CHAPTER 10

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10.1 Summary of Conclusions:

Transnational Corporations (TNCs) play stellar role in linking many national economies. They help in building an integral international production system – the productive core of globalizing world economy. The TNCs are large companies having enormous resources. These corporations become large either by merger of a number of companies or by opening their subsidiaries in other countries. The main objective of transnational corporation is global rationalization of available resources in the world. Thus, their function is to search out lowest cost-inputs consistent with desired standard of quality and efficiency to create new market. The extent and spread of international production activity may be gauged from the number of enterprises that are involved in it. Over 5,00,000 foreign affiliates is in operation world wide, established by about 60,000 parent companies spreading virtually almost in every country of the world. To this, an unknown number of firms would have to be added that are linked to each other through non-equity relationship.

Foreign Direct Investment (FDI) is the main arrangement of TNCs, who brings with it not only huge capital but also advanced technology, market accessibility and organizational skills. The regional distribution of inward and outward FDI stock is heavily skewed towards developed countries reflecting the fact that in the past most of the FDI originated and stayed in the developed countries, although there are some noticeable upward increase of FDI, inward and outward stock of developing countries. It is striking to note that out of the top 100 TNCs from the world, majority of them belonged to developed countries. Analytical study with regard to FDI reveals that FDI inflows in developing countries
have recorded splendid growth trend i.e. 246 per cent as compared to developed economies during 1986-98.

It is worth noticing that cross border Mergers and Acquisitions (Ms&As) by TNCs in different sectors of economy world wide during the period 1989-98 have increased significantly reflecting a general increase in global Ms&As activity. The absolute value of all Ms&As, sales amounted to US$ 544 billion in 1998, representing an increase of about 60 per cent over 1997 (US$ 342 billion). The study further reveals that the largest number of Ms&As have taken place in the tertiary sector over a decade i.e. from 1989-98, representing a growth of 55 per cent followed by secondary sector 38 per cent. The primary sector has shown a meager growth of only 8 per cent during the period under reference. Liberalization and deregulation are the main factors behind the increment in the Ms&As the world over in both developed and developing countries.

According to UNO World Investment Report 1999, the TNCs show a high degree of transnationality as measured in terms of share of foreign assets, foreign sales and foreign employment. Worldwide cross border Ms&As have mostly taken place in banking sector. The pharmaceutical, automobile and telecommunication were aimed at the global restructuring or strategic positioning of firms in the industries. All the achievements of TNCs goals have been made possible through liberalization including of course the outcome of Uruguay Round i.e. the WTO. The World Trade Organization became operative from January 1995 for implementation of the various provisions of Dunkel Draft chiefly pertaining to trade and investment. In order to expedite the resumed negotiations in 1991, Sir Aurthur Dunkel, (Director-
General of GATT) and the official chairman of the TNCs tabled a scheme of proposals for the consideration of the participating countries of the world. The effects of WTO originated from the Uruguay Round Treaty (URT). The treaty is a march towards global economy. Trade barriers and quota system of all the 117 participating nations are being reduced in phases and will be completely abolished by the year 2004.

Dunkel Draft is the centerpiece of the URT. Trade Related Investment Measures (TRIMs), Trade Related Intellectual Property Rights (TRIPs) and Multi-Fibre Arrangement (MFA) are the three crucial agreements of the GATT negotiations at the Uruguay Round. The TRIMs opens the gates of financial service sector. However, the member countries are permitted to adopt their own foreign investment policy. TRIPs encroach upon the member country sovereign right to frame its own legislation on intellectual property matters. MFA regulated trade in textiles and clothing since the last four decades. Under this special arrangement, importing countries such as, USA, Canada, Austria, Norway, Finland and European Union (EU) could impose quota restrictions on exports from the developing countries on selective basis.

The first Ministerial Conference of WTO held in Singapore (1996) among many important issues, deliberated upon opening a novel way of providing impetus for strengthening and boosting the efforts of liberalization through reduction in tariffs and anti-dumping safeguards, reduction in quantitative barriers and issues pertaining to TRIPs. The other significant issues, which arrested the attention of the participants, were multi-lateral accords on policy competition, investment standards of labour etc.
The Industrial Policy of Independent India was first announced in 1948. This was the first concerted attempt to enunciate a comprehensive industrial policy for the country and it has served as the kingpin of the country’s industrial development planning. After this, the Industrial Policy Resolution took place in 1956 on the advent of Second Five-Year Plan. The policy did not aim at nationalizing the existing units but on the contrary devised adequate steps for their growth and development.

