A Study on the Role Played by MNC'S in the Development of Indian Economy

Dr. Aanchal Tehlan[1]

Abstract

After the New Industrial arrangement 1991, globalization, progression and privatization changed the Indian economy. Numerous Multinational Companies began coming in India and soon India transformed into business process re-evaluating centre point. The corporate culture of these MNCs impacted the functioning society of Indians. The business sectors are being overwhelmed with a great deal of brands from old and new brands from inside the nation and multinationals who have wandered into India because of globalization of Indian economy. This has brought about a battle among contenders for endurance and development and furthermore drove them to offer some incentive to their item for consumer loyalty's through quality and administration. The new monetary change, famously known as, Liberalization, Privatization and Globalization (LPG model) . Inviting and making ways for MNCs to work in India will overhaul the monetary headway of the country. Hon. PM Shri Narendra Modi's drives for 'Make in India' and 'Ability India' campaigns, inviting Global Companies to place assets into India similarly as attempts to unravel the Foreign Direct Investments rules will obviously make India a most adored goal of MNCs. In this paper, an endeavor has been made to comprehend the impact of MNCs the Indian economy and culture on the functioning style.

Keywords*:* Globalization, MNCs, Make in India, Indian economy

Introduction

The MNCs expect a huge part in the money related headway of making countries. These are adventures or relationship with organizations spread across more than one country on an overall scale. India is a home to different worldwide associations since the country's market was changed in 1991. India houses predominant piece of overall associations hailing from the United States. There are similarly overall associations from various countries. MNCs sway the Indian economy in a positive way yet also expect a negative capacity in influencing the economy. Regardless of the way that MNCs give capital, they might cut down domestic hold assets and theory rates by covering contention through select creation concurrences with the host legislatures. The domestic market is increasing because of the increasing of standard of living. The multinationals are trying their best to bring in more modernize product at a higher price in the Indian consumer market. The Indian consumer is very price conscious yet is willing to pay for quality products and comfort. Impact of the entry of multinational companies in the Indian Market and economic growth of India is a topic of great importance, as the entry of Multinational in India will have a great effect on the Indian producers as they have to make efforts to exist in this competitive environment. To overcome this competition Indian producers will have to have greater innovation and creativity so that the products can match those made by the multinationals. Many countries are opening their borders and reducing trade barriers. Multinational corporations are taking advantage of these inexpensive trade barriers and moving in to these developing economies. Although MNCs have become omnipresent in the developing world, there has always been an uncertainty about them, in both positive and negative ways. Most of the MNCs take advantage of developing countries. They can be guilty of making pollution or doing human rights abuse. Nevertheless, laborers are paid low wages, as there are few or no trade unions to protect their rights or negotiate with the MNCs. Thus, the theoretical dispute over the effects of MNCs on Indian Economy is mirrored in the conflict. Apparently, two broad positions can be derived from these differences of opinion- the positive and negative. Some proponents have developed arguments that emphasize the positive results of foreign direct investment (FDI) by MNCs. They are willing to admit some gains from FDI. On the contrary, others are unwilling to accept a positive role for multinational capital under any circumstances.

1. Objectives of the Study

To address the gap, the current study aims to examine the impact of MNCs on Indian Economy. To achieve the main objective, the study covers the following specific purposes:

- To identify the overall positive impact of MNCs on Indian Economy.

[1] *Assistant Professor, Department of Computer Applications, Maharaja Surajmal Institute (affiliated to GGSIP University, Delhi), C-4, Janakpuri, New Delhi-58.*

- To analyze the role of foreign capital in the growth of Indian economy
- To suggest measures for the policy makers in the context of MNC

Literature Review

Most of the Indian consumer belongs to the lower and lower middle class for mass consumption. They are many big enterprises in India who are successfully marketing their products to the Indian masses. They will in due course of time face the challenges that will be posed by the multinationals. The upper and middle classes are also consumers of costly goods, which are essential for their comfort and luxury. The multinational will be targeting the consumer of all classes. Indian consumer segment is broadly segregated into urban and rural markets and is attracting marketers from across the world. The sector comprises of a huge middle class, relatively large affluent class, and a small economically disadvantaged class, with spending anticipated to more than double by 2025. India stood first among all nations in the global consumer confidence index with a score of 133 points for the quarter ending September 2016.

