B. M. S.

ON MENACE OF MULTINATIONALS

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MENACE OF MULTINATIONAL CORPORATIONS

In its Biennial Session at Amritsar in 1975, B. M. S. had drawn the attention of the nation to the menace of Multina'ional Corporations. It cautioned country against the unholy alliance between the Government, the Monopoly Houses and the Multinational Corporations and exhorted all partiots to forge a united front to foil their anti-national conspiracy.

The recent public revealation of their activities, both in India and in many other third world countries should serve as a warning to the host countries. The 'services' rendered by MNCs are far inadequate in comparison with the socio-economic and political dangers they pose and the potential risks they generate during the course of their operations. Once they are allowed to enter the economy, they operate like an octopus in social, economic and political sphere of the country. As a result, this drainage of wealth in various forms from developing countries to developed world continues unabated, a phenomenon not unlike the same under colonialism. The time has come for developing countries to examine seriously the ramifications of this form of neo-colonialism which is subjecting them to a development pattern which is bound to keep them in a position of dependence in perpetuity.

Instances are not lacking in the Third World countries where MNCs have unabashedly applied politial and economic pressure on the host government which tried to restrict their activities. Donations to political parties, main'enence of lobbies inside and outside the legislature, outright bribery, illegal payoffs to local politicians and government officials in the host countries are well-known weapons in the arsenal of MNCs political tactics. In case of hostility shown by the host government the MNCs in collaboration with intelligence agencies, even go to the length of engineering, openly or clandestinely, a coup detat against the inimical government.

In the economic field, evasion of local taxes, practice of under-invoicing of import and export bills, holding out of threats of closure of t eir operations in the host countries and the use of the technique of transfer pricing have all become accepted parts of MNCs business ethics. A careful examination of the working of some of the MNCs in India like Britannia Biscuit Compnay, Dunlop India

Ltd.,International Business Machines,Pipe Line case and the supply of foodgrains to India by some American multinational corporations, confirms this detrimental mechanism of MNCs operations.

Transferpricing is a mechanism employed by MNCs to boost profits. IBM used this method in India. During 1961–71, it remitted over Rs. 4 crores worth profits abroad by importing old machinery and obsolete gadgets which had no market value anywhere in the world. Roche, a multinational drug company operating in India, charged an exhorbitant price of Rs. 13,246 per k.g. for librium and Rs. 27,870 per k.g. for valium, while the Drug controller put the price of these drugs at Rs. 380 and s. 462 per k.g. respectively.

MNCs tends to spread foreign testes. Foreign values and foreign way of life to the government and business elites of developing countries. The class, affiected by this culture denigrates everything which is Indian. They are a class in themselves which is different in its way of living, outlook, habit and behaviour. It is the impact of western technology which comes through MNCs. The popular western recreation through western cinema (which itself is an MNC) has been an instrument of degradation of cultural activities in India. "It is rapidly converting the Indian intelligentsia and even common people into a typical town rabble of the west."

CHALLENGE BY THE MNC'S TO NATIONAL SOVERIGNTY OF THE HOST COUNTRY

Sovereignty is an essential ingredient of the state. Any unit of a multinational enterprise when operating in the territory of a sovereign state is also responsive to a flow of commands from our side including the commands of the parent compnay and the commands of other sovereigns, Mereover the multinational enterprise as a unit, though capable of wielding substantial economic power, is not accountable to any public authority that matches it in geographical reach and that represents the aggregate interests of all the countries and enterprise affects. It has put MNCs and nation state in conflict with each other. The home Government of an MNC can interfere in the affairs of the host government by screwing nuts and bolts of the parent company. It is a challenge to the sovereignty of the host government through the MNCs. Instances of this nature are many. "For example the United States has attempted through extraterritorial control of the trading relations of affiliates of US based corporations to extend its foreign policy embargoes into the jurisdiction of other states." Efforts by United Nations to form a code of conduct for the MNCs is a measure to restore the sovereignty of the state.

IMPACT ON PUBLIC POLICY

The MNCs primarily are economic entities but their influence often extends in numerous ways into the political areas affecting the political processes. While the home governments are influenced by their (MNCs) conscious behaviour the host countries are not free from their influence either. A United Nations study on the impact of MNCs concluded that "in home countries, they may attempt to influence foreign and domestic policy by utilizing their broad financial power and their often close relationship with government cadres. They can lobby for or against governments of host countries, depending on whether or not they receive specially favourable terms of treatment.

