Other Amendments:

i. Industrial (Development and Regulations) Amendment act, 1953 (26 of 1953)
ii. Industrial (Development and Regulations) Amendment act, 1956 (71 of 1956)
iii. Industrial (Development and Regulations) Amendment act, 1961 (51 of 1961).
iv. Industrial (Development and Regulations) Amendment act, 1962 (37 of 1962).
v. Industrial (Development and Regulations) Amendment act, 1965 (6 of 1965).
vi. Industrial (Development and Regulations) Amendment act, 1971 (72 of 1971).
vii. Industrial (Development and Regulations) Amendment act, 1973 (67 of 1973)
viii. Industrial (Development and Regulations) Amendment act, 1974 (32 of 1974).
ix. Industrial (Development and Regulations) Amendment act, 1979 (17 of 1979).
x. Industrial (Development and Regulations) Amendment act, 1984 (4 of 1984).

Source :- Gazette of India.

7. Import and Export control policy for the period. 1988-91
Source: Laid on the table of the House (Lok Sabha) on 30th March 1988 and published by the Ministry of commerce as : I. Imports and Exports promotion and II. Export control and procedures.

8. Industrial Policy Statement of 2 August 1991 Source: Indian Investment centre, Guidelines for Industries, Sept. 1991.

A. INDUSTRIAL LICENSING POLICY, 1991

i) Industrial Licensing will be abolished for all projects except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemical and over-riding environmental reasons, and items of elitist consumption (list attached as Annex II). Industries reserved for the small scale sector will continue to be so reserved.

ii) Areas where security and strategic concerns predominate, will continue to be reserved for the public sector. (list attached as Annex I).

iii)In projects where imported capital goods are required, automatic clearance will be given.

a) in cases where foreign exchange availability is ensured through foreign equity.

or

b) if the CIF value of imported capital goods required is less than 25% of total value (net of taxes) of plant and equipment, upto a maximum value of Rs. 2 crore. In view of the current difficult foreign exchange situation, this scheme (i.e. (iii) b) will come into force from April, 1992.

In other cases, imports of capital goods will require clearance from the Secretariat of Industrial Approvals (SIA) in the Development of Industrial Development according to availability of foreign exchange resource.

iv)In locations other than cities of more than 1 million population, there will be no requirement of obtaining industrial approvals from the Central Government except for industries subject to compulsory licensing. In respect for industries subject to compulsory licensing. In respect of cities with population greater than 1 million, industries other than those of a non polluting nature such as electronics, computer software and printing will be located outside 25 kms. of the periphery, except in prior designated industrial areas.

A flexible location policy would be adopted in respect of such cities (with population greater than 1 million) which require industrial re-generation.

Zoning and Land Use Regulation and Environmental Legislation will continue to regulate industrial locations.

Appropriate incentives and the design of investments in infrastructure development will be used to promote the dispersal of industry particularly to rural and backward areas and to reduce congestion in cities.

v) The system of phased manufacturing programmes run on an administrative case by case basis will not be applicable to new projects. Existing projects with such programmes will continue to be governed by them.

vii) The exemption from licensing will apply to all substantial expansions of existing units.

viii)The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects.

Procedural Consequences

ix)All existing registration schemes (Delicensed Registration, Exempted Industries Registration, DGTD Registration) will be abolished.

x) Entrepreneurs will henceforth only be required to file an information memorandum on new projects and substantial expansions.

xi)The lists at Annex II and Annex III will be notified in the Indian Trade Classification (Harmonised System).

