SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA 203
SUBJECT NAME: BUSINESS ENVIRONMENT

UNIT-V

<u>TOPIC NAME: ROLE OF MNCs AND TRANSACTIONAL CORPORATION IN INDIAN ECONOMY</u>

<u>MULTINATIONAL CORPORATIONS:</u>

A multinational corporation (MNC) has facilities and other assets in at least one country other than its home country. A multinational company generally has offices and/or factories in different countries and a centralized head office where they coordinate global management. These companies, also known as international, stateless, or transnational corporate organizations tend to have budgets that exceed those of many small countries.

- Multinational corporations participate in business in two or more countries.
- MNC can have a positive economic effect on the country where the business is taking place.

- Many believe manufacturing outside of the U.S. has a negative effect on the economy with fewer job opportunities.
- Transnational business is considered diversifying the investment.

How a Multinational Corporation (MNC) Works:

A multinational corporation, or multinational enterprise, is an international corporation that derives at least a quarter of its revenues outside its home country. Many multinational enterprises are based in developed nations. Multinational advocates say they create high-paying jobs and technologically advanced goods in countries that otherwise would not have access to such opportunities or goods. However, critics of these enterprises believe these corporations have undue political influence over governments, exploit developing nations, and create job losses in their own home countries.

The history of the multinational is linked with the history of colonialism. Many of the first multinationals were commissioned at the behest of European monarchs in order to conduct expeditions. Many of the colonies not held by Spain or Portugal were under the administration of some of the world's earliest multinationals. One of the first arose in 1660: The East India Company, founded by the British. It was headquartered in London, and took part in international trade and exploration, with trading posts in India. Other examples include the Swedish Africa Company, founded in 1649, and the Hudson's Bay Company, which was incorporated in the 17th century.

Types of Multinationals:

There are four categories of multinationals that exist. They include:

- A decentralized corporation with a strong presence in its home country.
- A global, centralized corporation that acquires cost advantage where cheap resources are available.
- A global company that builds on the parent corporation’s R&D.
- A transnational enterprise that uses all three categories.

There are subtle differences between the different kinds of multinational corporations. For instance, a transnational—which is one type of multinational—may have its home in at least two nations and spread out its operations in many countries for a high level of local response. Nestlé S.A. is an example of a transnational corporation that executes business and operational decisions in and outside of its headquarters.

Meanwhile, a multinational enterprise controls and manages plants in at least two countries. This type of multinational will take part in foreign investment, as the company invests directly in host country plants in order to stake an ownership claim, thereby avoiding transaction costs. Apple Inc. is a great example of a multinational enterprise, as it tries to maximize cost advantages through foreign investments in international plants.

According to the Fortune Global 500 List, the top five multinational corporations in the world as of 2019 based on consolidated revenue were Wal-Mart ($514 billion), Sinopec Group ($415 billion), Royal Dutch Shell ($397 billion), China National Petroleum ($393.01 billion), State Grid ($387 billion).

Advantages and Disadvantages of Multinationals:

There are a number of advantages to establishing international operations. Having a presence in a foreign country such as India allows a corporation to meet Indian demand for its product without the transaction costs associated with long-distance shipping.

Corporations tend to establish operations in markets where their capital is most efficient or wages are lowest. By producing the same quality of goods at lower costs, multinationals reduce prices and increase the purchasing power of consumers worldwide. Establishing operations in many different countries, a multinational is able to take advantage of tax variations by putting in its business officially in a nation where the tax rate is low—even if its operations are conducted elsewhere. The other benefits include spurring job growth in the local economies, potential increases in the company's tax revenues, and increased variety of goods.

A trade-off of globalization—the price of lower prices, as it were—is that domestic jobs are susceptible to moving overseas. This suggests that it’s important for an economy to have a mobile or flexible labor force so that fluctuations in economic temperament aren't the cause of long-term unemployment. In this respect, education and the cultivation of new skills that correspond to emerging technologies are integral to maintaining a flexible, adaptable workforce.

Those opposed to multinationals say they are ways for corporations to develop a monopoly (for certain products), driving up prices for consumers, stifling competition, and inhibiting innovation. They are also said to have a detrimental effect on the environment because their operations may encourage land development and the depletion of local (natural) resources.

The introduction of multinationals into a host country's economy may also lead to the downfall of smaller, local businesses. Activists have also claimed those multinationals breach ethical standards, accusing them of evading ethical laws and leveraging their business agenda with capital.

TRANSACTIONAL CORPORATION:

A transnational corporation is an enterprise that is involved with the international production of goods or services, foreign investments, or income and asset management in more than one country.

Transnational corporations share many qualities with multinational corporations, with the subtle difference being that multinational corporations consist of a centralized management structure, whereas transnational corporations generally are decentralized, with many bases in various countries where the corporation operates. While traditional multinational corporations are national companies with foreign subsidiaries, transnational corporations spread out their operations in many countries to sustain high levels of local responsiveness.

A transnational corporation operates substantial facilities, does business in more than one country, and does not consider any particular country its corporate home. One of the significant advantages of a transnational company is that they are able to maintain a greater degree of responsiveness to the local markets where they maintain facilities.

Tran nationality also refers to the extent to which a firm engages in value-creating activities across national borders. Faced with accelerated globalization, managers often make decisions to expand a firm's transnationality in order to enable the firm to effectively compete with rivals on a global scale (e.g. Nestlé, Deutsche Post, Toyota, etc.), who employ senior executives from many countries and tries to make decisions from a global perspective rather than from one centralized headquarters. Actions taken with transnational cooperation can help create better relationships between nations. Resources that are found in nations often need to be spread out throughout the world and thus transnationality helps this process.