Two broad categories can be synthesized to understand the wide spectrum of possibilities of conceivable techniques, through which the MNCs may seek to influence the political system and policies of the host country. These categories are as follows :

1. To function as an agent of the home government to influence the host government.
2. To advise the home government through the local business community.

It goes without saying that the developing countries require appropriate technology. But the MNCs have developed technology with a definite standard, i.e. capital-intensive. The technology developed and employed by the MNCs in their international operations stems from research and development activity in the industrialized world and is concentrated mainly in the home countries of such firms. The demand of a less developed or semi developed country like Maxico or India in certain sectors such as atomic energy may be a technology which is advanced. computer-based and capitalintensive. In other sectors, a more labour intensive and less capital intensive technology is needed. The demand is justified due to the availability of more labour than capital in these countries. As a result, "in many, if not most, large-scale manufacturing industries there are extremely limited opportunities for choosing from among the available technologies one which is economically more efficient and at the same time labourintensive. Consequently, the imported technology from MNCs does not solve the basic problems of employment and indigenous raw materials. If the imported technology cannot make use of the local materials in the host country the very purpose of import of technology is defeated. The host country becomes dependent on other counteis (and there also the MNCs) for import of raw materials. It only helps the MNCs to have a tight grip over the economy of the host country. The transfer of technology from the MNSs to the developing countries raises another curious question. Any transfer of technology to a developing country which does not make it self-sufficient to manufacture machines (process) which will further manufacture machines (Processes) will only make it dependnt on the foreign source. Such dependence in the long run, integrates the underdeveloped economy with the highly developed one. It seriously hampers indigenous research-theoritical as well as applied and encourages the reverse transfer of technology in the form of 'brain drain'.

The MNCs encourage brain drain. The talent (managers, scientists, engineers) employed in these companies can rise up to a certain level in the organisation in host countries of MNCs. It creates frustration in them. So they go out of the home country for better position. Watanabe, while identifying the motivational factors of brain drain said, "where the economy depends largly upon investment by foreign companies., it will be very defficult for the government to plan education in accordance with manpower requirements, since these will be largely governed by the decisions taken by foreign investors. In any case, where education is not geared to the manpower requirements of the economy, graduates will find themselves unemployed and under employed and will, if possible, seek opportunities abroad.

The Indian case in "reverse transfer of technology" is worse. India is one of the biggest donor countries in glaring contrast to the USA, which is the biggest recipient country. The table given shows the extent of emigration of highly qualified manpower from India to the United States.

NUMBER OF SCIENTISTS, ENGINEERS AND MEDICAL PERSONNEL ENTERING USA FROM INDIA. HOLDING IMMIGRANT VISAS 1956-67.

Year	*Natural Scientists*	*Engi-neers*	*Doctors*	*Others*	*Total*
1956	17	23	3	1	44
1962	5	38	12	6	71
1963	75	256	16	14	362
1964	26	76	8	5	115
1965	29	59	11	4	103
1966	209	645	40	31	925
1967	269	1067	87	62	1485
				Grand Total	3105

Source : *U. S. Immigration and Natural Service*

The claim of transfer of managerial skills from the MNCs to the developing countries is to be taken with heavy reservation. A once-for-all transfer of managerial skills just does not take place. Managerial skills are undergoing rapid changes and soon become obsolete if a continuous channel of communication is not kept up with the institutions and the sources wherefrom new management techniques originate namely, the multinational corporations. It means not only perpetual but also crippling dependence.

It is said that the MNCs are gradually changing their pattern of staff recruitment. While executive and operational level staff is recruited from various countries of Europe and the Third world but the strategic level decisions are still taken by the apex level managements located at New York, London, Paris, Bonn and Tokyo. The MNC's use its almost limitless resources and inexhaustible energies to discover new techniques of controlling the minds of men. This is done at two levels. Firstly, MNCs control the local capitalist (who controls the day to day operation of the industry) through decisions over investment pricing and production. They formulate and communicate new methods of production and of business to "local capitalists", who as their junior partners gadly co-operate in their own self interest.