B. FOREIGN INVESTMENT

i) Approval will be given for direct foreign investment upto 51% foreign equity in high priority industries (Annex III). There shall be no bottlenecks of any kind in this process. Such clearance will be available if foreign equity covers the foreign exchange requirement for imported capital goods. Consequential amendments to the Foreign Exchange Regulation Act (1973) shall be carried out.

ii) While the import of components, raw materials and intermediate goods, and payment of know-how fees and royalties will be governed by the general policy applicable to other domestic units, the payment of dividends would be monitored through the Reserve Bank of India so as to ensure that outflows on account of dividend payments are balanced by export earnings over a period of time.

iii) Other foreign equity proposals, including proposals involving 51% foreign equity which do not meet the criteria under (I) above, will continue to need prior clearance. Foreign equity proposal need not necessarily be accompanied by foreign technology agreements.

iv)To provide access to international markets, majority foreign equity holding upto 51% equity will be allowed for trading companies primarily engaged in export activities. While the thrust would be on export activities, such trading houses shall be at par with domestic trading and export houses in accordance with the Import-Export Policy.

v) A Special Empowered Board would be constituted to negotiate with a number of large international firms and approve direct foreign investment in select areas. this would be a special programme to attract substantial investment that would provide access to high technology and world markets. The investment programmes of such firms would be considered in totality, free from predetermined parameters or procedures.

C. Foreign Technology Agreements

i) Automatic permission will be given for foreign technology agreements in high priority industries (Annex III) upto a lumpsum payment of Rs. 1 crore, 5% royalty for domestic sales and 8% for exports, subject to total payments of 8% of sales over a 10 year period from date of agreement of 7 years from commencement of production. The prescribed royalty rates are net of taxes and will be calculated according to standard procedures.

ii) In respect of industries other than those in Annex III, automatic permission will be given subject to the same guidelines as above if no free foreign exchange is required for any payments.

iii) All other proposals will need specific approval under the general procedures in force.

iv) No permission will be necessary for hiring of foreign technicians, foreign testing of indigenously developed technologies. Payment may be made from blanket permits or free foreign exchange according to RBI guidelines.

D. Public Sector

i) Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure. Whereas some reservation for the public sector is being retained there would be no bar for areas of exclusivity to be opened up to the private sector selectively. Similarly the public sector will also be allowed entry in areas not reserved for it.

ii) Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level in situations created for the purpose. A social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.

iii) In order to raise resources and encourage wider public participation, a part of the government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

iv) Boards of public sector companies would be made more professional and given greater powers.

v) There will be a greater thrust on performance improvement through the

Memoranda of Understanding (MOU) system through which management's would be granted greater autonomy and will be held accountable. Technical expertise on the part of the Government would be upgraded to make the MOU negotiations and implementation more effective.

vi) To facilitate a fuller discussion on performance, the MOU signed between Government and the public enterprise would be placed in Parliament. While focusing on major management issues, this would also help place matters on day to day operations of public enterprises in their correct perspective.

E. MRTP ACT

i) The MRTP Act will be amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. This eliminates the requirement of prior approval of Central Government for establishment of new undertakings, expansion of undertakings, merger, amalgamation and takeover and appointment of Directors under certain circumstances.

ii) Emphasis will be placed on controlling and regulating monopolistic, restrictive and unfair trade practices. Simultaneously, the newly empowered MRTP Commission will be authorized to initiate investigations *suo moto* or on complaints received from individual consumers or classes or consumers in regard to monopolistic, restrictive and unfair trade practices.

iii) Necessary comprehensive amendments will be made in the MRTP Act in this regard and for enabling the MRTP Commission to exercise punitive and compensatory powers.

ANNEX 1

Proposed List of Industries to be Reserved for the Public Sector

1. Arms and ammunition and allied items of defense equipment, defense aircraft and warships.
2. Atomic energy.
3. Coal and lignite.
4. Mineral oils.
5. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.
6. Mining of copper, lead, zinc, tin, molybdenum and wolfram.
7. Minerals specified in the Schedule to the Autonomic Energy (Control of Production and Use) Order, 1958.
8. Railway transport.

