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PROSPECTS FOR FOREIGN DIRECT INVESTMENTS INTO INDIA IN THE NINETIES

By

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Prospects for Foreign Direct Investments in the nineties

by

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Introduction

In the eighties there has been a resurgence of foreign direct investment (FDI) in India, after a period of very low or negative investments in the seventies. Yet the resurgence has not been quite large compared to the potential for foreign direct investment (FDI) that the Indian economy offers, nor when we compare it to flows into other LDCs with smaller markets. The US has been one of the most important sources of FDI in its post independence period, and by the early eighties the stock of US investment was second to the UK. The other principal countries are France, West Germany, Sweden, Switzerland and Japan.

There are major changes in the world economy; More particularly large firms including the transnationals (TNCs) have witnessed major changes in their competitive positions. Broadly there has been a substantial decline in the competitive position of US TNCs. Japanese TNCs have greatly increased their FDI into the advanced capitalist countries (ACCs) and the LDCs; and Western European firms while under threat for Japan, have also increased their participation in US

market, primarily through direct investments. There are ot changes of a more macroeconomic nature. Variations in growth ra between US, Japan and Western Europe, the very real prospects of increasingly unified European market, large trade surpluses of Japa slowing down of growth world over including in the LDCs, emergance (greater competition in the supply of technology particularly in th more 'mature' technologies, are all important in understanding th prospects for particular countries as sources of investments intc India.

Section I : International Developments[1]

Flows to the LDCs

The importance of FDI to the LDCs in the acquisition of technology and in the development of their modern sector, in today's world can hardly be overstated. The retreat of 'socialism', the roll back of the state in many a developed economy, the liberalisations of many LDCs' economies, whether under Fund/Bank auspicious or otherwise, privatisations already carried out or soon to be in many LDCs and advanced capitalist countries (ACCs), would all mean that the political and ideological environment for FDI from the ACCs to the LDCs is incomparably better in the late eighties and nineties than it ever was in the post World War II period.

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[1].The facts related to the trends in FDI are drawn from UNCTC (1988), "Transnational Corporations in World Development: Trends and Prospects", United Nations Centre for Transnational Corporations, United Nations, as indicated.

Yet the economic factors for FDI into LDCs have moved adversely during the eighties: The debt crises in much of Latin America, and in several other countries in Africa, (but particularly in the former which has been host to the bulk of FDI to LDCs in the post World War II period), and the typical contractionary structural adjustments they have gone through, have led to sharp fall in GDP in many of them, and to near stagnation in others. With little growth prospects FDI has nearly collapsed in these countries. Attempts at debt-equity swaps have made hardly any progress, and the early expectations in this direction were not realistic, and have proved to be a mirage. In Africa given its still early stage of development, much of the FDI has been in extractive industries and in others related to transport and trade. With the spate of nationalisations in the sixties, FDI into Africa has been quite limited. TNCs in the extractive industries under risk of nationalisation and expropriation, have over the years come to increasingly use non-equity forms -- contractual agreements with government, franchises, management and marketing contracts, joint-ventures, etc. -- so that the value of the FDI involved in extraction industries in Africa is small. Recession in the ACCs in the eighties has lead to falling demands for the natural resources of the LDCs, particularly African and Latin American which have also restricted FDI.

In contrast many of the countries in East and South-East Asia countries have generally witnessed substantial FDI flows during the

eighties though there have been major variations between them: Malaysia, Singapore, Thailand and China have had vastly increased investments in the eighties. In the Philippines and Indonesia the growth was less in the eighties than before.

South Asia on the other hand has attracted far smaller amounts of FDI. This is due no doubt to the low levels of income in these countries, small markets (except in India) and to rather poor growth performance (except India). India has in many ways been an exception. The growth in the eighties, at five to six percent or so, was high in comparison to that achieved in the decade and a half from 1965 to 1979 when the economy grew at an average rate of under four percent. While FDI did increase during the eighties steeply, (during the prior period it was very small and often negative), the total quantities involved have been very small, despite the not so small Indian market. It is obvious that despite good growth and hence good prospects for FDI, restrictive policies among other factors may have mitigated against large scale inflow of FDI. The nineties therefore, with the very liberal policies towards FDI and with prospects for growth continuing at the same rate as in the eighties, ought to attract large inflows of FDI.

From the trends in the FDI to the LDCs[2] in the eighties it is without doubt clear that countries with high growth of manufacturing

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[2]For the figures, see UNCTC (1988), part II, 'Statistical Annexe'.

output and with policies favorable to FDI, have been successful in attracting large FDI flows particularly in manufacturing and in manufacturing related industries. The mere existence of attractive policies and incentives of various kinds to potential investors, or regimes liberal to FDI, are certainly not enough. Otherwise many low income countries and many of the Latin American should have attracted large volumes of FDI in the eighties. Good growth and largish home markets are the key to inward FDI and particularly so for countries with moderate to high population densities and no great endowments of natural resources.

Emergence of Pluralism

In what follows we shall outline the main trends in FDI from the advanced capitalist countries and inward investments therein. The eighties were a period of increasing pluralism in FDI. The dominance of US and UK investments gave way to investments from nearly all the advanced capitalist countries with Japanese and West German investments showing large increases. Even the LDCs and particularly the NICs have increased their share from nearly negligible to about two percent of the stock[3]. Very briefly actual FDI from the US grew more slowly than in the earlier period, and investments into the US grew very rapidly so that the US became host to the largest stock of FDI by the early eighties. Japanese and West European outward investments increased very rapidly particularly to the US. Inward European FDI consisted mostly of intra-European, and Japanese

[3] UNCTC (1988).

investments. Despite the slow down in growth of the world economy, FDI kept its pace, with great changes in the sources and destinations. Only FDI to the LDCs as we saw earlier declined significantly.

This dramatic emergence of pluralism was to a certain extent aided by the attenuation of exchange control regimes, at the end of the seventies in the UK and Japan, which had restricted capital movements. But there were important economic and structural factors[4]:

1. The great technological and organisational dynamism of Japanese firms underlay their manufactured exports to the US, which had been rising significantly since the sixties to 'alarming' levels in the late seventies. The late seventies and the early eighties saw 'voluntary' export restrictions on Japanese firms, which in order to retain their export markets in the US had to resort to fresh investments. (Today the working of these investments constitute the most dynamic segment of the US economy). To a lesser extent, in Europe too, Japanese firms had to set up production to get better access to an increasingly integrating market with protectionist tendencies.
2. The high savings propensity in Japan constituted the basis for the large scale export of capital including direct investment capital from Japan. The US on the other hand had a low saving propensity reflected in consistent balance of payments deficits.