Indian capitalists work as junior partners of MNCs through joint collaboration pacts. This is true not only of India but also of other countries in the Third world, particularly the Middle East. Secondly, it is done, at the mass level through printed advertisements and other mass media like radio, and national and satellite television network etc.

Multinational corporations, backed by powerful home governments, have posed a challenge to political severeignty and independent economic development of the Third world countries. It was in the wake of this challenge that the malpractices adopted by many drug multinational companies operating in India, led to the appointment of the Hathi Committee by the Government of India. The report of the committee made shocking revelation regarding the operation of the companies.

India has a large number of well-qualified scientists supported by a modern scientific infrastructure but she is still dependent on foreign technology in almost all branches of industry. Obviously the linkages of multinationals with local industrialists in India, their powerful lobbies both inside and outside the Parliament, their contacts with Indian elites their capability of creating a fear psychosis in the local market (when their interests are at stake), their control over communication madia, prevent Indian government to utilize its scientific talent for building a self-reliant economic base.

The history of the expansion of MNCs begins with independence achieved by various countries after world war II. The revolutionary leaders who successfully led liberation movements after world war II, got engaged in the task of national reconstruction. In this uphill task, they were required to co-operate with the growing local capitalists. Various concessions like credit facilities, import licences, incentives on foreign earnings from exports and the like were extended to this newly emerging class. The MNCs adopted an open door policy to co-operate with this class. To help implement the import-substitution based industrial development policies adopted by the governments of the newly liberated countries, the MNCs created certain institutions like joint ventures, foreign subsidiaries, scheme of technical and financial collaboration, consultancy services etc. In order to transfer surplus a new variety of devices like royalties, head office charges, management fees, marketing fees, technicians' fees, intra-company pricing (transfer pricing) etc. were followed in addition to repatriation of profit. The

MNCs, through institutional mechanism, keep control over the productive processes of the periphery with the objective of effectively transferring profits.

Not only that, because of abundant supply of labour in most of the newly liberated countries, the MNCs also exploit cheap labour and thereby enhance their profits because wages are usually higher at the Centre. For example, Singapore, Taiwan and South Korea (where unit cost of labour is 75 cents per hour in comparison with 3.5 per hour in the United States) have already become heaven for them. There are no formal colonies as such but exploitation analogous to the colonial situation continues. This is what is referred to as neo-colonialism.

MNCs hamper the growth of indigeneous economics and postpones much needed social change. Hence, the developing countries are caught up in vicious dilemma to entertain or "not to entertain MNCs. But the governing elites in many Third World countries invite them apparently in the hope that they would transfer the much needed technology and capital for developmental purposes. The latent motives of the ruling elite in obtaining economic gain through co-operation with them or of simply amassing wealth through pay offs and bribes from MNCs always play an important role in their decision making.

The history of development of MNCs in India, like that in many other developing countries of the world,began with crude colonialism and proceeded on to take the form of 'benevolent' and 'fraternal' trade relationships. After independence, keeping the developmental needs of the country in view, a general policy was formulated by the government of India which assigned to the MNCs an important role in the economic development of the country. The nomenclature used for them, however, was "foreign capital" The government's decision to treat foreign capital at par with indigeneous capital was widely acclaimed by business circles abroad.

MNCs make huge super profits in India. For example, the Colgate Palmolive (India) Compnay has created a flutter in the Corporate Sector by declaring bumper dividends since it went into public. The total dividend which was 66 per cent for 1978 was raised to 92 per cent in 1979 and to 101 per cent in 1980.

PHENOMENAL RISE IN FOREIGN REMITTANCES

According to the figures published in Financial Express dated 25th May 1981 total remittances made by foreign companies in operating in India have risen phenomenally over the years from Rs. 42.83 crores in 1965–66 to Rs. 148.48 crores in 1977–78, the latest year for which figures are available.

Remittances are usually divided under the heads of profits, dividends, royalty, technical knowhow fees and since 1969–70, interest charged.

While the amount of profits repatriated during the period 1965–66 to 1977–78 declined from Rs. 13.50 crores to Rs. 10.13 crores, after having reached the peaks of Rs. 21.91 crores, in 1973–74 and Rs. 20.36 crores in 1975–76, the amounts repatriated after all the other heads have risen significantly, which more than compensate for the decline in profits repatriated.