ANNEX II

List of Industries in Respect of which Industrial Licensing will be Compulsory

1. Coal and Lignite.
2. Petroleum (other than crude) and its distillation products.
3. Distillation and brewing of alcoholic drinks.
4. Sugar.
5. Animal fats and oils.
6. Cigars and cigarettes of tobacco and manufactured tobacco substitutes.
7. Asbestos and asbestos-based products.
8. Plywood, decorative veneers, and other wood based products such as particle board, medium density fibre board, block board.
9. Raw hides and skins, leather, chamois leather and patent leather.
10. Tanned or dressed furskins.
11. Motor cars.
12. Paper and Newsprint except bagasse-based units.
13. Electronic aerospace and defense equipment : all types.
14. Industrial explosives, including detonating fuse, safety fuse, gun power, nitrocellulose and matches.
15. Hazardous chemicals.
16. Drugs and Pharmaceuticals (according to Drug policy).
17. Entertainment Electronics (VCRs, Colour TVs, C.D. Players, Tape Recorders).

18. White Goods (Domestic Refrigerators, Dishwashing Machines, Programmable Domestic Washing Machines, Microwave ovens, Airconditioners).

Note : The compulsory licensing provisions would not apply in respect of the small-scale units taking up the manufacture of any of the above items reserved for exclusive manufacture in small-scale sector.

ANNEX III

List of Industries for Automatic Approval of Foreign Technology Agreements and for 51% Foreign Equity Approvals

1. Metallurgical Industries

(i) Ferro alloys.
(ii) Castings and forgings.
(iii) Non-ferrous metals and their alloys.
(iv) Sponage iron and pelletisation.
(v) Large diameter steel welded pipes of over 300 mm diameter and stainless steel pipes.
(vi) Pig iron.

2. Boilers and Steam Generating Plants

3. Prime Movers (other than electrical generators)

(i) Industrial turbines.
(ii) Internal combustion engines.
(iii) Alternate energy systems like solar wind etc. and equipment therefor.
(iv) Gas/hydro/steam turbines upto 60 MW.

4. Electrical Equipment

(i) Equipment for transmission and distribution of electricity including power and distribution transformers, power relays, HT-switch gear synchronous condensers.
(ii) Electrical motors.
(iii) Electrical furnaces, industrial furnaces and induction heating equipment.
(iv) X-ray equipment.

(v) Electronic equipment, components including subscribers' end telecommunication equipments.
(vi) Component wires for manufacture of lead-in wires.
(vii) Hydro/steam/gas generators/generating sets upto 60MW.
(viii) Generating sets and pumping sets based on internal combustion engines.
(ix) Jelly-filled telecommunication cables.
(x) Optic fiber.
(xi) Energy efficient lamps and
(xii) Midget carbon electrodes.

5. Transportation

(i) Mechanised sailing vessels upto 10,000 DWT including fishing trawlers.
(ii) Ship ancillaries.
(iii) (a) Commercial vehicles, public transport vehicles including automotive commercial three wheeler jeep type vehicles, industrial locomotives.
(b) Automotive two wheelers and three wheelers.
(c) Automotive components/spare and ancillaries.
(iv) Shock absorbers for railway equipment and
(v) Brake system for railway stock and locomotives.

6. Industrial Machinery

(i) Industrial machinery and equipment.

7. (i) Machine tools and industrial robots and their controls and accessories.
(ii) Jigs, fixtures, tools and dies of specialised types and cross land tooling, and
(iii) Engineering production aids such as cutting and forming tools, patterns and dies and tools.

8. Agricultural Machinery

(i) Tractors.
(ii) Self-propelled harvester combines.
(iii) Rice transplants.

9. Earth Moving Machinery

(i) Earth moving machinery and construction machinery and components thereof.

10. Industrial Instruments

(i) Indicating, recording and regulating devices for pressure, temperature, rate of flow weights levels and the like.

11. Scientific and Electormedical Instruments and Laboratory Equipment.

12. Nitrogenous & Phosphoric Fertilizers falling under

(i) Inorganic fertilizers under '18-Fertilizers' in the First Schedule to IDR Act, 195.