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[4] UNCTC (1988).

3. Slower growth in Europe and relatively higher savings in Europe, in contrast to somewhat faster growth in the US in the eighties and fiscal constraints in Europe meant that European TNCs were liquid with excess funds. Since 1985 Western European investment in the US has accelerated.

4. Excess capacity led many US firms to restrict their operations and seek to dispose off divisions and companies not central to the core (or to their redefined business) strategy. Capital markets tended to under value corporate assets in the US, so that takeovers became the important mode of West European and later Japanese investments in the US.

5. Large surplus funds and low costs of obtaining them in Japan brought about a boom in Japanese purchases of real estate in the US.

6. Many of the early investments in the US and Europe particularly in the former by Japanese firms proved that the rather especial advantages possessed by Japanese firms originating in their special shop floor practices, R&D practices, and manufacturing strategy, were to a some extent at least transferable to the host country. These resulted in accelerating 'green field' investments and take overs followed by fresh capacity creation, and recouping of operations, when the protectionist threats and pressures greatly increased.

7. Both Japanese and Western European investment in silicon valley were prompted by the need to be in an important location for

innovation, and new technology in computers and information technology.

8. As the external markets of the US firms were being increasingly competed away by Japanese, NIC, and the more dynamic West European firms, many of the more responsive US firms took to what we may call capital deepening investments -- i.e. further investments to reduce labour and unit costs, and add to quality -- to protect and retain their most important (home) market. Principal examples come from firms in the automobile, telecommunications, electronic and electrical industries.

Another aspect of the pluralism is the increased transnationalisation of smaller firms the so called 'small' transnationals, about whom very little information in available. They have emerged as alternative to the more usual large firms particularly in technologies that are 'mature' or beginning to 'mature'. They have been more amenable to FDI via joint ventures, and other so called non-equity forms. Their importance to countries such as India seeking to follow a 'self reliant process' of technological development has grown. As much as 50% of Japanese and 39% of US FDI are by small transnationals[9]. The transnationals from the LDCs are mostly all small and medium sized.

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[9] UNCTC (1988).

The rise of services in FDI

An important development in the eighties, which will certainly continue into the nineties is the increasing flows of FDI into the services sector. About 40% of the stock of all FDI mid eighties and about 35% in the late seventies was in the services sector implying that the flow during the eighties would most certainly have consisted of at least 50% in the services sectors[a]. The bulk of FDI in services consist of financial services including banking and trade related services. The expansion in financial services was due to certain important developments: Briefly the early spread of banks abroad were intimately linked to the development of the Eurodollar and later Eurocurrency markets, as well as to the need to serve abroad, affiliates from the same home country. Deregulations, innovation of new financial instruments such as securitisation of debts, development of telecommunications and information processing, increasing links between capital markets of the major industrial powers were factors underlying the steep growth in transnationalisation of financial services in the eighties, a growth which was largely confined to the ACCs.

In other services including those trade related, there are many restrictions on transnationalisation even in the ACCs, and sectors like transport, utilities, telecommunications and mass media are still entirely domestic in most ACCs. This would imply that only major policy changes allowing cross broader operations of service

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[a]UNCTC (1988).

firms could accelerate the process of transnationalisation. Sectors like advertising accounting, management consultancy, are beginning to be increasingly transnationalised.

Independent trading companies

Trade related FDI, in the post World War II period started as an auxiliary to production and distribution activities, but now have an independent status in many ACCs and LDCs. Today there are large independent service firms, as well as industrial companies with FDI in trading. Independent trading companies are among the oldest TNCs and may be further grouped into the following (besides the commodity trading houses):

(a) Agency houses typically of Western European origin and established much before World War II. Their affiliates and offices are primarily found in the LDCs and specialise in import and export trade in markets too small to attract trading establishments from the producing firms themselves. The share of agency houses in Western European exports to the LDCs is about 15%, and their role is declining as TNCs establish their own distribution networks and local trading firms grow, in all but the smallest markets. Their role in India is negligible.

(b) The nine shogo-shoshas (SS) from Japan, and others which seek to imitate them' in organisational form and function like Lucky Goldstar of Korea, or Bunge-Born of Brazil. In 1986 the shogo-

' In many other countries including India, attempts to bring about similar entities have not succeeded thus far.

shosho handled 8% of world trade in addition to a large share of Japanese domestic trade. Their share in total trade of Asian & Pacific countries was nearly 17% in the early eighties. The eighties saw a fall in their overall growth rates, but SS trade with India during the same period grew very rapidly in volume as well as in the number of items handled. As south-south trade picks ups and as Japan shows increasing interest in the South Asian economies, their role in FDI, and their activities are likely to increase very much.

(c) Retailers and buying agents. These organisations are most relevant to LDCs attempting to increase their manufactured exports of labour intensive items. Large retail chains have established networks of foreign buying offices and agents to supply the retail chains. It is this transnational activity that is of particular importance to countries like India seeking to greatly expand its manufactured exports of both traditional and non traditional items. The largest retail chains are mostly from the US and Western Europe. Most of the buying activities of the TNCs are in the ACCs, but they have special buying offices in some LDCs-principally the NICs and China which are of great significance to these economies. In the eighties significant new trends have emerged. Western European retail chains have penetrated into the vast US market through mergers and acquisitions. Retail chains have been under much pressure to buy from low cost sources, as competition between them has increased in the ACCs as a result of which their buying activities in the few LDCs that they operate in

have increased. They do not typically restrict themselves to arms length trade, but provide their suppliers with samples and often do quality checks. Items that are typically bought by retail chains in LDCs include leather articles, kitchen and gift ware, consumer electronic goods, photographic auxiliaries, toys, etc., although garments still dominate the trade. Some of them have started trading on third party account in buying to sell not only through their own retail chain stores network, but to other wholesalers and retailers.

