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Role of Multinational Corporations in Integrated Global Industries and their Impact on Indian Economy

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ABSTRACT

A Multinational Corporation (MNCs) is "an enterprise that engages in foreign direct investment and owns or controls value adding activities in more than one country" (Dunning 1993, 3). MNCs are the significant element on which countries economical and financial result depends. Legal framework for Indian MNCs and its growth directly impact on GDP and other economic factors of country. Indian MNCs get boost up from the international finance and from FDI which creates India in a dominating position due to largest market sector in a globe. The article highlights on trend of growth of foreign and Indian MNCs, the impact of increasing global industries, strategies to cope with the competition of the business world.

***Keywords**: Buisness Network ,Emerging Multinational Corporations (MNCs), Global Industries, Growth, business, Indian economy.*

I. INTRODUCTION

MNC (Multinational Corporation) or Transnational Company can be interpreted as a company, which promote in number of countries and has product and service installations outside the country of its origin Their conditioning have both good and bad impacts on the economy. They take decisions on a global environment. Their maximum profit object take no account of the responses produced in the countries felling in their route. Earlier in 1991 Transnational companies did not play important part in the Indian economy. During the pre-reform period the Indian economy was exercised control by public enterprises. To prevent concentration of economic power industrial policy 1956 did not allow the private enterprises to grow in size beyond a point. By description transnational companies were relatively big and operate in several countries.[3] While transnational companies played a significant role in the creation of growth and trade in South- East Asian countries they did not play important role in the Indian economy where import- negotiation development strategy was followed. Since 1991 with the

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[3] Gupta, K. R. (2008). Liberalization *and Globalization of the Indian Economy,* (3rd Ed.) Atlantic.

relinquishment of industrial policy of liberalization and privatization role of private foreign capital has been honored as important for rapid growth of the Indian economy. Industrial Policy of 1991 accepted foreign investment, essential for modernization technology up gradation and industrial development. Several concessions were given FERA (Foreign Exchange Regulation Act) regulations were liberalized and permitted to use their trademarks in the domestic market. Now it has become a wide spread marvels with USA the biggest among them.

This Project is an attempt to do an in depth study on Multinational Corporations in India and its impact on Indian Economy. It will examine the Historical background of Multinational Corporations in India and also about the top MNC operating in India. Further this paper will go on to assess major impact of MNC in India and will also highlight about the major criticism of MNC in India.

II. Multinational corporations in India

(A) Background of MNC

Transnational Companies operate in several countries with their headquarters at a particular country. Transnational corporations are those large enterprises which are incorporated in one country but which own, control or manage production and distribution facilities in several countries. They carry out business in a large number of countries and often operate in diversified business conditioning. Transnational company carry out an principal role in connecting rich and poor economies and in transferring capital, knowledge, ideas and value systems across borders of different countries. Their interaction with institutions, associations and individuals generates both positive and negative spillovers for various groups of stakeholders in both the home and host countries.

Multinational Companies as recently have gain more instigations in terms of investment and playing a greater role in countries development, it succeeded in having more attention and more focus. The first Transnational Companies were setup in 1920’s. Many more came up in the 1950s and 1960’s as U.S business expanded worldwide and Western Europe and Japan also recovered to become powerful industrial economies. The world wide spread of MNCs was notable feature of 1950’s and 1960’s. This was partly because high import tariffs imposed by different government forced MNCs to locate their manufacturing operations and become ‘domestic producer’ in as many countries as possible. Multinational corporations are generally operated in the less developed or developing countries with their head office in the foreign developed countries. They are engaged in important role in the economies of those countries where they are operating. As the two sides of a coin, functioning of transnational enterprise has

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both the advantages as well as drawbacks to such countries.

(B) Modes of foreign investment by MNCs

The various modes of foreign investment. They are:

1. **Agreement with Local Firms for Sale of MNCs Products:**

   A MNC enterprise can engage into an agreement with local firms for exporting the product produced by it in the home country to them for sale in their countries. In this case, a MNC firm allows the foreign firms to sell its product in the foreign markets and control all aspects of sale operations.

2. **Setting up of Subsidiaries:**

   Here a Transnational firm has complete control over its business operations ranging from the production of its product or service to its sale to the ultimate use or consumers. A subsidiary of a transnational enterprises in a particular country is set up under the company act of that country and benefits from the managerial skills, financial resources, and international reputation of their parent company but also enjoys some independence from the parent company.