13. Chemicals (other than fertilizers)

(i) Heavy organic chemicals including petrochemicals.
(ii) Heavy inorganic chemicals.
(iii) Organic fine chemicals.
(iv) Synthetic resins and plastics.
(v) Man made fibres.
(vi) Synthetic rubber.
(vii) Industrial explosives.
(viii) Technical grade insecticides, fungicides, weedicides, and the like.
(ix) Synthetics detergents.
(x) Miscellaneous chemicals (for industrial use only)

(a) Catalysts and catalyst supports.
(b) Photographic chemicals.
(c) Rubber chemicals.
(d) Polyols.
(e) Isocyanates, urethanes, etc.
(f) Speciality chemicals for enhanced oil recovery.
(g) Heating fluids.
(h) Coal tar distillation and products therefrom.
(i) Tonnage plants for the manufacture of industrial gases.
(j) High attitude breathing oxygen/medical oxygen.
(k) Nitrous oxide.
(l) Refrigerant gases like liquid nitrogen, carbondioxide etc. in large volumes.
(m) Argon and other rare gases.
(n) Alkali/acid resisting cement compound.

(o) Leather chemicals and auxiliaries.

14. **Drugs and Pharmaceuticals.**
According to Drug Policy.

15. (i) **Paper and pulp including paper products.**
(ii) Industrial laminates.

16. (i) Automobile tyres and tubes.
(ii) Rubberised heavy duty industrial beltings of all types.
(iii) Rubberised conveyor beltings.
(iv) Rubber reinforced and lined fire fighting hose pipes.
(v) High pressure braided hoses.
(vi) Engineering and industrial plastic products.

17. **Plate Glass.**
(i) Glass shells for television tubes.
(ii) Float glass and late glass.
(iii) H.T. insulators.
(iv) Glass fibres of all types.

18. **Cement Products.**
(i) Portland cement.
(ii) Gypsum boards, wall boards and the like.

19. High Technology Reproduction and Multiplication Equipment.

20. Welding Electrodes other than those for welding Mild Steel.

21. Industrial Systemic Diamonds.

22. All food processing industries other than mild food, malted foods, and flour, but excluding the items reserved for small scale sector.

23. All items of packaging for food processing industries excluding the items reserved for small-scale sector.

24. Hotels and tourism-related industry.
(*Source* - India Investment Centre, New Delhi, 1991).

II. Statement on Industrial Policy 1992, India Investment Center (IIC), New Delhi.
Statement of Industrial Policy 1993, IIC, New Delhi.
Statement of Industrial Policy 1994, IIC, New Delhi
Statement of Industrial Policy 1995, IIC, New Delhi
Statement of Industrial Policy 1996, IIC, New Delhi

II. Company Law:-

The companies Act, 1956 (Act 1 1956)
Date of Assent : 18th Jan. 1956
Effective: 1 April 1956, Source: Notification No. S.R.O. 612 dated 18th March 1956, Gazette of India Extraordinary 1956, part II, Sect. 3. p.473.
Last Amendment.
The Companies, (Amendment) Act, 1988 (31 of 1988) Date of assent May 24, 1988.

Source: The Act was published in Gazette of India Extraordinary, part II, sec. 1, No - 36 dated 27th May 1988.

III. Environmental Law

Air (prevention and control pollution) Act No. 14 of 1981.
Date of Assent : 29 the March 1981
Effective; May 16, 1981; source: Notification NO. G.S.R. 351 (E), dated 15th May 1981, Gazette of India Extraordinary Par II, Section 3 (i) No. 179.

Last amendemnt (Amendment) Act No. 47 of 1987 The Act was published in Gazette of India Extraordinary, part II, see. 1 No. 67 dated 17th Dec. 1987.
Date of assent: 16 December 1987
Effective ; 1st April 1988 (all provision except 2 (ii) and (iv) 3,4 (i) and 15 enforced).

2. The Environment (Protection) Act No. 29 of 1986 Date of Assent ; 23 May 1986
The Act was published in Gazette of India. Extraordinary, part II, sec. 1 No. 34 dated 26th.
Effective; 19th Nov. 1986, Source: Notification No. F.S.R. 1198 (E), dated 12th Nov. 1986, Gazette of India, Extraordinary Part II- sec 3 (i).