Marketing affiliates and manufacturing TNCs

Besides the above so called independent trading transnationals, marketing affiliates of manufacturing TNCs have become important actors in the trade of LDCs particularly of the fast growing ones, without large indigenous business groups with experience in international trade. In Thailand and Malaysia marketing affiliates were responsible for 7 and 10 percent respectively of the imports[*]. The eighties saw their role expanding in the LDCs. We have already maintained that traders were being increasingly replaced by marketing affiliates. More importantly large manufacturing TNCs eg. General Electric and Matsushita, saw themselves as not only purchasing entities but also as marketing and distributing organisations. Equally importantly under severe pressures to lower costs arising principally due to competition from producers in Japan and the NICs, manufacturers in areas like white goods, computers, automobile parts,

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[*]UNCTC (1988).

hand tools, parts, components, subassemblies, etc. have seen a key survival strategy to lie in purchases of such articles from the very same low cost producers, the phenomenon of the so called OEM production. We shall discuss this phenomenon in greater detail when we consider when we consider TNCs role in manufactured exports from the LDCs.

Other services

Other transnational services like advertising, accounting, engineering and data processing have importance in the fast growing and liberal LDCs (Thailand, Malaysia, Singapore) and in China which was trying to create markets anew for these activities. Yet we may infer that in the LDCs the level of FDI in these services would be directly related to the overall stock of FDI, particularly of majority owned affiliates. Such FDI services are quite important to countries like Singapore with large operations by majority owned transnationals.

Section - II

New forms of FDI and the so called non-equity forms

Developing countries have made systematic efforts to unbundle the package of skills, competencies and resources that constitute FDI. Countries at an earlier stage of development like many in Africa have restricted their attention to africanisation of the work force and to participation in the ownership, whereas in others pursuing an

independent strategy such as India, government action has sought to bring down the cost of technology import, discourage FDI when technology could be purchased outright, or when licensing arrangements were feasible. Such developments have given rise to the so called non-equity forms of transnational participation in the LDCs. In the literature licensing agreements (when not with majority owned affiliates), management contracts, purchasing contracts, international long term subcontracts, joint-ventures (especially the minority owned) are recognised as channels of non-equity transnationalisation. While the beginnings of non-equity forms can be attributed to the developments above, in the late seventies and the eighties they have found an impetus of their own: Worsening economic prospects and greater instability of most LDCs while others have asserted their political independence, have shifted the preference of many TNCs towards non equity forms where the underlying core technology or advantage is not particularly scarce in the world and the monopoly rents to be made from them are not too large. Equally importantly the pluralism of FDI in the eighties, and particularly the rise of Japanese firms, and now Korean in many standard items as technological leaders in many an industry have widened the source of technology and skills for LDCs and have increased the bargaining power of LDCs especially the dynamic NICs and of large countries like India and China pursuing a more self reliant industrialisation strategy. (The bargaining position of the low income, slowly growing and small nation has deteriorated, as also

that of Latin American countries undergoing contractionary structural adjustment).

Non-equity arrangements are generally found in areas that use 'stable' or 'mature' technologies. Similarly newer TNCs and particularly those from LDCs, as also those losing their competitive advantages have shown a greater tendency to establish non-equity forms of transnationalised operations. Since non-equity forms involve the combination of indigenous entrepreneurship with technology and other competencies from outside, their prevalence and success depend vitally upon the strength of local entrepreneurship. To the extent that local firm and entrepreneurs are more knowledgeable about local prospects and risks, non-equity forms are an expression of the greater propensity of local firms and enterprises to invest. Non-equity forms do imply that the host LDC bears the entire risk. But this may not be a disadvantage if we recognise that TNCs in their assessment of LDC prospects are remarkably conservative.* But since transnational banks have greatly reduced their lendings to the LDCs in the eighties and there is no sign that there is to be a revival in the nineties, the financing of non-equity forms especially for large projects could prove difficult for LDCs.

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* We must recognise the value of 'over investments' made on the 'animal spirits' of entrepreneurs rather than on the 'correct' reading of economic prospects, to the well being and growth of the economy, in the sense of Keynes in his 'General Theory'.

Large TNCs from the US have been particularly averse to non-equity forms in the LDCs whereas those from Japan, Germany and the smaller European countries have show a far greater propensity. Part of the difference between the behaviour of US TNCs and those from Japan and elsewhere can certainly be attributed to the product market (sectoral and technological) difference between FDI from the US and these countries -- for instance a larger proportion of FDI the USA is in life style associated products and in products of new technology. Even then some of the differences are real and arise out of history-- the fact that the US for much of the twentieth century, which is also the period of FDI, was and continues to remain the primate advanced capitalist country. The large home market has made it possible for US TNCs to ignore the small markets of the LDCs when under pressure to unbundle the package bought about by FDI. Now with US firms under severe competition from European and Japanese firms one is not sure that US firms would still retain their reluctance to non-equity forms.

Section - III

Manufactured exports and foreign direct investments

For a country like India with low land man ratio and no great supply of natural resources like oil, gold, nonferrous metals, etc., it is conceptually worthwhile to distinguish between exports of manufactured items and natural resources. Processed agricultural products, processed fish etc. with much value addition by labour

would constitute a more intermediate category. Given the poor land man ratio, it is manufactured products which has the potential for large expansion (quite similar to what has taken place in Japan, Korea, and Taiwan also with poor land man ratios and little endowment of natural resources). Processed natural products while they do have a great immediate potential are destined to loose their significance in the long run as the these economies industrialise and incomes grow.

FDI in natural resources (or non equity forms when these are more meaningful) takes place without reference to the stage of development of the host economy when the competence to develop them is not locally available. TNCs are always available to develop such resources as long as there is sufficient demand for them in home country and in world markets. Similarly given good prospects and a not too small market and protection, TNCs readily invest to serve host LDCs' domestic and regional markets in manufactured products. And much of manufacturing investments in LDCs are indeed of this variety. On the other hand the role of FDI in manufactured exports from the LDCs is rather small despite impressions to the contrary[10]. Much of the increases in manufactured exports from Korea, Taiwan, and the other NICs have taken place from domestic firms. Transnational affiliates have been sources of less than 5 to 20 percent of the manufactured exports from the NICS, except Singapore where the role

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[10] See Deepak Nayyar (1978), "Transnational Corporations from Poor Countries", Economic Journal, Vol.88,, March.

of affiliates has been high. This anomalous status of Singapore is no doubt linked to the metropolitan business centre status of Singapore in South and East Asia. In Latin America the role of transnationals in manufactured exports has been high (of the order of 40%), but few of these are destined for the advanced country markets. Most of them do in fact constitute intra-regional trade and an expression of the rationalisation of affiliates' operations within the region[11]. In export promotion zones, transnationals are active in manufactured exports through the so called runaway industries. But several considerations would attenuate their importance for a country like India: Firstly, few countries have been able to attract such runaway industries at a significant level and all of them have had deep political and sometimes military links with the US (South Korea, Mexico, Taiwan, Thailand, Singapore, and the Philippines). These along with Malaysia were hosts to as much as 90% of all EPZ employment of just about 1.6 million in the mid-eighties[12]. With increased use of automated technologies, and labour saving and labour replacing manufacturing processes, the growth of EPZ type runaway industries has reduced much in the eighties, and even China which was successful in attracting labour intensive export industries from TNCs to a fairly large extent in the eighties, does not view this kind of FDI as important in the nineties.