Further, in the discretionary spending category, 68 per cent respondents from India indicated the next 12 months as being good to buy, thus ensuring once again that India leads the global top 10 countries for this parameter during the quarter. Global corporations view India as one of the key markets from where future growth is likely to emerge. The growth in India's consumer market would be primarily driven by a favorable population composition and increasing disposable incomes. A recent study by the McKinsey Global Institute (MGI) suggests that if India continues to grow at the current pace, average household incomes will triple over the next two decades, making the country the world's fifth-largest consumer economy by 2025, up from the current 12th position. 8 India's robust economic growth and rising household incomes are expected to increase consumer spending to US$ 3.6 trillion by 2020.

The maximum consumer spending is likely to occur in food, housing, consumer durables, and transport and communication sectors. The report further stated that India's share of global consumption would expand more than twice to 5.8 per cent by 2020.

Research Methodology

The present study is based on secondary data available in different books, journals, articles, research papers, and internet source also. The main objectives of the present study are to examine MNCs are contributing to economic development and to analyze the role of FDI in Economic development. The present study attempts to analyze the relationship between foreign companies' mode of entry with FDI and economic variables .

Benefits of MNCs Operation in India

The role of MNCs varies from country to country. The positive case stresses the net positive benefits of FDI:

Economic Growth

MNCs can be considered as a major stimulus to economic growth in developing countries. According to orthodox liberals, inward FDI provides external financing to compensate for inadequate amounts of local savings and foreign aid. In general, FDI inflows are more stable and easier to service than commercial debt or portfolio investment. In the 1990s, FDI in developing countries accounted for average $150 billion a year. However, in 2005, net flows of FDI to developing countries averaged around $334 billion annually, which shows a dramatic increase of FDI in developing countries. According to UNCTAD World Investment Report, FDI in developing countries increased in 2010 and stands as nearly $574 billion annually. FDI is thought to bring certain benefits to national economies. It can contribute to gross domestic product (GDP), gross fixed capital formation and balance of payments. There have been empirical studies indicating a positive link between higher GDP and FDI inflows.

2. Export-based Industrialization

Building export capacity is very important for developing countries if they want to benefit fully from international trade and investment opportunities. Therefore, the government must seek to develop a regulatory framework that could assist local and regional areas in designing and implementing active policies for building export competitiveness. The countries in East and Southeast Asia, who had attracted MNCs as part of their export-oriented strategies, provided clear evidence that MNCs could vitally assist in export-based industrialization in developing countries. 12 MNCs helped such successful integrators, for example, Malaysia and Thailand become a part of "global commodity chains" linking developing country producers to advanced-country consumers.

3. Capital Formation

Capital represents an essential economic asset in developing countries. A significant benefit of MNCs is their injection of capital into a developing country, bringing financial resources otherwise unavailable through their own capital and access to international capital markets. An important share of the total capital flow to developing countries comes from MNCs' investments; estimations vary from 14.9% to 51.5% of the total flows to developing countries. Studies show that foreign multinationals are indeed more productive, pay higher wages and are more export intensive than local firms. MNCs contribute important foreign exchange earnings through their trade effect of generating exports. By producing goods for export, the balance of payments of the developing countries enhances the economic growth, becoming a more attractive prospect for further investment as well as contributing to the growing role of developing countries in world trade. MNCs provide immediate access to foreign markets and customers which would take domestic firms years of investment and effort to acquire for themselves.

4. Technology/R&D

Technology development and work processes improvement differ greatly in developing countries, and even in some cases between regions. For example, Bangkok or the South of Thailand is more developed than some Northern areas. MNCs contribute greatly to providing the foundation for technological development. A vital resource gap filled by the MNCs, as proponents say, is technology. 13 The desire to obtain modern technology is perhaps the most important attraction of foreign investment for developing countries. MNCs allow developing states to profit from the sophisticated research and development carried out by the multinationals. They make available technology that would otherwise be out of the reach of developing countries.

5. Cleaner Environment

FDI through MNCs may help increase the level of overall domestic environment. MNCs are more likely to produce a cleaner rather than a more despoiled natural environment. MNCs from developed countries, preferring to have a single set of rules for all competitors, may consequently prefer that developing countries have environmental standards similar to those in the developed countries. In addition, MNCs tend to bring their higher pollution control and energy-efficiency standards with other countries when setting up operations overseas.

