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# Role Of Multi National Companies In India

Economics
KEYWORDS :

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## ABSTRACT

Multinational corporations sell technology - both for production and for consumption - on highly imperfect international markets to less developed countries .

The buyers must concern themselves both with appropriateness and with price. Despite some experience to the contrary, multinational firms may increasingly be prepared to sell more labor-intensive technologies and more essential-intensive products.

Political influences upon the governments of less developed countries make it likely that the role of multinational corporations in the future sale of more appropriate technologies will be concentrated in manufacturing for export. This is what the multinational companies play an important role in developing countries like India.

**Introduction :**
The MNCs play an important role in the economic development of underdeveloped countries. What are multinational companies? These are enterprises or organizations with services spread across more than one country on a global scale. India is a home to a number of multinational companies since the country's market was liberalized in 1991. India houses majority of multinational companies hailing from the United States. There are also multinational companies from other countries. The multinational companies from the United States account to 37% of turnover of first 20 firms that operate in India; the others come from European Union and their Asia counterparts.

Multi National Corporations (MNCs) are huge industrial organizations which extend their industrial and marketing operations through a network of their branches or their majority owned Foreign Affiliates (MOFAs). MNCs are also known as Transactional corporations (TNCs). Instead of aiming for maximization of their profits from one or two products, the MNCs operate in a number of fields and from this point of view, their business strategy extends over a number of products and over a number of countries.

(i) MNCs are playing a major role in the globalisation process.
(ii) More and more goods and services, investments and technology are moving between countries.
(iii) Most regions of the world are in closer contact with each other than a few decades back.

As the new Leviathans of our time,

multinational corporations are:

[P]ractically in every sphere of modern life, from policy making in regard to the environment and international security; from problems of identity and community; and from the future of work to the future of the nation state.
Gabel and Bruner (2003

**Arguments for MNCs (The positive role):**
The MNCs play an important role in the economic development of underdeveloped countries.

**1. Filling Savings Gap:**
The first important contribution of MNCs is its role in filling the resource gap between targeted or desired investment and domestically mobilized savings. For example, to achieve a 7% growth rate of national output if the required rate of saving is 21% but if the savings that can be domestically mobilised is only 16% then there is a 'saving gap' of 5%. If the country can fill this gap with foreign direct investments from the MNCs, it will be in a better position to achieve its target rate of economic growth.

**2. Filling Trade Gap:**
The second contribution relates to filling the foreign exchange or trade gap. An inflow of foreign capital can reduce or even remove the deficit in the balance of payments if the MNCs can generate a net positive flow of export earnings.

**3. Filling Revenue Gap:**
The third important role of MNCs is filling the gap between targeted governmental tax revenues and locally raised taxes. By taxing MNC profits, LDC governments are able to mobilize public financial resources for development projects.

**4. Filling Management/Technological Gap:**
Fourthly, Multinationals not only provide financial resources but they also supply a "package" of needed resources including management experience, entrepreneurial abilities, and technological skills. These can be transferred to their local counterparts by means of training programs and the process of 'learning by doing'.

Moreover, MNCs bring with them the most sophisticated technological knowledge about production processes while transferring modern machinery and equipment to capital poor LDCs. Such transfers of knowledge, skills, and technology are assumed to be both desirable and productive for the recipient country.

**5. Other Beneficial Roles :**
The MNCs also bring several other benefits to the host country.

(a) The domestic labour may benefit in the form of higher real wages.
(b) The consumers benefits by way of lower prices and better quality products.
(c) Investments by MNCs will also induce more domestic investment. For example, ancillary units can be set up to 'feed' the main industries of the MNCs
(d) MNCs expenditures on research and development(R&D), although limited is bound to benefit the host country.

Apart from these there are indirect gains through the realization of external economies.