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[11]Cf. C. V. Vaitsos (1978), "Regional Economic Cooperation (Integration) Among Developing Countries: A Survey", World Development, pp. 719-769.

[12]UNCTC (1988)

Yet <u>the role of TNCs, and other firms based in the ACCs in manufactured exports from the NICs, has been vital, principally as marketing channels, and as sources of sub-contracts for innumerable small and large domestic firms.</u> It is here that the role of retailers and buying agents from the ACCs, the Shogo-Shosho, and the purchasing departments of large manufacturing firms, including their specialised trading firms important. Manufactured exports through such arrangements have till recently, almost entirely bypassed India in the seventies and eighties.[13] Lack of consistent quality, low scales of output, and policies that have biased against exports, have acted to prevent the development of these arrangements. As protectionism in the ACCs strikes deeper roots, 'independent' exports by the LDCs would become increasingly difficult. Equally importantly, the vast potential for manufactured exports and particularly that of labour (both skilled and unskilled) intensive, can hardly be realised if producers in India (most of whom are small and ill informed about global conditions and requirements) are constrained to grow at the slow pace of independent development of overseas markets by domestic trading houses both public and private.

An important aspect of ACC firms' purchases of manufactured products from the LDCs is what is generally called international subcontracting. We may usefully consider international subcontracting to consist of two archetypes: (1) Purchases by retail and chain

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[13] Purchases by the SS have been very important in the export of shrimps and certain varieties of fish from India.

stores. (2) Original equipment manufacturing (OEM) arrangements. We have already discussed some aspects of the former under the topic of FDI in services. Here we would add that it constitutes an important channel for the manufactured exports of the traditional variety generally based on the existing or given comparative advantages of the NICs. A study by the UNCTC reports that, in 1987, 11 largest department store chains imported 5 to 25% of the goods which they sold, and that these goods were sourced predominantly from LDCs[14]. In freeing the LDC manufacturer from marketing and distribution, it allows him to concentrate on manufacturing and quality. In items like garments, fashion articles, the arrangement also frees the local enterprise from the need to constantly monitor a distant and unfamiliar market for changes in tastes and fashions therein. It also gives him the large scale of operations, greatly aiding his movement towards greater efficiency, cost reduction and quality consciousness[15]. Of course a large part of the gains from lower cost and improvement in quality go to the purchasing ACC- the retail chain stores and the consumers in the form of higher margins and lower prices respectively. But for the LDCs' initially small manufacturers, to miss the process of international subcontracting is to miss the bus altogether. It is very difficult for even a well diversified economy like India to arrange all the ingredients for successful

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[14]UNCTC (1988)

[15]Some have argued that such international sub-contracting arrangements were vital to the NICs (principally South Korea, Taiwan, Singapore, and Hong Kong's) quick and successful penetration of ACC markets, without having to go through a phase of 'shoddy goods' that Japan did in the fifties and in the pre-war period.

penetration of ACC markets, at quick enough rates, without dependence on ACC firms or institutions[16].

Original equipment manufacturing (OEM): This is a long term manufacturing contractual relationship between the subcontractor and the manufacturing firm (from the ACC) to purchase to strict specifications and quality, parts, components, and sub-assemblies, and products which all go as part of or the original equipment sold by the manufacturer under its brand-name. Such arrangements have been in existence, since the emergence of 'fordism' in the US, and is at the root of the success of the automobile industry the world over in cost reduction. In Japan they were given a further boost due to the lower costs of labour in smaller firms and because Japanese culture and management styles made possible stable situations of monopoly facing monopsony, permitting single (or few) highly specialised sub-contractor(s) to supply a single product or a part, without the usual farming out to several subcontractors to lower risk typical, of western economies.[17] International subcontracting of original equipment rose to prominence in Korea and Taiwan. There are no reliable estimates of the volume of trade that takes place due to OEM arrangements. It is estimated that OEM exports from Korea around the

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[16] The experience of Indian trading firms in the ACCs, that have woefully failed in the task of manufactured export from India, would further confirm this. Sebastian Morris (1988), "Foreign Direct Investment from India: 1964-1983", unpublished FPM (doctoral) dissertation, Indian Institute of Management, Calcutta.

[17] These practices underlay the success of just-in-time inventory and other related shop floor practices in Japan.

mid-eighties accounted for 50% of the country's total exports to the USA[18]. In the eighties as Korea moved on a growth path realising the dynamic comparative advantages, OEM grew most rapidly particularly in metal transforming industries and electronic and computer products and related subassemblies. OEM arrangements cover a wide range of products from tennis balls, photographic equipment, computers, fork-lift trucks and now possibly even cars and parts of aircraft. OEM offers the ACC firms the advantage of lower costs. TNCs and other large firms have used OEM arrangements to compete with their adversaries, and Korea and Taiwan have been able to use the opportunity therein to move on to a higher stage of manufacturing--from simple items to more complicated products, and from parts and components to subassemblies and fully assembled products.

OEM arrangements are hardly possible with LDC firms which do not have the necessary technical and managerial capacity and the bases to meet delivery schedules and quality standards, and to do so at prices agreed upon much earlier to the final delivery. It is not surprising then that only South Korea and Taiwan with their active industrialisation efforts and high level of skill formation and with an environment over which business has much control have been able to take advantage of such arrangements[19].

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[18]UNCTC (1988).

