Subject: Political Science
Semester: 2nd
Course: 203, Unit IV

Critically discuss the role of Multinational Corporations (MNCs) in the India Economy in the post-reform period.
Critically examine important reasons for policy changes towards multinational companies (MNCs) in the post-reform period of the Indian economy.

Role of Multinational Corporations in the India 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 the Industrial Policy 1956 did not allow the private firms to grow in size beyond a point. By definition multinational companies are 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 liberalisation and privatisation role of private foreign capital has been recognised as important for rapid growth of the Indian economy. Since source of bulk of foreign capital and investment are multinational corporations, 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:

1. Promotion of 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 liberalised foreign investment pursued since 1991 allows MNCs to make investment in India subject to different ceilings fixed for different industries or projects.

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.

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 them 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.

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.
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, modernisation of airports and ports, telecommunication. The investment in infrastructure will give a boost to industrial growth and help in creating income and employment in the Indian 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.

Criticisms

A Critique of Multinational Corporations:
In recent years, foreign direct investment through multinational corporations has vastly increased in India and other developing countries. This vast increase in investment by multinational corporations in recent years is prompted by factors –

(1) the liberalisation of industrial policy giving greater role to the private sector,

(2) opening up of the economy and liberalisation of foreign trade and capital inflows.

In this economic environment multinational corporations which are in search for global profits are induced to make investment in developing countries.
As explained above, foreign direct investment by multinational firms bring many benefits to the recipient countries but there are many potential dangers and disadvantages from the viewpoint of economic growth and employment generation. Therefore, role of multinational corporations in India and other developing countries has been criticised on several grounds. **Following are the criticisms, leveled against multinational corporations:**

1. Capturing Markets: With their vast resources and competitive strength, they can weed out their competitive firms. For example, in India if corporate multinational firms are allowed to sell or produce the products presently produced by small and medium enterprises, the latter would not be able to compete and therefore would be thrown out of business. This will lead to reduction in employment opportunities in the country.
2. Use of Capital-Intensive Techniques:
It has been seen that increasing capital intensity in modern manufacturing sector is responsible for slow growth of employment opportunities in India's industrial sector. These capital-intensive techniques may be imported by large domestic firms but presently they are being increasingly used by multinational corporations which bring their technology when they invest in India.

3. Encouragement to Inessential Consumption:
The investment by multinational companies leads to overall increase in investment in India but it is alleged that they encourage conspicuous consumption in the economy. These companies cater to the wants of the already well-to-do people. Besides, their consumption has a demonstration effect on the consumption of others. This tends to raise the propensity to consume and adversely affects the increase in savings of the country.
4. Import of Obsolete Technology:
Another criticism of MNCs is based on the ground that they import obsolete machines and technology. Some of the imported technologies are inappropriate to the conditions of Indian economy. It is alleged that India has been made a dumping ground for obsolete technology.

5. Setting up Environment-Polluting Industries:
It has been found that investment by multinational corporations in developing countries such as India is usually made for capturing domestic markets rather than for export promotion. Moreover, in order to evade strict environment control measures in their home countries they set up polluting industrial units in India.
6. Volatility in Exchange Rate:
Another major consequence of liberalised foreign investment by multinational corporations is its impact on the foreign exchange rate of the host country. Foreign capital inflows affect the foreign exchange rate of the Indian rupee.

Conclusion:
We have seen above foreign investment by multinational companies have both advantages and disadvantages. Therefore, they need regulation and should be permitted in selected sectors and also subject to a cap on their investment in particular fields. If objective of economic growth with stability and social justice is to be achieved, there should not be complete open door policy for them.
It is true that multinational corporations take risk in making investment in India, they bring capital and foreign exchange which are non-debt creating, they generally promote technology and can help in raising exports. But they must be regulated so that they serve these goals. They should be allowed to invest in infrastructure, high-technology areas, and in industries whose products they can export and if they help in generating net employment opportunities.

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