6. Poverty Alleviation

MNCs are the key to poverty reduction. The multinational corporations encourage people to produce a certain product, and these products make the workers' life improved. For example, the DaimlerChrysler project in Brazil. Daimler Benz, in 1991, looked for ways to use renewable natural fibbers in its automobiles. For the Brazilians, life changed dramatically for the better; children were able to attend school, health facilities have improved, and people are more active in local politics. The liberals believe that industrialisation through MNCs combined with a free-market economy has allowed many previously agrarian based economies to grow out of poverty. "The international operation of these corporations is consistent with liberalism but is directly counter to the doctrine of economic nationalism and to the views of countries committed to socialism and state intervention in the economy". 14 Liberals show that for those that have chosen to become integrated into the world economy, the rewards have been significant. In fifty years, Taiwan has transformed from an agrarian economy which was poorer than much of SubSahara Africa to a country now as rich and prosperous as Spain.

7. Employment Generation

MNCs play a role in creating new kind of jobs and therefore can contribute to employment generation and the increase of quality of life of the employees in developing countries. Those who argue for MNCs, state that MNCs generate employment worldwide. Of the 73 million jobs created through MNCs, only 12 million are in developing countries amounting to 2% or 3% of the world's workforce. MNCs account for onefifth of all paid employment in non-agricultural sectors and creates many jobs in the manufacturing industries, especially where technology is concerned. In addition, MNCs have a positive impact on welfare of the employees. Supporters say that the creation of jobs, the provision of new and better products, and programs to improve health, housing and education for employees and local communities improve the standard of living in the developing countries. Moreover, having a closer look at empirical data it gets clear that foreign-owned and subcontracting manufacturing companies in developing countries tend to pay higher wages than the local firms.

Negative Impact of MNCs

In reverse, this positive role of MNCs can be disputed by those who claim that the net effect of MNCs investment is negative for India. Critics of the multinationals have challenged this positive view of the role of MNCs. The discussions of negative impact of MNCs are presented as follows:

1. Prevent Autonomous Development

"Dependency is a situation in which a certain number of countries have their economy conditioned by the development and expansion of another…placing the dependent countries in a backward position exploited by the dominant countries". Dependency theorists understand the current underdevelopment of developing countries to be a process within the framework of the global capitalist system. They understand global capitalism as a process that generates wealth and development in the industrialized world at the expense of creating poverty as an intentional by-product of the West and perpetuating underdevelopment in developing countries. According to dependency theorists, MNCs prevent the developing countries from achieving genuine autonomous development. For example, MNCs prevent local firms and entrepreneurs from participating in the most dynamic sectors of the economy; they use local capital rather than bringing in new capital from the outside; they increase income inequalities in the host country; and they use inappropriate capital-intensive technologies that contribute to unemployment.

2. Outflow of Capital

Some critics believe that FDI in developing countries leads to an outflow of capital. Capital flows from South to North through profits, debt service, royalties, and fees, and through manipulation of import and export prices. Such reverse flows are, in themselves, not unusual or improper. Indeed, the reason for investments is to make money for the firm. What certain critics argue, however, is that such return flows are unjustifiably high.

3. Exploit Worker

Critics charge that many MNCs enter developing countries to exploit their cheap labour and abundant natural resources. Companies such as Reebok, Nike, and Levi Strauss have exploited the human labour in Indonesia. Workers live in deteriorating, leaky, mosquito – infested apartments and only earn a mere $39 a month for producing thousands of products worth well over $100 each. Indonesia's economy is booming because of massive direct foreign investment while the cheap labour is suffering from inhumane living conditions and illegal wages. MNCs adversely affect their workers, provide incentives to worsen working conditions, pay lower wages than in alternative employment, or repress worker rights. Critics also argue that MNCs do not benefit developing countries labour.

4. Environment Pollution

Regarding the environment, international big business is both the creator of pollution and the only resource available for its clean-up. The MNCs' record on pollution pales in comparison with those of many local businesses and state-owned enterprises: Critics allege that MNCs have – in part due to their sheer size – caused significant environmental damage in developing countries. Because MNCs have operated for a long time and in so many countries, there undoubtedly have been cases where these criticisms are accurate. In all parts of the world, mining operations have generated severe environmental degradation and pollution, including the discharge of toxic substances into river systems, large volume waste disposal, the inadequate disposal of hazardous wastes, and the long run impacts of poorly planned mine closure.

5. Tax Evaders

The issue of tax evasion by MNCs continues to generate acrimonious debate, despite guidelines produced by the Organisation for Economic Cooperation and Development (OECD). Multinational 18 corporations protest that they pay their taxes responsibly. For example, the U.S. Chamber of Commerce in Bangkok claimed a few years ago that MNCs paid 70% of Thailand's corporate taxes, implying considerable tax evasion by the locals.