[19]There are of course problems for both parties in OEM arrangements. Sourcing from OEM producers in LDCs can mean that the ACC firm is vacating the manufacture of that product or component. Its lower costs through the OEM arrangement is possible only as long as its competitors do not have similar access to OEM suppliers, a

More importantly for the OEM suppliers, the price realisation is significantly less than through direct sales. Dependence upon the larger foreign firm, and the risk from the foreign firm shifting over to another OEM supplier, perhaps in another country are other problems. Despite these difficulties OEM arrangements have been widely resorted to by successful Korean and Taiwanese exporters of sophisticated products. Firms like Hyundai sell their own cars in the US, but smaller ones like Kia and Daewoo have been able to export successfully as OEM suppliers to Ford and General Motors. More importantly many of the independent exporters of sophisticated products started as OEM suppliers and some like Samsung and Goldstar while they work as OEM suppliers in certain products are independent exporters in others. OEMs can be big markets too: Goldstar an OEM supplier of colour TV sets to Sears Roebuck of the USA, has found the market in its contract with Sears Roebuck large enough for it to set up an affiliate in the US to continue the contract, as its exports came under protectionist pressures[20]. Equally importantly many large OEM suppliers in some markets are independent suppliers in others.

The above discussion could mean that OEM relationship while certainly a dependent one is not without its dynamism which in an

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situation not likely to last long so that OEM sourcing is no alternative to product improvement and innovation by the ACC firm.

[20]UNCTC (1988).

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economy that is actively and consciously industrialising[21] can certainly take the OEM supplier to the status of an independent supplier.

Section - IV

Changing Policies towards FDI in the LDCs

In the eighties and continuing into the nineties there has been a great liberalization in the policies towards FDI. We have already seen that the attractiveness of the LDCs declined in the eighties principally because of the world wide recession and the severe debt crises in Latin America and elsewhere, except in the South East Asian NICs, so that LDCs were left chasing FDI rather than other way round. Other factors were as follows : The relative decline of resource seeking FDI since the early sixties meant that LDCs by allowing FDI could follow import substitution policies with increasing domestic value added. There was little functionality in LDCs pursuing restrictive and confrontationist policies against market oriented FDI. The debt crises meant that traditionally large source of funds for LDCs viz. transnational banks' syndicated loans, dried up and LDCs particularly in Latin America attempted to (with no success at

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[21]. Yet we may caution against a general spread of OEM relations, in LDCs with the required economic and entrepreneurial base. The confinement of OEM to Taiwan and Korea, and to a more limited extent to China, may be indication of the need for strong political and perhaps even military understanding between the host country and the dominant ACCs US and Japan.

all) to liberalise their policies towards transnational capital to attract FDI. They had little or no success since FDI is growth seeking and hardly ever enters into economies facing exchange crises. Also many an LDC undergoing structural adjustment under Fund/Bank auspices, were as part of the adjustment programme required to liberalise greatly their policies towards foreign capital. With the large number of countries going in for structural adjustments since the second oil crises (1979-80) there has been virtually a scramble for competitive liberalization in the LDCs in the late eighties, leaving transnationals to pick the most lucrative and prospective markets viz. those of the fastest growing LDC economies including China. India, the low income countries, the 'socialist' countries of Vietnam and Cuba and a few others were exceptions to this general phenomenon.

Yet we must not underestimate the role of ideology and example in the liberal attitudes to TNCs: The success of South Korea, Taiwan, Singapore and Hong Kong, and of others that attempted to closely follow them, in their external orientation aspects -- Malaysia, China, Thailand, and perhaps Indonesia, was far too remarkable, and gave rise to the thesis of 'export-led' growth and industrialisation. While the essential conditions[22] for successful industrial

[22] This is hardly the place to discuss the factors underlying the success of these countries. But very briefly, a strong state mechanism to actively encourage industrialisation, and remove hurdles in the way of capital formation, and above all land reforms which greatly accelerated the growth of the home market, and deliberately getting the prices 'wrong' as Alice Amsden(1989) calls it, besides a functional attitude (which sometimes meant restrictive policies) to

transformation in these countries went far beyond 'open' economies and liberal attitudes towards FDI, the details of either the special conditions (metropolitan city status of Singapore, besides closeness to the Chinese market of Hong Kong), or the strong and development oriented states obtained in all these countries, were lost in the din of the projection of 'export-led' growth. Similarly, the decline of 'socialism', and the coming to light of so many skeletons from their cupboards, as also the pursuit of destabilisation of regimes still following 'socialistic' policy by the US, would today mean, that all but the most obscurantist or eccentric regimes would be able to pursue anti-transnational policies.

A 'pragmatism' has emerged. LDCs today assume that FDI can be regulated, within the limits imposed by the size and attractiveness of their home markets, and their natural resource endowments, to make contributions to the growth and diversification of the economy. Incidents of expropriation from the peak reached in the mid-seventies have come down dramatically to a case or so every year in the eighties[23]. In manufacturing there has been a shift from concern about ownership, to performance. These have taken the form of legislations or agreements with TNCs regarding local content of output or the percentage to be exported. China through its imaginative and (administratively) simple policies, has been able to

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FDI were among the important factors. (Alice Amsden, "Asia's Next Giant: South Korea and Late Industrialisation", NY, Oxford University Press).

[23] UNCTC (1988).

use the attractiveness of its large home market to push up exports. Brazil, Malaysia and Indonesia, among many others have been moving towards performance based admission of TNCs and FDI.

Bilateral investment treaties between LDCs and developing countries have seen a marked rise in the eighties. Although the treaties in themselves do not particularly influence FDI inflows, China, the Eastern European countries, and other LDCs with rudimentary local corporate and business laws have viewed these instruments as vital in reducing the uncertainty for foreign investors[24]. Such treaties generally provide for the protection of investments, 'fair' standards of treatment, transfer of profits, compensation in the event of nationalisation, or guarantees to not nationalise, and procedures for settlement of disputes.

Among the significant liberalisations towards FDI in the eighties has been China's and South Korea's. In the latter, a successful diversification of the economy has given the state enough confidence to allow FDI in all sectors except that specified in a negative list.

Section - V

Policies in the ACCs

The eighties have seen the removal of the last vestiges of the regulations that sought to restrict outward FDI from the ACCs.

[24] UNCTC (1988).

Instead there have been shifts to active encouragement as in the case of Japan, as also much expression of concern by home economies on the imposition of restrictions on the operation of the affiliates of their TNCs. Thus the US has sought to actively protect the interest of its TNCs, through the establishment of bilateral agreements, through diplomatic and other pressure on the LDCs and others to adopt standards for treatment of foreign firms, and most importantly through ad hoc action against situations that have been seen as threatening the interests of American TNCs. The US Trade and Tariffs Act 1984 which covers both investment and trade aspects, implicitly provides for US state action against countries, and their imports into the US in general, for specific instances where it is perceived that US interests including those of its firms' potential overseas operations have been hurt. Such actions have been taken or threats to do so were made against Brazil, India, Japan and China more recently.

