Role of Multinational Corporations in the Indian Economy

Kanchan

Abstract

Kanchan

World Economics follows a continuous dynamic pattern of development within which multinational enterprises (MNEs) are main nods linked in a complex network. In this study, the purpose of the study is to know about the importance of the Multinational Corporation and strategies of the multinational corporation to cope with the competition of the business world.

Keywords:

MNC, Firm,

Growth,

Business Network.

Assistant. Professor, Department of Economics,
S.G.G.S Khalsa College Mahilpur (Hoshiarpur), Punjab.

INTRODUCTION

Multinational corporations sit at the intersection of production, international trade, and cross- border investment. A multinational corporation is "an enterprise that engages in foreign direct investment (FDI) and owns or controls value adding activities in more than one country" (Dunning 1993, 3). MNCs thus have two characteristics. First, they coordinate economic production among a number of different enterprises and internalize this coordination problem within a single firm structure. Second, a significant portion of the economic transactions connected with this coordinated activity take place across national borders. These two attributes distinguish MNCs from other firms. While many firms control and coordinate the production of multiple enterprises, and while many other firms engage in economic transactions across borders, MNCs are the only firms that coordinate and internalize economic activity across national borders.MNC investment can be divided into three broad categories.

First, MNCs engage in cross -border investment to gain secure access to supplies of natural resources. For example, the American copper mining firm Anaconda made large direct investments in mining operations in Chile in order to secure copper supplies for production done in the United States.

Second, MNCs invest across borders to gain access to foreign markets. Much of the cross- border investment in auto production undertaken with in the advanced industrialized world fits into this category.

Third, MNCs make cross- border investments to improve the efficiency of their operations, by rationalizing production and trying to exploit economies of specialization and scope. An increasingly large share of cross- border investment in manufacturing fits into this category. In electronics and computers as well as in the auto industry, firms allocate different elements of the production process to different parts of the world in computers, electronics, and electrical equipment.

The importance of multinational corporations is not limited to production, as they are also significant participants in international trade. It has been estimated that trade within MNCs, called intra- firm trade, accounts for about one - third of total world trade. If we add to this figure the trade that takes place between MNCs and other unaffiliated firms, then MNCs are involved in about two- thirds of world trade. Thus, MNCs are productive enterprises that by definition engage in cross- border investment and are heavily involved in international trade.

OBJECTIVES

Multinational corporations have a presence both in their home country and in at least one other country. Since the objectives of such companies can affect those in multiple countries, managers should be careful to set relevant objectives that will benefit all the countries where the corporations have a presence. Some objectives of Multinational Corporations are:-

- The objective for a multinational corporation is a specific goal that the corporation wants to attain, and it must be something that managers can measure.

- Its common objective to maximize the profits, having high quality customer service.
- Its objective also to growing at a specified rate, reaching a specific sales level, coming up with new products and acting socially responsibly.

IMPORTANCE OF MULTINATIONAL CORPORATIONS

The Multinational corporations today have a revolutionary effect on the international economic system. Today they constitute a powerful force in the world economy. In the field of international trade and international finance, the multinational firms have come to exercise enormous power. In early seventies the MNCs accounted for about one-eighth of all international trade. From the nature of their growth it may be presumed that in the early eighties their share will rise to one-fourth.

Among the developing countries only India had an annual income twice that of General Motors, which is the biggest multinational corporation. Otherwise the annual income of the other less developed countries is much less than that of the giant MNCs. According to an estimate by early eighties some 300 large MNCs will come to control 75 percent of the world's manufacturing assets.

The importance of multinational corporations is not limited to production, as they are also significant participants in international trade. It has been estimated that trade within MNCs, called intra- firm trade, accounts for about one - third of total world trade. If we add to this figure the trade that takes place between MNCs and other unaffiliated firms, then MNCs are involved in about two- thirds of world trade.

While multinational companies played a significant role in the promotion of growth and trade in South-East Asian countries they did not play much role in the Indian economy where import-substitution development strategy was followed. Since 1991 with the adoption of industrial policy of liberalisation and privatisation rote of private foreign capital has been recognized as important for rapid growth of the Indian economy. Since source of bulk of foreign capital and investment are multinational corporation, they have been allowed to operate in the Indian economy subject to some regulations. The following are the important reasons for this change in policy towards multinational companies in the post-reform period.

World's Some Important Non-Financial Multinational Corporations

S.No.	International Corporation	Parent Country	Industry of operation
1.	General Electric	United States	Electronics
2.	Exxon Mobil Corporation	United States	Petroleum (exploring, refining and distributing)
3.	Royal Duch Shell Group	Netherland/UK	-do-
4.	General Motors	United States	Motor Vehicles
5.	Ford Motor Co.	United States	Motor Vehicles
6.	Toyata Motor Co.	Japan	Motor Vehicles
7.	IBM	United States	Computers
8.	BP	United Kingdom	Petroleum (Exp/Ref./Distt.)
9.	Nesle SA	Switzerland	Food/Beverages
10.	Nippon Oil Co.	Japan	Petroleum/Expl., Ref./Distt.
11.	Sieman AG	Germany	Electronics
12.	BMW AG	Germany	Motors Vehicles
13.	ABB	Switzerland	Electrical equipment
14.	Sony Corporation	Japan	Electronics
15.	Seagram	Canada	Food/Beverages
16.	Aventis	France	Pharmaceuticals/Chemicals
17.	Roche Group	Switzerland	Pharmaceuticals
18.	Honda Motor Co.	Japan	Motor Vehicles
19.	Phillips Electronics	Netherland	Electronics
20.	Hewlett-Packard	United States	Electronics/Computers

- **TRANSFER OF CAPITAL**

The multinational corporation transfer investment, advance technology to developing countries through establishing branches and subsidiaries. Therefore developing countries like Nepal get benefited of receiving advanced technology and capital investment through such companies.