MNCs VS TNCs:

ROLE OF MNCs IN INDIAN ECONOMY:

Prior to 1991 Multinational companies did not play much role in the Indian economy. In the pre-reform period the Indian economy was dominated by public enterprises.

To prevent concentration of economic power industrial policy 1956 did not allow the private firms to grow in size beyond a point. By definition multinational companies were quite big and operate in several countries.

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 liberalization and privatization 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.

Some of world's largest multinational corporations are given below:

1. Promotion Foreign Investment:
In the recent years, external assistance to developing countries has been declining. This is because the donor developed countries have not been willing to part with a larger proportion of their GDP as assistance to developing countries. MNCs can bridge the gap between the requirements of foreign capital for increasing foreign investment in India.

The liberalized foreign investment pursued since 1991, allows MNCs to make investment in India subject to different ceilings fixed for different industries or projects. However, in some industries 100 per cent export-oriented units (EOUs) can be set up. It may be noted, like domestic investment, foreign investment has also a multiplier effect on income and employment in a country.

For example, the effect of Suzuki firm's investment in Maruti Udyog manufacturing cars is not confined to income and employment for the workers and employees of Maruti Udyog but goes beyond that. Many workers are employed in dealer firms who sell Maruti cars.

Moreover, many intermediate goods are supplied by Indian suppliers to Maruti Udyog and for this many workers are employed by them to manufacture various parts and components used in Maruti cars. Thus their incomes also go up by investment by a Japanese multinational in Maruti Udyog Limited in India.

2. Non-Debt Creating Capital inflows:

In pre-reform period in India when foreign direct investment by MNCs was discouraged, we relied heavily on external commercial borrowing (ECB) which was of debt-creating capital inflows. This raised the burden of external debt and debt service payments reached the alarming figure of 35 per cent of our current account receipts. This created doubts about our ability to fulfill 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 multinational corporations represents non-debt creating capital inflows we can avoid the liability of debt-servicing payments. Moreover, the advantage of investment by MNCs lies in the fact that servicing of non-debt capital begins only when the MNC firm reaches the stage of making profits to repatriate Thus, MNCs can play an important role in reducing stress strains and on India's balance of payments (BOP).

3. Technology Transfer:

Another important role of multinational corporations is that they transfer high sophisticated technology to developing countries which are essential for raising productivity of working class and enable us to start new productive ventures requiring high technology. Whenever, multinational firms set up their subsidiary production units or joint-venture 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.

As a result, the Indian workers and engineers come to know of new superior technology and the way to use it. In India, the corporate sector spends only few resources on Research and Development (R&D). It is the giant multinational corporate firms (MNCs) which spend a lot on the development of new technologies can greatly benefit the developing countries by transferring the new technology developed by them. Therefore, MNCs can play an important role in the technological up-gradation of the Indian economy.

4. Promotion of Exports:

With extensive links all over the world and producing products efficiently and therefore with lower costs multinationals can play a significant role in promoting exports of a country in which they invest. For example, the rapid expansion in China's exports in recent years is due to the large investment made by multinationals in various fields of Chinese industry.

Historically in India, multinationals made large investment in plantations whose products they exported. In recent years, Japanese automobile company Suzuki made a large investment 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 large number to the foreign countries.

As a matter of fact until recently, when giving permission to a multinational firm for investment in India, Government granted the permission subject to the condition that the concerned multinational company would export the product so as to earn foreign exchange for India.

However, in case of Pepsi, a famous cold -drink multinational company, while for getting a product license in 1961 to produce Pepsi Cola in India it agreed to export a certain proportion of its product, but later it expressed its inability to do so. Instead, it ultimately agreed to export things other than what it produced such as tea.

5. Investment in Infrastructure:

With a large command over financial resources and their superior ability to raise resources both globally and inside India it is said that multinational corporations could invest in infrastructure such as power projects, modernization of airports and posts, telecommunication.

The investment in infrastructure will give a boost to industrial growth and help in creating income and employment in the India economy. The external economies generated by investment in infrastructure by MNCs will therefore crowd in investment by the indigenous private sector and will therefore stimulate economic growth.

In view of above, even Common Minimum Programmers of the present UPA government provides that foreign direct investment (FDI) will be encouraged and actively sought, especially in areas of (a) infrastructure, (b) high technology and (c) exports, and (d) where domestic assets and employment are created on a significant scale.

ROLE OF TNCs IN INDIAN ECONOMY:

Many transnational corporations (TNCs) have set up factories and offices in India. The country is an attractive location to TNCs because the population speaks good English, has strong IT skills and works for lower wages than people in many other countries. Companies like Toyota, Volvo and Hyundai manufacture cars in India. Companies like ASDA, BT and Virgin Media have call centers in India.

Advantages of TNCs in India:

There are many advantages of TNCs. India have benefited in many ways:

- TNCs have created jobs and offered education and training to employees
- The additional wealth has led to the multiplier effect
- Some TNCs have set up schemes to provide new facilities for local communities
- The infrastructure of the country has been improved, with new roads and internet cabling
- TNCs pay tax to the government, which can be spent on development projects

Disadvantages of TNCs in India:

There have also been some disadvantages of TNCs in India:

- Some corporation leaders have taken advantage of the relaxed environmental laws in the country by creating lots of pollution
- The conditions for workers in factories can be very harsh

- Many TNCs are owned by foreign countries so economic leakage occurs, where profit is sent abroad
- The best jobs are often given to foreign workers from the TNC's country of origin
- TNCs use many of the country's natural resources - a soft drink bottling plant in Kerala, India, was shut down due to its impact on local water supplies