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IMPACT OF MULTINATIONALS ON INDIAN ECONOMY

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Abstract:-

MNCs originated in the early 1860s; it was after the Second World War that the multinationals have developed rapidly. In the early days, U.S.A. was the pioneer of most of the MNCs. At present the MNCs are able to make entry into various markets by means of licensing and franchising agreements.

The employment pattern of MNCs is quite in consonance with the FDI (Foreign Direct Investment) pattern. Since the main concentration of MNC is in industrially advanced economies, their employment is also confined to advanced countries. Moreover their upsurge in FDI activity which took place in late 1980s had mainly took the form of reshuffling of ownership pattern amongst existing multinationals and hence it resulted into 'employment acquiring' rather than 'employment creating' impact. This paper portrays on the impact of multinational on the employment scenario in India

Keywords:

Multinationals, Employment.

INTRODUCTION

India throws its doors open to trade and commerce. Multinationals turn their attention to this new grazing ground. More and more technically advanced countries put India on their foreign diplomacy agenda. This transition from 'economic-nationalism' to 'global mercantilism' sets Indian society into a whirlpool of transformation.

Multinationals serve both HOME and HOST countries. The host countries absorb foreign investment and the home countries release investments. Any country can be a home or host country but generally the less developed countries (LDCs) or the developing countries (DCs) need foreign investment in their land to come out of the vicious circle. Due to political exploitation for a long period of time, most of the LDCs and DCs did not like foreign establishments on their land. Now the idea of globalization has changed the entire scenario.

Although the MNCs took birth in the early 1860s, it was after the Second World War that the multinationals have grown rapidly. In the early days, U.S.A. was the pioneer of most of the MNCs. At present the MNCs are able to make entry into various markets by means of licensing and franchising agreements. MNCs have spread their activities to service industries like banking and finance, telecommunication, public utilities and transport.

Notwithstanding some of the areas of controversy, the Indian economy in general and Indian industry in particular has welcomed the entry of MNC and has, by and large adopted a positive approach to FDI. A number of Indian firms across a wide range of industries and products are going in for 'Strategic Alliances' with their foreign counterparts as a way of restructuring themselves to face the challenges of global competition.

Indeed, very few doubt the need for the increased flow if FDI into the Indian economy, especially the core infrastructural activities such as power generation, telecom, refineries, road building, ship building etc. Hence it is quite encouraging to note that a very major chunk of the approved FDI is being channelized into such crucial sectors. However, admittedly, there is a gestation lag involved in the implementation of these huge projects, as a result of which the gap between the accrued and the approved FDI still persists.

Given the inherent superiority of FDI over the other forms of foreign capital inflow via external commercial borrowings, loans, portfolio investments, NRI deposits etc. which can be vulnerable to uncertainties, the government of India is leaving virtually no stone unturned in order to attract the maximum possible FDI. Already within a span of a few years, there has taken place considerable liberalization in the policy towards FDI-simultaneously with the massive delicensing and deregulation of the domestic industry.

MNCS AND EMPLOYMENT:

The employment pattern of MNCs is quite in consonance with the FDI (Foreign Direct Investment) pattern. Since the main concentration of MNC is in industrially advanced economies, their employment is also confined to advanced countries. Moreover their upsurge in FDI activity which took place in late 1980s had mainly took the form of reshuffling of ownership pattern amongst existing multinationals and hence it resulted into 'employment acquiring' rather than 'employment creating' impact.

The comparison of employment scenario of MNC at home and abroad becomes difficult for want of segregated data. The exact data on total employment of MNCs are available only in respect of two major home countries i.e. United States and Japan. The labour market information in respect of other countries is not easily available since it does not differentiate between MNCs and domestic firms.

A considerable amount of employment has been concentrated in large MNCs headquartered in major industrialized countries of the world. The enterprises are characterized by gigantic scale of their operation, their geographical and product diversity, their large sized research budgets. Possessing intangible assets like brand names, improved technology and organizational competence, they tend to be concentrated in capital and marketing industries like chemicals, soaps, cosmetics, pharmaceutical products, food and drink products, automobiles, electronics, electrical and non electrical machineries and equipments.