The Japanese government has been much concerned with Japan's trade relationship with the ACCs and particularly with the US, its most important trade surplus market. It has also apparently been impressing upon its firms to invest in the US and Europe to reduce trade frictions with them. The Foreign Exchange and Foreign Trade Control Law of 1980 eliminated approval requirements for outward investment. Policies towards inward FDI has been liberalised in many ways[28]. In Japan MITI has sought to encourage and finance inward FDI, while JETRO has attempted to promote inward FDI. Despite these

[28] UNCTC (1988).

attempts there has been little FDI into Japan, the strong position of Japanese firms in most areas of manufacturing, active encouragement of local firms in other typically frontier areas of technology have mitigated against FDI. In services particularly in those finance related, in products of Western Culture, there have been some FDI.

In the EEC countries policies towards inward FDI have been generally favourable. The less rich members of the EEC- Britain, Ireland, Spain, (southern) Italy etc., have sought to vie with each other to attract FDI from outside the region since under the common market to emerge in 1992, such units would have direct access to the entire European market. The eighties therefore saw for the first time the ACCs actively encouraging inward FDI.

In the US, an important irritant in inward FDI viz., the principle of unitary taxation followed by the US has been much relaxed, allowing for the large increase in inward FDI. As large Japanese greenfield and other productive investments emerged in the eighties, pressures to impose local content norms on these FDI increased in the US. But perhaps the most important development has been the inclusion of the so called TRIMS[24] (or trade related investment measures) in international and bilateral negotiations. Use of TRIMS is widespread in the LDCs particularly in those that are actively

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[24]TRIMS constitute measures that attempt to control inward FDI, such as export obligations, impose local content norms through a phased manufacturing programme or otherwise, besides measures on the equity structures of foreign enterprises linked to the above, and technology transfer requirements.

industralising. The advanced countries including the US have also found it necessary to impose such measures on inward FDI. The ability of the East Asian NICs and others such as China, as also India (in a somewhat different way) to use FDI to their advantage in intimately linked with the use of TRIMS.[27]

The US today is most acutely concerned about the use of TRIMS in the LDCs, and along with the other ACCs has been arguing in international fora about the need to eliminate TRIMS. The US was successful in getting the issue of TRIMS included in GATT. Through elimination or reduction of TRIMS the US hopes that its transnationals and more so those in services would have a better and freer deal in the world markets. But contrarily the rising inward FDI in manufacturing in the US would inevitably move the US to use of TRIMS to increase domestic value added.

Similarly, the need to protect intellectual property rights (IPR), the world over is a major plank of US foreign economic policy. In pushing towards IPR, the US hopes to greatly strengthen the hands of its TNCs in many LDCs where copying of patents and technology, reverse engineering, and secondary innovation[28], unlicensed use of foreign brand names, could be greatly reduced to the advantage of its

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[27] The use of TRIMS becomes necessary, since in the bargaining situation that is inward FDI, there is a need for the host economy through its government to bargain for its interests.

[28] Re-innovating products and processes already patented elsewhere.

firms. As firms in the US and other ACCs become increasingly high cost producers and loose their manufacturing competitiveness, the pressure to push for IPR to capture and increase the rents of innovations past and present, would become more pronounced in the nineties.

Japan on the other hand, which has itself used reverse engineering, and copying of certain products and technology to great extent until recently is less aggressive in the fight for IPR world wide. European countries have taken a more intermediate position. As the competition for world markets increases, and if recession or slow growth continues into the nineties, the few large and significant LDCs (particularly India, China, Korea) where fast growth can be expected to continue, could possibly use their advantageous position giving in only partly on IPR and TRIMS , and yet attract inward FDI and technology significantly.

Section VI

Developments within the Indian Economy

The new economic initiatives undertaken by the Government in 1991-92, which were preceded by policy changes of a more limited extent, are in many ways truly revolutionary. While it is true that the actual change has lagged behind the initiatives and the many pronouncements, what has happened thus far is indeed remarkable. In a short span of time, intentions of privatisation and disinvestment

of the public sector, and of liberalization of the financial sector have been expressed. Major control systems (licensing, production and price controls), were either done away with or attenuated very much. Imports were considerably liberalised, and the bias against exports has been significantly reduced and in some instances been removed altogether. More specifically the policy towards FDI has been much liberalised and today FDI is welcome with little attempt to control the ownership in all but a negative list of industries. The policy for foreign technical collaboration had already been liberalised in the eighties.

The changes go far beyond the requirements of the 'structural' adjustment under Fund/Bank auspices, even though the pressure of these institutions would have initiated and sustained these changes. Even the stock markets were not responsive enough to these changes, and it took them to sometime to realise the full significance of these developments.

Yet the very short term prospect for growth is not good, given the restrictive monetary and credit policies on at the moment to control inflation. Once these are lifted, and if the investments being planned by the private sector are any indication, overall investment level should not be lower than in the eighties, even though their composition would have greatly changed in favour of the private sector. This can keep growth at a high level in the nineties too.

Yet the kind of 'high speed growth'[29], being achieved by South Korea, China and Taiwan, may not take place. And the growth in the nineties despite the liberalization and the removal of supply side constraints may not be as fast as in the NICs unless agriculture itself can grow at a high rate of 5% per annum or so. There are no indications that any such transformation is taking place today. If the experience of industrialisation in the twentieth century is any guide such a radical transformation of agriculture is hardly possible without land reforms, and thus far the new initiatives do not indicate any development in this direction.

Thus the growth prospects for the Indian economy are most likely to be quite good -- at best as good as during the Mahalanobis period, but certainly not spectacular. Despite this the home market which is larger than or comparable to that of competing countries like Thailand, Malaysia, Taiwan, (but not China) would mean that the overall annual addition to value is likely to be comparable to that in these countries, making India an attractive host country for FDI, and non-equity arrangements with transnationals on an incomparably larger scale in the nineties than what has happened thus far.

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[29] We would think that it is only high growth rates sustained over longish periods, that amount to transformation of LDCs into industrial societies. The wide gap between the ACCs and the LDCs in terms of output per annum, would mean that if the political and economic constraints to growth are absent, economies grow very fast. This is another aspect of late industrialisation.