3. **Branches of Multinational Corporations:**

   Instead of establishing its subsidiaries, Multinational Corporations can setup their branches in other countries. Having branches they are not legally independent business unit but are linked with their parent company.

4. **Foreign Collaborations or Joint Ventures:**

   Lastly, the multinational corporations set up joint ventures with foreign firms to either produce its product jointly with local companies of foreign countries for sale of the product in the foreign markets. A transnational firm may establish its business operation in collaboration with foreign local firms to obtain raw materials not available in the home country. Sometimes to reduce overall production costs transnational firms arrange joint ventures with local foreign firms to manufacture inputs or subcomponents in foreign markets to produce the final product in the home country.

(C) India-an attractive destination for MNC

On numerous grounds the multinational companies are coming down to India. India has got a huge market and also one of the speedy growing economies in the world. Apart from the policy of the government towards FDI has also played a major role in alluring the multinational companies in India. For ages, India had a restrictive policy in terms of foreign direct investment. Consequently, there was lesser number of companies that showed interest in investment. As a result, there were a lesser number of enterprises that showed interest in investing in Indian

Market. But the scenario changed during the financial liberalization of the country, especially after 1991. Government, nowadays, makes constant efforts to attract foreign investment by relaxing many of its policies. Subsequently a number of multinational companies have shown interest in Indian market. 'Make in India' campaign of India's Prime Minister Narendra Modi is an opportunity for all the MNCs all over the world to establish their businesses in India.[4]

(D) **Top MNC operating in India**

There are many top Multinational Corporations operating in India. The names of some of the most well-known international corporations with active branches and headquarters located in India are as follows:

- **IBM:** Since 1992, the company has operated out of this nation under the name IBM India Private Limited. This multinational corporation is well-known for creating and integrating hardware, software, and services that support progressive organizations, businesses, and individuals in creating a smarter world. With cutting-edge technology and solutions, this organization is consistently growing throughout India. This company, which is present in more than 200 locations, is constantly developing in international markets in order to hold onto its top spot.
- **Microsoft:** One of the biggest software companies in the world, Microsoft Corporation, is based in the United States. Its subsidiary, Microsoft Corporation India Private Limited, is situated in New Delhi. Starting its operation in the country from 1990, this company has got the following business units: Microsoft Corporations India (Pvt.) Limited (Marketing Division),Microsoft Global Services India, Microsoft Global Technical Support Centre, Microsoft India Development Centre,Microsft IT, Microsoft Research India. Working in close associations with all the stakeholders including the Government of India, the company is committed towards the development of the Indian software as well as IT industry.
- **PepsiCo**: Under the moniker PepsiCo India, PepsiCo Inc. made its debut in the Indian market in 1989. In just 20 years, this company has grown to become one of the biggest

[4] Bakan, Sumru, & Yildirimci, Elif. (2015). A Growth Story: Globalization, Multinational Companies and India. *Journal of Economics and Development Studies*, 2015(3), 2334-2382. http://dx.doi.org/10.15640/jeds.v3n3a13

and fastest-growing producers of food and beverages. This food manufacturer hopes to increase the variety of their tasty and healthful products by threefold by 2020. It is thought that the corporation is gaining a competitive edge in the global packaged nutrition market because to the expansion of their Good-For-You portfolio.

- **Vodafone:** Earlier known as Vodafone Essar and Hutchison Essar, now Vodafone Group Plc. is an international telecommunication company, and its headquarter is based in London,United Kingdom. Vodafone India is among the largest operators of mobile networking in the country. The parent company Hutchison started its business in the year 1992 along with the Max Group, which was its business partner in India. Much later in 2011, Vodafone Group Plc. decided to purchase mobile operating business of Essar Group, its partner.
- **Tata Motors Limited:** The biggest automobile company in India, Tata Motors Limited, is the prime commercial vehicles manufacturer in the country and one of the top 3 passenger vehicle manufacturers. Established in the year 1945, this company, a part of the famous Tata Group, has got its manufacturing units located in different parts of the nation.
- **ITC:** An Indian Multinational Corporations company headquartered in Kolkata, West Bengal, established in the year 1910 as the "Imperial Tobacco Company Of India Limited". It was later renamed as the 'India Tobacco Company Limited' in 1970 and later to 'I.T.C Limited' in 1974. ITC has diversified itself in FMCG, Hotels, paperboards and speciality papers, packaging, agri-business and information Technology.
- **Mahindra and Mahindra Ltd:** It was established in 1945, an Indian Multinational car manufacturing corporations was firstly named as Muhammad & Mahindra and later it was renamed as Mahindra & Mahindra with its headquarter in Mumbai, Maharashtra. It became largest manufacturing vehicle industry in India and renamed as Mahindra and Mahindra. It became largest manufacturing vehicle industry in India and largest tractor manufacturing in world... The automotive company includes the sales of automobiles, spare parts, services rendered for IT and telecom.