APPENDIX - XIII
Government of India
Ministry of Industry
Department of Industrial Development

PRESS NOTE NO.2
(1994 Series)

Subject *: approval for Raising Foreign Equity in Existing Companies: Revised Guidelines for determining Issue Price of Preferential Shares*

In implementing the Statement on Industrial Policy of July 1991, the procedure for raising foreign equity in existing companies in India, including those which do not have any foreign equity at present, has been laid down in this Ministry's Press Note No. 13 of 1992 issued on 29th June, 1992. In supersession of Press Note No. 13 of 1992 the revised guidelines for determining the issue price of Preferential Shares are outlined below:

A. Eligibility Criteria for Increase in Foreign Equity

The following categories of companies will receive automatic approval from the Reserve Bank of India for raising foreign equity, including those which have no foreign equity at present;

(i) Companies wishing to raise foreign equity as part of an expansion programme.

An existing company wishing to raise foreign equity upto 51 per cent may do so as part of an expansion programme. The expansion programme must be in high priority industries shown in Annex III to the Statement on Industrial Policy of 24th July, 1991. the fresh/additional equity should be part of the financing of the expansion programme. The increase in equity level must result from expansion of the equity base of the existing company and the money to be remitted should be in foreign exchange. The company itself need not be exclusively engaged in activities listed in Annex III, only the proposed expansion must be predominantly in the high priority industries shown in Annex III.

(ii) Companies wishing to raise foreign equity without any expansion programme.

An Existing company predominantly engaged in high priority industries listed in Annex III can also raise foreign equity upto 51 per cent without an expansion programme. The increase in equity level must result from expansion of the equity base of the existing company. the foreign equity must be from remittance of foreign exchange.

2. Other Proposals

All other proposals for inducting or raising foreign equity in existing companies will be subject to prior approval of the Government. This will include proposals for raising foreign equity upto 51% in existing companies which do not meet any or all of the criteria outlined for automatic approval as also proposals for raising equity beyond 51% in exiting companies.

B. Requirement for Preferential Share Allocation

3. Preferential share allocation of the required volume of equity to the foreign investor will have to be approved by the shareholders through a special resolution under Section 81 (IA) of the Companies Act. all proposals for raising foreign equity or inducting new foreign equity in existing companies through preferential share allocation must be accompanied by this resolution.

C. Issue of Shares and Share Valuation

4. Consequent to the repeal of the Capital Issues (Control) Act of 1947 and issue of guidelines by the SEBI on 11th and 17th June, 1992, existing companies wishing to raise foreign equity can make the issue at the price determined by the shareholders in a special resolution under Section 81 (IA) of the companies Act. However, some proposals received from existing companies for enhancement of foreign equity show a tendency for the issues to the significantly under-priced in relation to the market price. Whereas companies are able to issue foreign equity at a large discount to the market price, the present RBI policy for disinvestment permits shares etc. to be sold at the prevailing market related price. This can cause distortion in the balance of inflow/outflow of foreign exchange. Thus further rationalisation of policy is required with the following objectives:

- (i) To prevent a few shareholders from getting substantial and undue enrichment and unearned gains.
- (ii) To prevent undue reductions in foreign equity inflow.
- (iii) To make both investment and disinvestment market related.

In pursuance of these objectives the Government of India in consultation with the Reserve Bank of India, have decided that preferential allotment of shares by companies shall the at market related price and accordingly would apply the following guidelines in this regard:

"Every preferential allotment of shares by companies (allotment of shares other than allotment on rights basis) shall be at market value of the shares. The issue price shall be determined on the basis of their average price during the immediate preceding 6 months at the main listing centre. This would be calculated on the monthly average of the high and low rates quoted for the shares at such centres. While submitting applications for raising foreign equity under automatic route to RBI, the companies would work out the price according to the above guidelines and enclose them duly certified by a Chartered Accountant."