We now go on to a consideration of the structural and institutional aspects of industrialisation in India. Industrial development in India since independence has been rather different from that in most LDCs in certain important ways:

Growth has been restricted and 'intensive' in the sense that a wide diversification of the industrial base emerged:[30] Skills and competencies in the entire gamut of requirements for independent industrialisation were attempted to be built up often at great cost. Yet the growth rate was very small, so that industrialisation could not be extensified to embrace wide section of the population.[31] The limits to this kind of 'restrictive-intensive' industrialisation was reached long ago and the period of the seventies may be considered as an unsuccessful attempt to find new direction. The partial liberalization of the eighties, and the favourable conditions[32] for growth obtained during that decade (good harvests, increasing public investments, release of infrastructural constraints particularly in power), and now the general liberalization of the economy can possibly mark the beginnings of extensification of industrialisation.

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[30] The variety of goods and services produced in India is matched by only the large 'socialist' countries including China and the ACCs.

[31] It is remarkable that despite the visibility of India's industrialisation the proportion of labour force in manufacturing is still only a little above that for preindustrial agrarian economies. Employment growth rate in manufacturing has been tardy in the eighties.

[32] R. Nagaraj (1991), "Some Reflections on Growth in the Eighties", Institute of Public Enterprise, mimeo.

The period up to eighties with the intensive industrialisation can be positively viewed as having built a strong basis for all round growth whatever its cost may have been in the earlier period. Thus today when the economy is being opened up to foreign capital and to imports there is a well developed basis and infrastructure to quickly absorb and internalise the technology and the new skills and competencies. In other words, import of capital and technology could be largely to upgrade the existing competencies, and there would only be a few instances wherein the imported technology goes to produce final goods altogether new for the economy. Indian firms, and the economy in general has the competence to meet the foreign supplier of technology half the way up so that transnational involvement in India would most often take the form of joint ventures and the so called non-equity forms.

The unequal and dominant position of transnational affiliates in the Indian corporate sector during the sixties and later, commented upon by many scholars[33], has through the late seventies and eighties given way to a more equitable and competitive relationship between Indian and foreign capital. No doubt the change was possible due to the state's industrialisation efforts through planning, active intervention, restrictions on foreign capital, regulation of technology import and specific policies designed to encourage indigenous technology and entrepreneurship; broad-basing the latter

[33]Cf. N.K. Chandra (1973), "Western Imperialism and India Today", Economic and Political Weekly, Annual No., Nos. 4,5, & 6, and part II in No.7, February.

to a level that has rarely been achieved in any economy. The natural growth of the market also allowed for the gradual entry of indigenous capital into areas dominated by foreign capital - advertising intensive and life style associated products, and high technology areas. The higher investment propensities of local capital in contrast to that of foreign capital in the seventies and eighties, the advantage that they had under the Indian patent law (particularly in drugs and pharmaceutical sector), laws prohibiting the use of foreign brand names, government investments in generation of local technologies (particularly in chemicals and pharmaceutical, steel, metal transformation, electronics and electrical engineering) through laboratories[34] and public sector units have all played their parts.

General production expertise i.e. the competence in activities related to shop floor management, maintenance, detailed engineering of plant, project implementation, fabrication (in contrast to design) of plant and equipment to given specifications and design, feasibility studies, market and financial studies, civil constructions of practically all types, infrastructure related design and constructions nearly of all types, competencies in the functional areas of management - production and quality control, accounting and

[34] It is well known that few laboratories have been able to commercialise their research work, and as such government laboratories have (due to their lack of potential links with production enterprises) failed in their task. But diffusion of technologies and skills through movement of people has been significant. A few Regional Research Laboratories, the National Chemical Laboratory, the ISRO and perhaps a few others have no doubt made positive contributions.

finance, personnel management, marketing, and general management, are all widely and cheaply available in the country. This necessarily means that the unpacking of FDI is likely to be considerable, even when there are no government regulations explicitly seeking to unpackage technology and bring about its diffusion[33].

These all have the implications for the extent and nature of transnational involvement in the Indian economy in the nineties under a liberalised regime. The large and sometimes pent up requirements of the economy for new and better technologies would mean that foreign collaborations would greatly accelerate in nineties. But much of this for reasons already discussed in this section, as also due to the emergence of pluralism in the sources of FDI and competition between TNCs would take non-equity forms. Joint-venture forms would have a greater propensity in large investment proposals in areas like basic goods where the sheer size of the project would make Indian entrepreneurs initiating their projects look to their foreign suppliers of technology for part of the finance and sharing of risks as well. Other non-equity forms - purely technical collaboration, licensing, lump sum purchase of technology, minority near portfolio participation by the foreign technical supplier, are likely to be the most common form of TNC involvement in the economy.

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[33]See Sanjaya Lall (1990),"Building Industrial Competitiveness in Developing Countries", OECD, Development Centre, for a comparative study of the NICs in technological and industrial development.

It is generally believed that much of Indian industry is highly protected and therefore quite inefficient. While this may have been true in the sixties and seventies, in the eighties, even while there are large sectors of Indian industry that are inefficient, many sectors are indeed quite efficient - non-electrical machinery, textiles, automobile ancillaries, to name just a few, as detailed studies would show[36]. More importantly it stands to reason that with high duties on most imports, effective protection rates particularly for those with high duties on inputs would be small and often times even negative[37]. Moreover the high cost of basic materials: steel (largely due to the failure of the public sector), non-ferrous metals, certain agricultural inputs, imported and domestically produced chemicals, energy (again due to public sector failure) tend to mask the true conversion efficiency of large sections of the Indian industry, making them appear less efficient that what they are. High excise duties at various stages of manufacture tend to obfuscate the picture even further, so that only careful and detailed studies of EPRs at a fairly high level of disaggregation are

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[36]Cf. World Bank (1984), "Non-Electrical Machinery Subsector-India", Industry Dept., November, mimeo.

[37]Price based calculations of effective protection, as well as tariff based effective protection rates for many industries, particularly for many in the capital goods sector would show that Indian industry is not as heavily protected as what the nominal tariffs alone would indicate. For an early study see R.G. Nambiar (1983),"Protection to Indian Industry: Fact and Theory", Economic and Political Weekly, Jan. 1-8. See also World Bank (1984), and for a recent study of the pervasiveness of nominal tariffs see B. Goldar, A.V.L. Narayana, Haseem N. Saleem (1992), "Structure of Nominal Tariffs in India", National Institute of Public Finance and Policy, New Delhi, Paper No. 3, July, mimeo.

meaningful. It is therefore, hardly surprising that as imports were greatly liberalised due to the movement away from quotas and quantitative restrictions, and to a lowering of tariffs, few industries have suffered to an extent that they had to be closed down, due to import competition. Indeed, the decline in the bias against exports has lead to many of them planning to greatly increase their exports. As the home market grows and Indian firms are able to take advantage of economies of scale, their low cost of labour, particularly skilled labour, their relative competitiveness in most areas of production that use mature or standard technologies can only increase vis-a-vis both other NICs (except perhaps China) and the ACCs. These offer tremendous prospects for OEM and international sub-contracting besides of course, technology imports.