(E) History of multinational corporations in India

The existence of Transnational firms in India is not a recent phenomenon and can be traced back to early 1600s whereby the Britishers came to dominate the Indian scene through their MNC known as East India Company in the colonial era. Though lack of availability of complete and authentic data makes its intricate to draw a complete history of MNCs in India, yet, it can be logically divided into two parts i.e. pre- independence and post-independence phase:[5]

a. Policy of India towards Multinational Corporations during Pre-Independence Phase

During the period ranging from 1900s-1918 (called as the first phase of FDI history of India), no restrictions on the nature as well as type of FDI were found to exist. Majority of these investments were exploitative in nature concentrated in the sectors such as mining and extractive to suit the general British economic interest. The period from 1919-1947 (second phase of FDI in pre-independence period) brought actual FDI in India as introduction of import duties 'stimulated' various British companies to invest in the manufacturing sector to protect their businesses in India. In addition, some Japanese companies also enhanced their trade share with India.

b. Policy of India towards Multinational Corporations since Post Independence Era

In post-independence era, the Indian policy framework concerning MNCs and FDI can be divided into four phases. The first phase (1948–1966) called as the period of "cautious welcome policy" which favored liberal entry of foreign capital through technical collaborations, simple licensing procedures and lucrative tax concessions. The second phase (1967-1979) called as "The Period of "Selective and Restrictive Policy" followed a liberal attitude towards foreign capital and a new institution called as Foreign Investment Board was set up to deal with the entry of FDI in India. However, in 1973, activities of these MNCs and large industrial houses were sought to be restricted through Foreign Exchange Regulation Act, 1973 (FERA). In order to resolve critical situation created by second oil crisis and failure of India to give a boost to its manufactured exports, the overall policy framework for FDI during eighties (especially in 1984-85) became more liberal. This phase is (1989-1990) called as the period of partial liberalization.

In early nineties, the balance of payments problem became quite severe. At the same time a rapid increase in India's external debt and rising political uncertainty made international credit rating agencies to lower both short and long term borrowing rating of India. This resulted into tough borrowing position in international commercial markets and outflow of foreign currency deposits by NRI from India. Further, Gulf war made this situation rather worse through rise in

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[5] Gupta, K. R. (2008). Liberalization *and Globalization of the Indian Economy,* (3rd Ed.) Atlantic.

petroleum prices which resulted in introduction of fourth phase (1991-2001) of FDI policy called as the period of "Liberalization and Open Door Policy". To captivate FDI, a Foreign Investment Promotion Board (FIPB) was authorized to provide a single window clearance system in order to call and facilitate MNC investment in India. Foreign MNCs were allowed to enter new industries including mining, banking, telecommunications, highways construction and management.

(F) Need for MNC in India

In economically developing countries like India domestic savings are not enough to ensure economic development. In such a case some external helps are required in the form of "foreign aid". If we dwell into the pages of history relating to economic development, we find that every country had to rely on foreign aid for speeding up the economic growth. In the words of W.A. Lewis, "Nearly every developed state has had the assistance of foreign finance to supplement its own meager savings during the early stages of its development. England borrowed from Holland in the seventeenth and eighteenth centuries and in turn came to lend to almost every other country in the world in the nineteenth and twentieth Century's. The United States of America, now a rich country in the world borrowed heavily in the nineteenth century and is in turn called upon to become the major lender of the twentieth" not only do developing countries require foreign investment for economic growth, but even Europe's most prosperous nation have to turn to outside assistance.[6]