Thus, dividends repatriated during the 13 year period rose from Rs. 19.40 crores to Rs. 68.01 crores, which is an indication that foreign companies operating in India are thriving. In the case of royalty, the amount repatriated rose from just Rs. 2.95 crores at the beginning of the period to Rs. 10.50 crores at the end of it. Technical knowhow fees repatriated amounted to Rs. 6.95 crores in 1965–66, but rose four-fold by 1977–78 to Rs. 28.14 crores. Interest charges repatriated, which made their first appearance in 1969–70, amounted to Rs. 9.28 crores. By 1977–78, the amount repatriated under this head came to Rs. 22.70 crores, which was, however, less than the peak of Rs. 36.70 crores reached in 1974–75.

Interestingly, the total remittance made by foreign companies operating in India has been rising whereas the number of branches and subsidiaries of foreign companies has been declining. Thus between 1970 and 1980, the number of branches of foreign companies declined from 361 to 315. In the case of subsidiaries, the number declined from 223 in 1969 to 125 in 1979.

But the other interesting feature is that despite the decline in the number of branches and subsidiaries, the total assets of both groups has significantly increased. The total assets of 529 out of the 561 branches in 1970 amount to Rs. 1,285.9 crores, but doubled to Rs. 2,373.8 crores for 247 out of the 315 branches operating in India in 1980. Similarly, the total assets rose from Rs. 1,129.4 crores for the 223 subsidiaries operating in 1969 to Rs. 1,706.6

crores for the 125 operating in 1979.

A subsidiary is defined as an Indian compnay in which more than 50 per cent of the paid-up capital is held by a single foreign compnay. In this sense, for the 223 subsidiaries in 1969, foreign holding companies controlled Rs. 161.8 crores of the total of Rs. 240.8 crores of paid-up capital. In the case of the 125 subsidiaries in 1979, foreign holding companies accounted for a paid-up capital of Rs. 216 crores out of the total of Rs. 360.10 crores.

MNCs do not bring all the required capital needed to start a business concern in a host country but tap the local resources also. Chaudhari who studies the sources of finances of MNCs in India concluded that during the post independence period more than two thrid of total finances of MNCs came from domestic sources. The table below indicates the sources of finance of fifty largest subsidiaries of MNCs in India during 1956–75.

SOURCES OF FINANCE OF FIFTY LARGEST SUBSIDIARIES OF MULTINATIONALS IN INDIA

(*Amt. in Rs. Lakhs*)

Year	*Domestic sources*	*Foreign Source*	*Domestic sources as a proportion of the total*
(1)	(2)	(3)	(4)
1956–57	2144	945	69.4
1957–58	770	306	71.5
1958–59	2262	302	88.2
1959–60	3233	181	94.6
1960–61	4170	134	96.8
1961–62	3661	63	98.2
1962–63	2660	779	77.3
1963–64	5105	457	91.8
1964–65	7735	1334	85.2
1965–66	9538	101	98.9
1966–67	5799	363	94.2
1967–68	5843	1588	78.6
1968–69	11533	482	96.0
1969–70	8119	765	91.4
1970–71	9547	84	99.1
1971–72	12031	780	93.9
1972–73	8698	—892	111.4
1973–74	30883	—233	100.8
1974–75	9859	467	95.5

Sources : Chaudhari, sudip, "Financing of Growth of Transnational corporation in India, 1956–75 Economic and Political Weekly,
Vol. XXV, No. 33, 18 Aug., PP. 1432–33.

In this way, they deprive the local industry of capital it needs for fulfilment of the national goals. Further, the practice of investing a part of profit earned by MNCs in the underdeveloped countries (particularly on the insistence of local elites) give them additional strength in these countries. Such investment either in the same field or in other fields strengthens the hold of MNCs over the developing country.

With a view to meet the menace of multinationals, to get rid of the foreign exchange problem and to develop self-reliant and self-sufficient economy, the BMS urges the Government to take immediate measures to fully Indianise the MNCs. Furthermore, BMS calls upon the nation to revive the spirit of Swadeshi and to pledge itself to encourage the use of Indian goods, Indian resources and Indian technical potential.