**Arguments Against MNCs (The negative role):**
There are several arguments against MNCs which are discuss below.

1. Although MNCs provide capital, they may lower domestic savings and investment rates by stifling competition through exclusive production agreements with the host governments. MNCs often fail to reinvest much of their profits and also they may inhibit the expansion of indigenous firms.
2. Although the initial impact of MNC investment is to im-

prove the foreign exchange position of the recipient nation, its long-run impact may reduce foreign exchange earnings on both current and capital accounts. The current account may deteriorate as a result of substantial importation of intermediate and capital goods while the capital account may worsen because of the overseas repatriation of profits, interest, royalties, etc.

3. While MNCs do contribute to public revenue in the form of corporate taxes, their contribution is considerably less than it should be as a result of liberal tax concessions, excessive investment allowances, subsidies and tariff protection provided by the host government.
4. The management, entrepreneurial skills, technology, and overseas contacts provided by the MNCs may have little impact on developing local skills and resources. In fact, the development of these local skills may be inhibited by the MNCs by stifling the growth of indigenous entrepreneurship as a result of the MNCs dominance of local markets.
5. MNCs' impact on development is very uneven. In many situations MNCs activities reinforce dualistic economic structures and widens income inequalities. They tend to promote the interests of some few modern-sector workers only. They also divert resources away from the production of consumer goods by producing luxurious goods demanded by the local elites.
6. MNCs typically produce inappropriate products and stimulate inappropriate consumption patterns through advertising and their monopolistic market power. Production is done with capital-intensive technique which is not useful for labour surplus economies. This would aggravate the unemployment problem in the host country.
7. The behaviour pattern of MNCs reveals that they do not engage in R & D activities in underdeveloped countries. However, these LDCs have to bear the bulk of their costs.
8. MNCs often use their economic power to influence government policies in directions unfavourable to development. The host government has to provide them special economic and political concessions in the form of excessive protection, lower tax, subsidized inputs, cheap provision of factory sites. As a result, the private profits of MNCs may exceed social benefits.
9. Multinationals may damage the host countries by suppressing domestic entrepreneurship through their superior knowledge, worldwide contacts, and advertising skills. They drive out local competitors and inhibit the emergence of small-scale enterprises.

There are now 40,000 TNCs whose tentacles straddle the international economy through some 2,50,000 overseas affiliates. They possess staggering resources as would be clear from the fact that the sales of 200 top corporations in 1982 were equivalent of 24.2 per cent of the world's GDP and had risen to 28.3 per cent of the world's GDP in 1998.

This shows that 200 top MNCs control over a quarter of the world's economic activity. In fact, the combined sales of these 200 MNCs estimated at $ 7.1 trillion in 1998 surpassed the combined economies of 182 countries. If we subtract the GDP of the big nine economies ---the United States of America, Japan, Germany, France, Italy, the United Kingdom, Brazil, Canada and China ---from the world's GDP, the GDP of the remaining 182 countries of the world stood at $ 6.9 trillion in 1998 which was less than the sales of the 200 top MNCs.

An idea of the giant size of these MNCs can also be had from the revelation made in a study conducted by the Washington based Institute of Policy Studies (IPS) that of the 100 largest economies in the world, 51 are corporations; only 49 are countries.

The above data show the massive control exercised by the MNCs on the world economy. In fact, because of their huge capital resources, latest technology and worldwide goodwill, MNCs are in position to sell whatever product they choose to manufacture in different countries. The fact is that people in underdeveloped countries are 'crazy' for the products of these corporations and prefer their products to the products produced indigenously.

**Reasons for the growth of MNCs :**
Reasons for the growth of multi nationals are manifold, the important ones being as follows :

1) Expansion of market territory.
2) As the operations of a large size firm expand and as its international image builds up, it seeks more and more extension of its activities beyond the physical boundaries of the country in which it is incorporated.
3) Marketing superiorities: A multinational firm enjoys a number of marketing superiorities over the national firms:

A) It possesses a more reliable and up to date market information system.
B) It enjoys market reputation and faces less difficulty in selling in production.
C) It adopts more effective advertising and sales promotion technique use and .
D) It has efficient warehousing facilities due to lower inventory requirements.