Provided that whether underdeveloped countries wants to develop themselves, it will have to import capital goods, technical know-how, spare parts and raw materials. One approach of attributing for such imports is through the stepping up of exports. The exports can be enlarged either by producing more or curtailing domestic consumption drastically. However the production capability of developing nations is restricted, making significant increase in export unfeasible. Reduction of consumption, involves a lot of sacrifice and it cannot be adopted with much success in democratic countries. Thus foreign support is the form which became important for speeding up the economic growth of a country. Transnational firms have larger annual sales volumes than the entire GNPs of developing nations in which they operate. By 1980 the 20 largest MNCs had annual sales volume excess of $10 billion, while more than 200 others had sales in excess of $1 billion. The largest U.S. transnational (MNCs) like Exxon and General Motors, each sold over $60 billion in 1980; while Mobile, Texaco and Ford each had

[6] Shikhare, G. S, (2015). Growth of global corporations and its impact on Indian economy. *The Business & Management Review*, 5(4).

annual sales in excess of $30 billion.It is prerequisite to specify that foreign direct investment by transnational enterprise involves much more than just transfer of capital as it brings with them technologies of production, managerial services and other business practices.

(G)Impact of MNC in India

The MNCs played an important role in the economic development of developing countries. Multinational companies are enterprises or organizations with services spread across more than one country on a global scale. Since the Indian market was opened up to foreign companies in 1991, it has become hub for Multinational Corporation. India is a home to majority of multinational companies which are from the United States. There are also multinational companies from other countries. MNCs are playing a major role in the globalization process and more and more goods and services, investments and technology are moving between countries, most regions of the world are in closer contact with each India than a few decades back.

a. Investment

In recent years, foreign aid to developing countries has declined. The reason is that developed countries acting as donors did not want to give a larger share of their GDP as support developing countries. MNCs can bridge the gap between foreign capital needs to increase foreign investment in India. The foreign investment policies pursued since 1991, have allowed MNCs to make investment in India subject to different ceilings fixed for different industries or projects. But a 100 per cent export-oriented units (EOUs) can be set up in industries It may be noted, like domestic investment, foreign investment has also a multiplier effect on income and employment in a country.[5] For example, the effect of Suzuki firm's investment in MarutiUdyog manufacturing cars is not confined to income and employment for the workers and employees of MarutiUdyog but goes beyond that. Many employees work in dealerships who sell Maruti cars. Also Indian suppliers supply many intermediate goods products to Maruti Udyog and for that they provide many workers to produce various parts and components used in Maruti cars. Their incomes also increase by a Japanese multinational in MarutiUdyog Limited in India.

b. Technology Transfer

Another important role of multinational corporations is that they transfer advanced technology to developing countries which are important for increasing productivity of working class and helps to start new productive ventures requiring high technology. Whenever, transnational companies establishes their subsidiary production units or jointventure units, they not only import new equipment and machinery embodying new technology but also skills and technical know-how to use the new equipment and machinery. Correspondingly the Indian workers and engineers come to know of new advanced technology and the way to handle it. In India, the corporate sector spends a very small fraction of its resources on Research and Development (R&D). It is the big MNCs which can spend resources on the development of new technologies which in turn benefits the developing countries by transferring the new technology developed by them..

c. **Investment in infrastructure**

With a high authority or control over financial resources and their superior potential to elevate resources both globally and inside India it is seen that transnational corporations also invest in projects such as power projects, modernization of airport, telecommunication. The investment in infrastructure gives a boost to industrial growth and helps in creating income and employment in the India economy. The external economies originated by investment in infrastructure by transnational companies would in turn crowd in investment by the indigenous private sector and will simultaneously stimulate higher economic growth.

d. **Non-debt creating capital inflows**

Before reform period in India when foreign direct investment by transnational corporations was discouraged, we were heavily dependent on external commercial borrowing (ECB) which was of debt-creating capital inflows. It increased the burden of external debt and debt service payments reached the alarming figure of 35 per cent of our current account receipts. It generated doubts about our potentiality to achieve our debt obligations and there was a flight of capital from India and this resulted in balance of payments crisis in 1991. As direct foreign investment by transnational corporations represents non-debt creating capital inflows we can circumvent the liability of debt-servicing payments. Moreover, the advantage of investment of MNCs lies in the fact that servicing of no debt capital begins only when the MNC firm reaches the stage of making profits to repatriate. In this way transnational firms can function in reducing stress strains and on India’s balance of payments (BOP).

e. **Promotion of exports**

To have extensive large scale links all over the world and creating products efficiently and therefore with lower costs transnational’s can play a important part in promoting exports of a country in which they invest. For example, the swift extension in China’s exports in recent years is due to the huge investment made by transnational’s firms in various areas of Chinese industry. In recent years, Japanese automobile company Suzuki made a huge funding in Maruti

Udyog with a joint collaboration with Government of India. Maruti cars are not only being sold in the Indian domestic market but are exported in a huge figure to the foreign countries. Samsung, LG, Honda have all supported to better technologies coming into India.