- **MASS PRODUCTION**

With help of advanced technology, they can produce quality goods and products at cheaper price. Due to job innovation and specialization help to produce more consumption increase as production in more units reduce cost.

- **INCREASE IN EMPLOYMENT OPPORTUNITY**

A multinational corporation requires a large number of skilled as well as unskilled employees to operate its activities. Thus it provides employment opportunities to the people of host country as a result economic standard of society is improved.

- **INCREASE IN GOVERNMENT REVENUE**

A multinational corporation is a large scale business. It pays a large amount of duties, income tax, vat, etc. to government. Therefore Government revenue is increased due to operation of such corporations.

- **RESEARCH AND DEVELOPMENT**

  In complete world, it is need of Research and Development. To meet international standard of its products and services, a multinational corporation conducts several research and development activities. Constantly such programs are beneficial to society. It helps to develop better equipments, quality products and advanced technology in production.

- **GOOD INTERNATIONAL RELATION**

  A multinational corporation recognizes the country in the international market. It creates harmonious relation between parent company and subsidiary countries. It recognizes exporting country to all over the world.

STRATEGIES TO COPE WITH COMPETITION

- **GENERIC COMPETITIVE STRATEGIES**

Generic competitive strategies are basic competitive strategies expected of any firm in any market or industry to improve its competitive performance. Firms pursue competitive strategies when they seek to improve or maintain their performance through independent actions in a specific market or industry .There are two major types of competitive business strategies: cost leadership and product differentiation (porter,1980).Firms pursuing cost leadership strategies attempt to gain advantages by lowering their costs below those of competing firms. Firms pursuing product differentiation strategies attempt to gain advantages by increasing the perceived value of the products or services they provide to customers.

- **GRAND STRATEGIES**

Grand strategies refer to comprehensive, long-term plan of essential actions by which a firm plans to achieve its major objectives (Pearce & Robinson, 1997). Key factors of this strategy may include market, product, and/or organizational development through acquisition, divestiture, diversification, joint ventures, or strategic alliances. Grand strategies, often called master or business strategies provide basic direction for strategic actions and indicate the time period over which long range objectives are to be achieved. Firms involved with multiple industries, businesses, product lines, or customer.

IMPACT OF MULTINATIONAL CORPORATIONS IN INDIA

- Multinational corporations affect local and national policies by causing governments to complete with each other to be attractive to multinational corporation investment in their country.

- In world economy, the increasing economic interdependence of national economies across the world through a rapid increase in cross-border movement of goods, services, technology and capital.

- A number of foreign companies in India are acquiring the character of multi-product and multi-industry enterprises.
- In a host country, the government will often offer incentives in the form of grants, subsidies and tax breaks to attract investment into their country.

RECENT STEPS TAKEN BY GOVERNMENT

Government of India has continued its pace of globalization in spite of political changes during the decade 1991-2002. Prime minister ship has changed hands in the decade Shri Narsimha Rao, Shri A.B.Vapayee, all have followed globalization prescription stage of multinational corporations. The steps taken mainly are:-

- Removing obstructions in MNC entry in India.
- FERA (Foreign Exchange Rate Act, 1973) was scrapped and FEMA (Foreign Exchange Management Act) was passed to facilitate entry of MNC's.
- Import liberalization by reducing import duties (customs) in steps of 15% level.
- Establishment of joint ventures by Indian companies other countries.
- Encourages export
- Removal of export subsidiaries.
- Removal of quantitative restriction on imports.
- Encourage foreign direct investments
- Encourage NRIs, Foreign Institutional Investors (FII) and MNCs to invest in India.
- Encouragement to Indian companies to raise capital in foreign countries by the GDR route (Global Deposit Receipt).

CONCLUSION

Today MNEs are more and more complexly integrated, they rely on more intense communication and their behavior is rather proactive than reactive one. They also face increasing competition from online enterprises that are enlarging their market share. A successful strategy is based on the added value it brings, on the way it makes a difference, on the sector's attractiveness and on the market maturity phase, so that it helps the enterprise gain a profitable and competitive position. Capital flow of MNC's may be permitted but not at the cost of national interest.

References:

- DBA Africa Management Review 2012, Vol. 2 No 3,.
- International Journal of Business and Commerce Vol. 1, No. 7.
- Murage, S. (2001). Competitive strategies adopted by members of the Kenya Independent Petroleum Dealers Association. Unpublished MBA project.