4) Financial superiorities: A multinational firm enjoys the following financial superiorities over the national firm :

A) It has huge financial resources with which it can easily turn on circumstances in its favour.
B) It maintains a high level of funds utilization by generating funds in one country and using them in another.
C) It has easier access to external capital markets.
D) because of its international reputation it is able to rise more international resources even investors and banks of the host country are eager to invest in it.

**Technological superiorities:**
The main reason why MNCs have been encouraged by the underdeveloped countries to participate in their industrial development is on account of the technological superiorities which these firms possess as compared to national companies. The under developed countries regard transfer of technology from MNCs useful on account of the following reason: 1) Industrialization represents the most important way out of under development and the resources of these countries are insufficient to sustain the industrial progress on their own; 2) Local manpower, materials, Local capital equipment etc have to be optimally exploited and these countries are unable to accomplish these; 3) Depending totally on local companies would required heavy imports of raw materials, capital equipment, machinery and technical knowledge whereas MNCs bring these on their own; and 4) The underdeveloped countries have to face stiff competition for selling their products in international markets. Unless their goods meet international standards and quality specifications, they cannot sell. MNCs help them in producing such goods.

**Product Innovations :**
MNCs have Research and Development Departments engaged in the task of developing new products and superior designs of existing products. Therefore their production opportunities are far greater as compared to national companies.

**"A Critical Appraisal Of MNC Operations On Indian Economy"**
The operations of MNCs open up the possibilities of interference in the industrial (and other) activities of the recipient country and are thus resented by the 'nationalist' thinkers. Their arguments against the operations of MNCs can be summed up as follows:

- Payment of dividends and royalty: A large sum of money follows out of the country in terms of payments of dividends, profits, royalties, technical fees and interest to the foreign investors.
- Distortion of economic structure : MNCs can inflict heavy damage on the host countries in various forms (such as suppression of domestic entrepreneurship extension of oligopolistic practices such as unnecessary product differentiation, heavy advertising or excessive profit taking ) supplying the economy with unsuitable technology and unsuitable products, worsening of income distribution by distorting

the production structure of need the requirements of high-income elites, etc.

- Political Interference: Because of their immense financial and technical power, the MNCs have gained the necessary strength to influence the decision making processes in underdeveloped countries. Though they do help in transferring technology to underdeveloped countries, it has been often found that models and patterns to industrial development and technologies transfer are not in harmony with the interests of the host countries. The governments of underdeveloped countries have also felt threatened by the direct and indirect interference of MNCs in their internal affairs. The autonomy and sovereignty of the host countries is in danger. Because of these reasons, the governments of various countries have sought to restrict the activities of MNCs in their economies through a battery of administrative controls and legal provisions.

Technology Transfer not necessarily conducive to development : As far as transfer to technology to underdeveloped countries in concerned, the behaviour pattern of MNCs reveals that they do not engage in R & D activities within the underdeveloped countries. Their R & D efforts are concentrated in laboratories in the home country or in other industrialised countries. Though R & D activities continue to be centralised in the parent country, the host countries have to bear the bulk of their costs since the affiliates of the MNCs in these countries remit payments on this account generally in relation to their sales volume. Such payments by the affiliates are generally over and above those remitted in the form of royalties and technical fees to the present firm. The satisfaction expressed on technology transfer is partly misconceived also on account of the fact that MNCs which generally command a semi-monopolistic position in their product lines do not transfer their first line or the most advanced technology until foreign firms compel to do so. In many cases, the technology transferred is of a capital-intensive nature which is not useful from the point of view of a labour surplus economy.