(H) Criticism of MNC in India

In recent years foreign direct investment through multinational corporations in India and other developing countries has increased significantly. In the increasingly liberalized economic environment multinational corporations which are in search for global profits are induced to make investment in developing countries. As stated above, foreign direct investment by transnational firms bring many gain to the recipient countries but there exist many potential dangers and disadvantages from the perspective of economic growth and employment generation. Consequently, role of transnational companies in India and other developing countries has its negative side as well. Some of the criticisms leveled against multinational corporations are as follows:

1. **Capturing Markets**

The biggest risk of having MNCs in developing countries is that the MNCs with their large resource and competitive strength tend to eliminate competition from domestically produced goods and thus capture the market. This is especially done by lowering prices to such an extent that the local firms with limited resources are not able to sustain the heavy losses and succumb to it. When these firms are eliminated then the MNCs slowly raise their prices again and thus succeed in capturing markets.[7]

2. **Use of Capital-intensive Techniques**

It has been observed that rising capital intensity in modern manufacturing sector is accountable for steady growth of employment opportunities in India's industrial sector. The capital-intensive method may be imported by large domestic firms but currently they are being increasingly used by transnational corporations which bring their technology when they invest in India.

3. **Encouragement to Inessential Consumption**

The investment by transnational firms leads to overall increase in investment in India but it is alleged that they stimulate noticeable consumption in the economy. These firms focus on the wants of the already well-to-do- people. For example, in India very expensive cars (such as

[7] Shikhare, G. S, (2015). Growth of global corporations and its impact on Indian economy. *The Business & Management Review*, 5(4).

Honda city, Hyundai Accent, Mercedes, Audi, BMW etc) the air conditioners, costly laptops, washing machines, expensive fridges, 29″ and Plasma TVs are being produced/sold by multinational companies. Such products are quite unsuitable for a developing country like India. Apart from this, their consumption has a substation effect on the consumption of others. This prone to raise the tendency to consume and adversely affects the increase in savings of the country.

4. **Import of Obsolete Technology**

The multinational companies import obsolete machines and technology where some of the imported technologies are inappropriate to the conditions of Indian economy. It is purported that India has been made a dumping ground for obsolete technology. Moreover, the multinational corporations do not undertake Research and Development (R&D) in India to promote local technologies suited to the Indian factor- endowment conditions. Instead, they concentrate R&D activity at their headquarters.

5. **Setting up Environment-Polluting Industries**

The investment by transnational corporations in developing countries such as India is usually made for apprehending domestic markets rather than for export promotion. Furthermore in order to evade strict environment control measures in their home countries, they constructed polluting industrial units in India. Say for example a highly polluting chemical plant was constructed in Bhopal which resulted in gas tragedy when thousands of people were either killed or they became handicapped due to severe ailments. With the secure tightening of environmental measures in such countries, there is a propensity among the transnational companies to locate the polluting industries in the poor countries, where environmental legislation is non-existent or is not properly implemented, as explained in the Bhopal gas tragedy.

III. Conclusion

Globalization has been triggered by countries to reach their potential by using different methods than they had used in the past. Multinational corporations can be counted one of the strongest. In this analyzing study, it is tried to put forward the importance of multinational corporations and their impact on Indian economy. India have showed a great growth and developing process in relation with embracing multinational corporations within their borders. Foreign direct investments are giving edge to developing countries to have capital stock in their markets. When we reflect an overall image of the transnational firms, the beneficial role is much limited in the basic stages of development; they are beneficent in area of needed technology and global

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marketing. They pay heed only to the need of upper middle and affluent classes. Another danger to Indian economy is the manipulation on the capital market to meet requirement of their goals. They are expanding the shareholding in Indian companies who are swallowing them. They transfer attractive and profitable business to these newly started subsidiaries so a large number of Indian shareholders get cheated. Economic and technological development does not mean that we should ignore our environmental, social cultural and existential responsibilities. Every country should adopt sustainable development for the wellbeing of its future generation. In this context, civil society has to play an important role in between misguided government policies and individual liberty.

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