Global Corporations' Expansion and Impact on the Indian Economic Landscape

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Abstract:

In the present-day world of Globalization, Multinational Companies have played an important role in the development of home countries where the MNCs are operating. Foreign direct investment by multinational companies involves much more than just transfer of capital as it brings with them technologies of production, managerial services and other business practices. Employment opportunities created by the MNCs have solved an important problem of unemployment which is an important characteristic of the underdeveloped as well as developing countries. With the shortage of savings for financing developmental projects, there is need to depend on foreign capital. Inviting and making ways for MNCs to operate in India will enhance the economic development of the country. Prime Minister Narendra Modi's initiatives for 'Make in India' and 'Skill India' campaigns, inviting

Global Companies to invest in India as well as efforts to simplify the Foreign Direct Investments regulations will certainly make India a favourite destination of MNCs.

Keywords: *Globalization, Multinational Companies, Expansion and Impact, Indian Economic Landscape*

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1. Introduction

The word Multinational is the combined word of Multi and national which gives meaning of many countries.Hence multinational companies are those business organization which have head office in one country and their operation are spread over several other countries.There are two classes of companies under multinational companies.The head office is regarded as the parent company and branches as subsidiary company. The parent company manages and control the activities of subsidiary company. The subsidiary companies are affiliated with parent companies through investment, trade-mark, patent and technology. The multinational companies are operated with huge investment and wide range of product or services. They cover large area of market.Standard Chartered Bank,Coco-cola, SONY Electronics,etc are some examples of multinational companies. There are four categories of multinational corporations:

1. A multinational, decentralized corporation with strong home country presence,
2. A global, centralized corporation that acquires cost advantage through centralized production wherever cheaper resources are available,
3. An international company that builds on the parent corporation's technology or R&D, or
4. A transnational enterprise that combines the previous three approaches.

2. Features of Multinational Corporations (MNCs)

(1) International Operations Through a Network of Branches:

MNCs have production and marketing operations in several countries; operating through a network of branches, subsidiaries and affiliates in host countries.

(2) Advanced and Sophisticated Technology:

Generally, a MNC has at its command advanced and sophisticated technology. It employs capital intensive technology in manufacturing and marketing.

(3) Huge Assets and Turnover:

Because of operations on a global basis, MNCs have huge physical and financial assets. This also results in huge turnover (sales) of MNCs. In fact, in terms of assets and turnover, many MNCs are bigger than national economies of several countries.

(4) Unity of Control:

MNCs are characterized by unity of control. MNCs control business activities of their branches in foreign countries through head office located in the home country. Managements of branches operate within the policy framework of the parent corporation.

(5) Mighty Economic Power:

MNCs are powerful economic entities. They keep on adding to their economic power through constant mergers and acquisitions of companies, in host countries.

(6) Professional Management:

A MNC employs professionally trained managers to handle huge funds, advanced technology and international business operations.

(7)Better Quality of Products:

A MNC has to compete on the world level. It, therefore, has to pay special attention to the quality of its products.

3. Growth of MNCs

As the world economy is opening up with a fall in regulatory barriers to foreign investment, better transport and communications, freer capital move-ments, etc., international companies are finding it easier to invest where they choose to cheaply, and with less risk.

Moreover, the developing countries no longer consider the presence of MNCs to be synonymous with a loss of their sovereignty. It is now realized that MNCs are merely a part of a much wider force that is integrating the world economy.

Over the years, foreign direct investment by MNCs in the developing countries has been steadily on the rise, from as low as 19% of total flows in 1990, to 30% in 1994.

Whether this trend will last or not will depend chiefly on the liberalization policies of the governments of the developing countries, who are responsible for allowing entry to the MNC's into their home economies, and who can re-impose the barriers if they so wish.

Liberalization as regards foreign investment would last as long as the governments of these developing countries believe that it is beneficial for them.

However, the biggest danger lies in the exces-sive expectations of the liberalizing governments, as many of them see foreign investment as a short-cut to prosperity, capital and technology transfer, and skill enhancement. MNCs do bring in these assets to an extent, but these alone cannot make up for all the short-comings of the host economy.

4. Effects of MNCs

Multinational corporations are enterprises that operate in several countries worldwide. These organizations have assets and goods or services being offered in more than one country. International corporations can range from car manufacturers to food chains that exist, a result of globalization, with consumers and profit in mind. However, these transnational companies are not spared from criticisms since they also have some negative aspects. Let's take a look at the benefits and setbacks of multinational corporations.

5. List of Advantages of Multinational Corporations

(1) Broader Market Base:

By opening establishments or offices in several countries, multinationals increase their chances of reaching out to customers on a global scale, a benefit which other companies limited to regional offices and establishments do not have. The access to more customers gives them more opportunities to develop and cater their products and services that will fit the needs of potential customers.

(2) Cheaper Labor:

One of the advantages of multinational corporations is the opportunity to operate in countries where labor is not as expensive. This is one of the perks that smaller companies do not enjoy. Multinationals can set up their offices in several countries where demand for their services and products are high while cheaper labor is available.

(3) Job Creation:

When international companies set up branches in other countries, employees and members of the team are locals. That said, more people are given employment opportunities especially in developing countries.

(4) Tax Cuts:

Multinationals can enjoy lower taxes in other countries for exports and imports, an advantage that owners of international corporations can take at any given day. And although not all countries can have lower tariffs, there are those that give tax cuts to investors to attract more international companies to do business in these countries.

6. List of Disadvantages of Multinational Corporations

(1) Threat to Local Businesses:

Another disadvantage of multinationals in other countries is their ability to dominate the markerk. These giant corporations can dominate the industries they are in because they have better products and they can afford to even offer them at lower prices since they have the financial resources to buy in bulk. This can eat up all the other small businesses offering the same goods and services. Chances are, local businesses will suffer and worse, close down.

(2) Potential Abuse of Workers:

Multinational companies often invest in developing countries where they can take advantage of cheaper labor. Some multinational corporations prefer to put up branches in these parts of the world where there are no stringent policies in labor and where people need jobs because these multinationals can demand for cheaper labor and lesser healthcare benefits.

(3) Loss of Jobs:

With more companies transferring offices and centering operations in other countries, jobs for the people living in developed countries are threatened. Take the case of multinationals that create offices in developing countries for their technical operations and manufacturing. The jobs given to the locals of the host country should be the jobs enjoyed by the people where the head office is located.

Multinational corporations have both advantages and disadvantages since it creates jobs but can also end up in the exploitation of workers, among other things. And since they are most likely to stay, it's best to create policies to make globalization equitable.

7. Suggestions

Even though there are number of disadvantages by the home countries in allowing the operations of MNCs, it has numerous benefits also. Certain precautionary measures must be taken up by the home country to safeguard its interest. Rather than dispensing with MNCs, their activities should be regulated. Followings are some suggestions for the home countries where foreign MNCs are operating:

1. The investment from MNCs should be for specified periods.
2. The collaborations should be sought with the MNCs only in the selective areas.
3. The MNCs should help the host countries in the promotions of exports and the development of import-substitution industries.

4. The host countries should adopt a multi tax system so that the MNCs should not be able to evade taxes through transfer pricing or other methods.
5. There should be clear cut specification about the transfer of technology.
6. After a certain limit, there should be check on the repatriation of capital and remittance of profits by them to the country of origin.

8. Conclusion

In this world of Liberalization, Privatization and Globalization (LPG), it may not be possible to restrict the goods as well the foreign Multinational Companies, instead it is the time to invite these MNCs to establish in the home countries and to extract the maximum benefits from them to strengthen the country's economic along with the safeguarding of own interest.

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