6. Organized Crime

The introduction of famous brands into developing countries by MNCs has provided an irresistible lure to criminal organizations to branch out into this lucrative area of crime. In East Asia - the hotbed of counterfeiting - criminal organizations involved in gambling, prostitution, smuggling, narcotics, and human trafficking have now migrated to counterfeiting because of its highly lucrative rewards and the low-risk nature of the crime. Penalties for trafficking in narcotics are notoriously severe in Asia. Long prison sentences and capital punishment are common for narcotics violations.

7. Health and Safety Risks

Another type of secondary consequences suffered by developing countries is health and safety hazards caused by the proliferation of substandard counterfeit medicines. According to some recent media accounts, 10% of the world's drugs are counterfeit; fake baby infant formula, cough syrup, and other medicines have led to serious illness or death. However, almost all these harms to human health and safety occur in developing countries, which have weak border control systems that allow counterfeits that are mostly manufactured in China to pass through undetected. Almost no serious health or safety incidents have occurred in advanced industrialized countries, such as the United States and many European countries.

Conceptual Framework of the Study

Economic reforms of 1991 changed the entire scenario of Indian economy. The policy of liberalization was viewed as one of the major determinants in India's economic growth and development. India was seen as an opportunity by the foreign promoters so that they can invest their surplus funds to grow themselves a trade giant. Investments can be of two types- Foreign Direct Investment and Portfolio Investment. FDI is one of the interesting topics to be discussed upon, particularly FDI in insurance sector. No doubt, over the last decade, share of foreign promoters has consistently increased but the percentage of FDI is restricted to 49%. Now, basically the problem is that despite increase in paid-up capital of foreign partners and enhancement in the gross direct premium constantly, the insurance sector in India could not make much headway. The variations or the fluctuations in the profits of life and non-life insurance sector can be seen significantly. This requires analytical study of the impact of FDI in the Indian Insurance Sector. Thus, basically this research is carried out in order to look at the causes that restrict the FDI to grow and how, if that limit is increased, it would affect the Indian Economy- Life Insurance and General Insurance sector in terms of its paid-up capital, its premium, its profits, number of agents, number of insurers, number of offices, claims paid, etc. Before and at the time of Independence, the attitude of the Indian Government towards foreign capital was one of panic, qualm, and haunch. But for this, the government cannot be raised fingers upon because this was quite natural and was built-in if thought about, of the previous exploitation and the role played by the foreigners in draining away the resources from this country. The suspicion and antagonism found articulation in the Industrial Policy of 1948 which, though acknowledged the part and role of private foreign investment in the country, but also emphasized and stressed that its regulation was essential in the national interest. Because of this perspective and approach expressed in the 1948 resolution, foreign capitalists got irked and as a result, the course of imports of capital goods got blocked and handicapped. as also confirmed and looked at that the foreign capital should help in the promotion of exports or substitution of imports.

Need for FDI in India

India need FDI due to following reasons such as: -

- Sustaining high level of Investment: As India is a developing country, it needs certain amount of saving to invest for its development. This gap between investment and saving is filled by foreign capital.
- Fulfilling Technological Gap: India has lower level of technology as compared to developed nations which is very necessary for industrial and other development, so it need technology transfer which comes with FDI when it assumes the form of private foreign investment.
- Exploitation of Natural Resources: India is full of natural resource, but it has no required technical skill and expertise to exploit it, so India needs foreign capital to undertake the exploitation of its mineral wealth.
- Development of Economic Structure: Domestic capital of developing countries like India is too low to build up its economic infrastructure so it needs some foreign capital to develop its economic infrastructure.