The above guidelines of pricing in connection with preferential allotment to non-residents will apply to all foreign investment approvals to be issued by the Reserve Bank of India under the automatic route as well as by the Government of India(SIA). while submitting applications for raising foreign equity or for inducting foreign equity under automatic norms to the Reserve Bank of India or for obtaining approval of the Reserve Bank of India for allotment of shares under the applicable provisions of the Foreign Exchange Regulation Act, 1973 and guidelines thereunder, the companies shall work out the price according to the above guidelines and enclose them duly certified by a Chartered Accountant. However, in case of approvals form the Government, the question of pricing of shares would be considered in accordance with above guidelines by the RBI and only after such Government approval is given. The Government approval thus, would not go into he question of pricing of shares.

The above guidelines shall also apply to all pending applications.

D. Procedures for Approvals

5. Applications for automatic approval under the eligibility criteria outlined in para, A above will be filed with the reserve Bank of India. In the case of expansion programme the application shall state clearly the description of the article to be manufactured in ITC (HS) classification. The proposal shall be a composite one including detailed information on the capital goods to be imported for the project expansion programme. Under the goods required for the expansion programme. similarly, in the case of companies not undertaking exports programmes, the applications shall describe the existing products of the company in ITC (HS) classification.

6. The Reserve Bank of India will issue the necessary permission for the foreign equity investment under the Foreign Exchange Regulation Act, 1973 (FERA) and guidelines thereon. Simultaneously the Reserve Bank of India will confirm that the import of capital goods is covered by the feign equity. The import of capital goods will be governed by the import and Export Policy in force.

E. Dividend Balancing

7. The Statement on Industrial Policy had provided for the monitoring of outflow of foreign exchange on account of dividend payments which are to be balanced by export earnings over a period of time, and that this dividend balancing will be done on the following basis only in respect of foreign investment approvals in the consumer goods sector:

(i) The balancing of dividend would be over a period of 7 years reckoned from the date of commencement of production for companies raising foreign equity for an expansion programme. for companies which are raising foreign equity without an expansion programme, this period will start from the date of allotment of the shares for raising foreign equity.

(ii) Remittance of dividends should be covered by earnings of the company from export of items in Annex III. The amount of the dividend payment may be covered by export earnings of such items recorded in years prior to the payment of dividend or in the year of payment of dividend. The Reserve Bank of India will issue appropriate instructions to give effect to these provisions.

F. Other Proposals for Raising Foreign Equity in Existing Companies

8. All other proposals for inducting or raising foreign equity in existing companies will be made to the Secretariat for industrial Approvals in the Department of Industrial Development, Udyog Bhavan, New Delhi in the prescribed form FC (SIA) or to the Chairman FIPB, PM's Office, South Block, New Delhi. Plain paper applications carrying all relevant details are also accepted. No fee is payable. These applications can also be filed with the Indian Missions/Embassies abroad. This will include proposals involving raising foreign equity upto 51% in existing companies which do not meet any or all of the criteria outlined for automatic approval.

G. Classification System

9. Enterpreneurs may note that the description of article (s) to be manufactured should be stated according to the Indian Trade Classifications (Harmonised System).

10. The description of industries listed in Annex III of the Statement on Industrial Policy in the Indian Trade Classification (Harmaonised system) is available in Press Notes No. 11 (1991 Series). (Copies of the Indian Trade Classification Based on Harmonised Commodity Description and Coding System), Published by the Ministry of Commerce, Directorate General of Commercial Intelligence and Statistics, Calcutta, can be obtained on payment from the Secretariat of Controller of Publications, I, civil Lines, Delhi 110054 or form any of the agents authorised to sell Government of Indian publications.

2. GOVERNMENT OF INDIA
MINISTRY OF INDUSTRY
DEPARTMENT OF INDUSTRIAL POLICY & PROMOTION
(FOREIGN COLLABORATION DIVISION)

PRESS NOTE NO. 2, 3
(1995 SERIES), No. IIC/GLI/RSS/95/PN-2, PN-3.

3. GOVERNMENT OF INDIA
MINISTRY OF INDUSTRY
DEPARTMENT OF INDUSTRIAL POLICY & PROMOTION

PRESS NOTE NO. 4
(1996 SERIES), No. IIC/GLI/RSS/96/PN-4.

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