Thus, while assessing the impact on employment, the following observations can be made:

1.The contribution of multinationals in employment generation, especially in developing countries has remained low.
2.This low contribution to employment generation is due to the fact that investment in multinational enterprises takes the form of buying up of firms and less setting up of new production units.

3.Multinationals invest in industries which are inherently capital intensive and use very advances techniques.
4.The sectoral analysis of industry shows that their employment effects are relatively small in extractive industries.
5.Positively where multinationals work, ancillary industries are also developed and thus they help job-creation.

In a country like India where unemployment is at its highest, a society that does not guarantee any job security, can it rely on the multinationals for employment generation?

When job opportunities minimize exploitation of worker in terms of time and energy increases. In America overtime hit an all time high an average of 4.7 hrs. a week. Companies routinely asked employees to do the work of 1.3 persons for the same pay and less time off. This will take toll of individuals on many levels –physical, psychological and social.

India along with the entire world enters infro-technology age. Rising inflation and high rate of literacy make it imperative that both partners in a family work, as is the situation in metropolis. The result is that people are stretched financially, stretched in terms of time, and stretched emotionally. Less and less time is spent with the family. This leads to communication gap between family members.

Women are the most affected lot. If working, then they tend to do double duty-office and home. If non-working, it does not make any difference. Thus, the entry of multinationals will have to be viewed in the context of the social unit: an individual-his physical health, his mental well-being, his relationships and his social welfare.

In a country like India where corruption has hit an all time high, a sense of social responsibility is fast dipping further, multinationals probably would help rich becoming richer and poor poorer. Rapid industrialization and consequent rapid urbanization would mean damage to ecological balance and endangering the flora and fauna of the country. Migration to the cities would further deteriorate the quality of life in both cities as well as villages.

It is expected that multinational enterprises particularly when they operate in developing countries, should endeavour to increase employment opportunities and standards, taking into account the employment policies and objectives of the respective governments including the aspect of security of employment. It is also expected that these MNCs should give priority to the employment, occupational development, promotion and advancement of nationals of the host countries at all levels in co-operation with workers' organizations and the government. Even while using technology, they must keep in mind the aspect of employment generation-both direct and indirect.

Indian MNCs:

While some major business houses of India established Greenfield manufacturing joint ventures abroad, most of them, with the exception of A V Birla Group, did not do very well. The situation has, of course changed dramatically over the last decade. Many Indian firms have slowly but steadily embarked on the global path and led to the emergence of Indian multinational companies. The economic reforms that began n the early 1990s brought many large multinational companies to India. A major challenge to these corporations was to manage the interface of global corporate culture and India's powerful, traditional and widely varying cultural practices.

In the past few years, whenever organizations around the world have outsourced activities to India, the Indian counterparts have helped to cut costs, while maintaining high quality. Moreover, all these cost and quality advantages are coupled with the use of state-of-the-art technologies.

Indian companies have created value and thereby helped organizations around the globe gain competitive edge. Many Indian companies themselves are now becoming multinationals. Indian direct investment abroad has now gone past the $10 billion mark.

India has become a very important destination for most global firms, and in particular in ICT. While this is good for the economy and for overall economic efficiency, it means that the earlier fairly safe home market of Indian firms now is contested. As the Indian market develops it will become more competitive and less of a captive market for Indian firms.

Multinationals are generally beneficial for developing countries. They prepare strong base for growth provided a proper watch is kept on their political activities. In India they can be utilized to provide research and development base. They may also create favourable environment for growth by importing developed technology.

With a long tradition of political stability, comprehensive legal framework and entrepreneurial talent, in the recent times, the irreversibility of the NEP (New Economic Policy), have made India an attractive investment proposition. The outlook for future flow of FDI certainly looks brighter.

However India has to compete intensely with other countries specially South East Asian countries which have also in recent times, managed to attract sizeable FDI. Hence the close monitoring of the already existing liberal policies coupled with the further pursuit of the ongoing economic reforms are the essential conditions to enhance the magnitude of future FDI.

CONCLUSION:

Liberalisation has paved the way for the growth of MNCs in different countries. It should not be that MNCs are not simply agents of exploitation but they also act as agents of development by helping the host countries to increase domestic investment and employment generation, boost exports, transfer technology and accelerate economic growth. What is needed is to have a proper code of conduct for MNCs and an effective competition policy and law in the host countries.

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