It is OEM arrangements that is potentially of great significance to the Indian economy in the nineties. The gains made by the Indian economy during the phase of 'restrictive-intensive' industrialisation can today be easily encashed into fast industrial growth, without running into a skills constraint, if other constraints underlying the extensification of growth were to be removed. OEM arrangements could greatly help to use large under utilised capacities in engineering and other industries, in both the public and private sectors of the economy. OEM arrangements in assuring the unit in question a steady offtake can reduce management's requirements to market and they can instead concentrate on the repetitive tasks of production, taking advantage of learning by doing, scale economies, and build up quality

consciousness. Today, under increasing competition in passenger aircraft manufacture, firms like McDonell Douglas, and even Boeing the market leader have tied up with plants in Taiwan, China and Japan to supply on contract parts of aircraft with high value addition by skilled labour. India unlike Taiwan or Korea, has large excess capacity in the HAL for instance, waiting for such OEM arrangements. Large sections of the Indian public sector, in heavy and medium and light engineering, machine tools, electronics, power engineering, as well as of the private sector: in machinery and transport equipment, white goods, automobiles, etc., could greatly benefit through OEM arrangements. Successful OEM arrangements would imply continual reductions in cost not possible unless labour is 'disciplined' enough, and wages do not grow faster than productivity, in the organised section of the industry, and to increasing subcontracting between these and the small industry[38] which generally face the unorganised labour market. If a more meaningful relationship between labour and capital could emerge in the nineties, and the policies that have biased against exports are given up, it may be

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[38] This becomes almost a necessary condition, given the vast schism between the two labour markets. Large industry has access to only the organised labour market, with very high (though perhaps still lower than in the advanced NICs) wage rates. The other unorganised labour market is very cheap, labour is docile, and the small industry has access to the same. As yet due to the organisational limitations of the small sector, and the rudimentary development of subcontracting relationships in the economy, the cheapness of Indian labour remains largely unexploited in the world markets. The few exceptions are linked to exports where India has an absolute advantage- polishing of precious and semi-precious stones, granite polishing, mica splitting, prawn peeling and packing.

possible for India to follow the path (in this aspect) successfully traced out by Korea, Taiwan and now China, in OEM, and other international subcontracting arrangements.

The prospect of privatisation and disinvestment from the public sector, as also the policy change in opening up sectors hitherto reserved for the public sector increases the space for FDI and joint-ventures in high technology areas, as also in others like power, power generation, petrochemicals, basic materials like steel, fertilisers, mining and mineral exploration.

The liberalization of the banking and financial sector has been proceeding in fits and starts. The government has sought to push through reform of the public sector banks, but beyond freeing them a bit from RBI's controls, little success in key areas that need much improvement - cost of service, speed of transactions, and overall quality of customer service has been achieved. This has been principally due to opposition from the very strong bank employees unions, who have thus far successfully opposed government plans to disinvest, and to introduce computers and information technology. Government has simultaneously sought to bring about competitive pressure on these banks through liberalization allowing private and foreign banks to operate and increasing somewhat the scope of their operations. Liberal policies towards foreign banks is apparently part of the strategy of reform of the financial sector. These have important implications for transnational banks, particularly US and

Japanese banks and finance companies, whose operations in India are not commensurate with their relative position world wide. But a fuller treatment would have to await further development of the liberalization in this sector.

FDI in the traditional sense of majority ownership could therefore be largely restricted on economic rather than policy grounds to (a) high technology areas and in new products; (b) products of Western culture where the source credibility association are considerable, such as soft drinks, cigarettes, entertainment, toys, fast food etc.; (c) processing of agricultural products for exports where large scale-economies and new practices are called for; (d) what ever little runaway industries in the EPZs that India can attract; (e) in trade and finance related services, in the latter if the policy were to change dramatically to favour TNCs, under international, but particularly US pressure, and in the former if export activity via international subcontracting, OEM production and processing of agricultural products for exports were to greatly increase.

Conclusions

In this paper the implications of the trends and patterns in the phenomenon of foreign direct investments, of the policy and structural changes on in India, for foreign direct investment into India, in the nineties, are discussed. It is argued that while the FDI inflow into India is likely to increase in the nineties, it is contingent on the maintenance of the industrial growth of the

eighties in this decade too. Typically FDI has always followed growth. Inflows anywhere near the Chinese level is quite out of question, except in the remote possibility that India achieves the 'high speed' growth of China. ('High speed' growth as in Thailand or China is hardly possible without the extensification of growth through the economy, a process that requires agriculture itself to grow fast at about 5% or so). FDI into India is more likely to take the form of joint-ventures and other so called 'non-equity' forms. As indigenous businesses have gathered strength over the period of sheltered growth in the eighties, FDI entry into India would rarely be without an active Indian collaborator. FDI has had little role to play in the manufactured exports growth from most of the NICs, and their role in India is likely to be even less significant. Yet other foreign firms (like retail chain stores in the West, the Shogo Shosho of Japan) and transnationals too, have to the great benefit of LDC firms sourced manufactured items from them, who have acted as subcontractors or as OEM suppliers. This is an aspect that has attracted little attention in terms of policy; and given the wide diversification of the economy, the low cost of manpower, availability of a wide variety of skills, and large excess capacities, is vitally important for Indian manufacturing. In can crucially provide the scale of output to segments of Indian manufacturing which are most competitive, even if at low margins, so that a significant contribution to the extensifcation of growth is made. The initiative here really lies with Indian firms (including those in the public sector) and in suitable policy, to not only

provide a positive bias towards exports but also to encourage such tie ups and relationships with foreign firms. The bargaining strength of Indian firms either as joint venture partners, or as technology importers is crucially linked with the growth of the home market, and the overall policy towards foreign capital, besides of course firm and industry related factors. The success in the use of TRIMS is contingent upon good growth prospects in the home market.

In the nineties we are likely to move into an era where the economy and more so the growth therein, rather than the immediate policy towards FDI, is likely to determine both the quantum and form of FDI and related activites.

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