There is no distinction between an MNCs & a domestic company in India policy regarding MNCs is the same as for Foreign Private Capital in indie. Large & dominant MNCs along with Indian Companies are covered under MRTP Act. MNCs are specifically covered under Foreign Exchange Management Act (FEMA). Now, we study the operation of MNCs in India:

1.) Profit Maximisation.
2.) International Network of marketing.
3.) Diversification Policy.
4.) Concentration in Consumer goods.
5.) Location of central control offices.
6.) Techniques to achieve Public Acceptability.
7.) Existence of Modern & Sophisticated Technology.
8.) Business but not social Justice.
9.) MNCs & Process of planned Economic Development in India.
10.) Cultural Explosion.

**Control Over Multinational Corporations :**
Theresponsibilityof controlling the activities of multinational corporation in India rests on different government agencies. These agencies are :

1) the ministryof Company Affairs,
2) the reserve Bank of India ,
3) the ministry of Industrial Development, and
4) the Ministry of finance. However, these agencies do not work in close cooperation with each other.

**CONCLUSION -**
As a result, there is no coordination in their functioning. Each case is discussed on its own merits by the authorities. There are no objectives criteria for approving applications and the procedure resorted to by the various ministries is lengthy and cumbersome.

As a result of a study by Michael Kidron entitled Foreign Investment in India published in 1965 (and the follow –up discussion in which many economist participated) and the appearance of the Industrial Licensing policy Inquiry Committee Report in 1968, the belief got strengthened that imports of foreign technology were overpriced and were designed to perpetrate dependence. As a consequence, the government policy was progressively tightened in the following

1) some industries were not allowed to import technology at all, the underlying principles of the policy being that

a) no 'inessential' article should be produced with fresh imports of technology (this gave the exiting domestic and foreign producers automatic protection against fresh imports of technology)and

b) where domestic capacity was 'adequate' no technology should be imported;

2)Among industries where technology imports were allowed , the maximum rate of royalty was laid down;

3)Insomedesigned industries, foreign investment was allowed in principle, but sanction in individual cases was a matter of administrative decision;

4) The normal permissible period of agreements was reduced from ten years to five, and renewals were generally frowned upon;

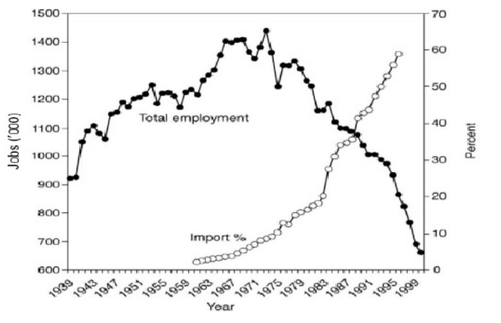
5)Exports and other marketing restriction were generally not allowed , and often an obligation to export a certain proportion of the output was insisted upon;

6) A clause was often inserted in the agreements granting permission to the importer to sub-license the technology;

7) The CSIR was allowed to look at applications for approval of technology imports , and if it expressed willingness to supply the technology, approval was withheld or at least delayed.

The most effective curb on the activities of foreign companies , especially MNCs, was supposed to come with the passing of the Foreign Exchange Regulation Act (FERA) in 1973 to which we now turn.

The topic of economic development has never been easy. The labour standards issueis particularly divergent, conflicting, and contradictory between theory and reality. It is notthe target of this essay to provide any policy suggestions since enough has already beendone (see Singh and Zammit 2003, Elliote and Freeman 2003, ILO 1998, 2000). Rather,



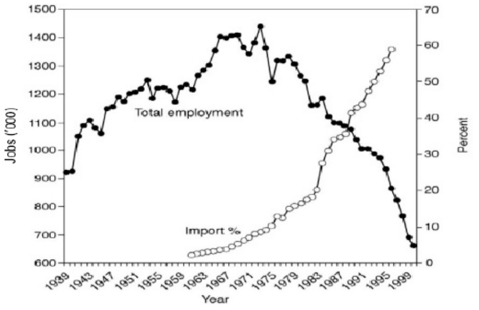



**Table 2: Twenty principal world employers in apparel, 1998**

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