Conclision

When we consider an overall picture of the MNCS, the beneficial role is much limited in the limited stages of development they are helpful in area of needed technology and global marketing. They care only to the need of upper middle and affluent classes. It creates a new culture of colas, jams, ice-creams, and processed goods. Another threat to Indian economy is the manipulation on the capital market to suit their goals. They are increasing the shareholding in Indian companies swallowing them. They transfer attractive and profitable business to these newly started subsidiaries, so many Indian shareholders get cheated. Summing up over dependence on MNC may be harmful in terms of economic dependence and political interference. Capital flow of MNC's may be permitted but not at the cost of national interest. At present the world economy is an integrated economy i.e., a world without borders, a world in which all goods and factors can be transported across different regions at negligible cost. Some industries spread their production process across many regions searching for the ideal environment for each specific phase of production. The magnitude and dimensions of human activities are squarely rising. The concept like 'closed economy' and protectionist policies are being gradually replaced by 'market based global corporate economy'. Thus, the most significant development in international economic scenario during the past two decades has been spectacular rise in power and influence of giant global corporate. It may be said that the role of the global corporate is crucial, and their existence is indispensable. However, their functioning needs proper regulation to ensure protection of national interests and to maintain the character of national economy as a separate family of the global economy. In the present international environment, though, it seen difficult to follow a close door policy, yet it should not be an open policy as well. We must be selective for allowing the foreign investment and at the same time we must encourage the indigenous industry. 45 The finality of the present paper particularly not confined with the conclusion, but the multinational company in Indian perspective is quite different compared to the rest of the world. The Indian foreign trade is vigorous and experienced with drastic changes. India's openness policy with existence liberalism greatly contributes to our economy for growing in different dimensions. So, by observing the current statistics, we need to improve the control mechanism relating to the multinational companies by increasing productive activities in the economy. The multinational company's contribution towards employment, technological know -how, cultural transformation, optimum utilization of available resources etc., creates an opportunity to develop nations competitive advantage. Multinational companies are like double-edged sword. The sword can harm if not handled properly. Similarly, the Multinational companies have their own pros and cons. The extent of technology and management of know-how transfer by the MNCs depend to a large extent on their corporate strategy; for example, firms desiring to have a longer-term relationship with the suppliers (rather than those simply using the host country as a marketing/export base) will be more inclined to effect transfer technology. As pointed out in the World Investment Report, 2000, MNCs may restrict the access of affiliates to technology to minimize inter-affiliate competition. It is noted that MNCs are more likely to license older technologies from which they have already derived significant rents than newer technologies on which there are still relying for market leadership. Further, they may hold back the upgrading of the affiliate technology or invest insufficiently in host-country training and R&D in accordance with their global corporate strategies. Therefore, arguing that FDI inflows and economic liberalization automatically facilitates technology transfer is being extremely naïve. Studies over a period of years indicate that the impact of MNCs on host States is neither as positive nor as negative. It is true that MNCs play an important role in the developing countries. They can create more employment opportunities for huge labour force, train them and promote the development of high-level skills. Moreover, MNCs help increase GDP growth and capital formation, reduce poverty. However, MNCs can be guilty of pollution or human rights abuse. Critics of MNCs alleged that MNCs want to reduce their production costs, seek 46 out developing countries with flexible environmental regulations and undertake in those countries productive activities that exacerbate both local and global environmental problems. Instead of adhering to either, a positive or negative overview this perspective recognizes that the costs and benefits of FDI by MNCs will vary from country to country and that what constitutes costs and benefits will vary depending on the values of the observer.

References

1. Rosman Md. Yusaff and others (2012): 'A Critical Review of Multinational Companies, Their Structures and Strategies and Their Link with International Human Resource Management',IOSR Journal of Business and Management (IOSRJBM) ISSN: 2278-487X • Volume 3, Issue 5 (Sep,-Oct. 2012), PP 28-37 www.iosrjournals.org
2. Mithani D. M. (2002): International Economics, Himalaya Publishing House, Mumbai, p.405.
3. Aswathappa K., (2006): 'Essentials of Business Environment', Himalaya Publishing House, Mumbai, p. 40.
4. Gangrade K. D., (2005): 'Gandhian Approach to Development and Social Work', Concept Publishing Company, New Delhi, p. 44. • http://unctad.org/en/Docs/wir2009 overview_en.pdf. http://www.ips.org.pk/globalization/1007-mncs-and their-role-andsocioeconomic -impact -on-host-societies.html • UNCTAD report 2007
5. S.A. Hamed Hosseini (2010): 'Globalization and Capitalism', Available on http://globalalternatives.wordpress.com/2010/04/01/globalization-andnation-state
6. Murthy S. (1999): 'Foreign Investment and Economic Growth through Multinational Corporation and their Multiple Impact' in Arya P. P. and Tandon B. B. 'Multinational Versus Swadeshi Today' (ed), Deep and Deep Publication Pvt. Ltd., New Delhi, p. 113.
7. Government of India, Ministry of Corporate Affairs, 57th Annual Report on the Working & Administration of the Companies Act, 1956, New Delhi, p.32, available onhttp://www.mca.gov.in/Ministry/pdf/57AR_English.pdf