The Industrial Policy of 1973 has been viewed as a supplement to the Industrial Licensing Policy of 1970. It has paid greater attention in defining the role of the private sector with particular reference to large industrial houses. Despite so many policies which government had followed, the result was not satisfying. The Industrial Policy announced in December 1977, was therefore primarily directed towards remaining these distortions of the past so that the goal of faster economic development could be achieved within a time bound programme.

The government announced on July 23, 1980 the New Industrial Policy. The policy includes major relaxation and concessions benefiting the small, medium as well as large-scales sectors with the triple objectives of modernization, expansion and development of backward areas. Broadly speaking, this policy offered new deal to the private sector, promised to improve the efficiency of the public sector, and re-affirmed its fair in MRTP Act and the FERA.

With the onset of New Economic Policy (NEP) in July 1991 the TNCs seem to have been tremendously influenced in terms of increased business operations through several liberalization
packages for the foreign investors. Various reform measures, which took place during the economic liberalization regime, opened vistas for TNCs to invest more and more in the Indian economy.

Reforms in trade policy have created an environment to provide stimulus to exports and at the same time reduce the degree of regulations and licensing control on foreign trade. Reforms in industrial sector is to be directed to promote the growth of a more efficient and competitive industrial economy, such as reducing the controlled or licensed sector to minimum, amendments in controlling rules and legislation. Foreign Exchange Regulation Act (1973) has been diluted paving way for accelerating foreign trade and investment. The changes brought about in the FERA Act would hopefully open vistas of investment opportunities for foreign investors on the one hand and the Indian firms on the other. The government step to replace FERA with Foreign Exchange Management Act (FEMA) in 1999 is hopefully a step towards efficiency in institutional management. The Tarapore Committee examined the rupee convertibility in 1997 and recommended that the Capital Account Convertibility (CAC) should be introduced in three phases over a period of three years 1997-98, 1998-99 and 1999-2000.

The infrastructure sector reform has opened vistas of investment opportunities for TNCs to specially participate in power, telecommunication and roadways. These three branches of infrastructure sectors provide more concessional agreements for foreign investors. The Finance Ministry announced wide-ranging concessions in excise and customs through rationalization and restructuring of duties. A ten-year tax holiday for new industries
set up in specified areas. With effect from August 1, 1998, India unilaterally removed all quantitative restrictions on imports of around 2300 items from SAARC countries and government has given permission to set up Private Software Parks (STPs) for exports growth.

 Securities and Exchange Board of India (SEBI) was established in February 1991. A notification was issued under the Securities Contract (Regulation) Act, 1956, the power to guide and regulate stock exchanges, was entrusted to SEBI. This includes recognition, rules and articles, voting rights, delivery contracts, stock exchanges listing and nomination of public representatives. Capital market reforms have been carried out extensively by SEBI. The capital market reforms have the following motives, modernization in comparison of other stock exchanges of the world, efficient trading and clearance system, enhancing and sharpening the market efficiency and improving the system spreading information.

 Banking Sectors Reform measures recommended by Narasimham Committee have brought drastic changes and revolution in the behavior of both commercial and development banks. The Committee felt that the efficiency in this sector of the economy can not be improved without an efficient and healthy financial sector, and the efficiency of the financial system can be improved only through competition, both domestic and international, operational flexibility and functional autonomy. The Committee has however not recommended any wholesale privatization of commercial or development banks. It only recommended partial divestment of equity to private shareholders.
The Insurance Regulatory Authority (IRA) was set up as a follow-up of the recommendation made by the Malhotra Committee on insurance sector reforms. The government announced its intention to evolve a broad consensus about the future direction and content of reforms in this sector. In 1999 the insurance sector in India has been thrown open to the private sectors for taking active participation.

The Indian economy in the post NEP period has shown resilience and steadiness. The Balance of Payment (BoP) has been reduced on account of excess of exports over imports, the inflation rate brought down from almost 18 to the range of 3 to 4 per cent. Foreign exchange reserves are now beyond 25 billion dollars against 2 billion in 1991. GDP has risen almost from Nil to 6 per cent. The controlled measures of reform processes brought back the confidence of investors, foreign and domestic both in the capital market and the economy as a whole.

Foreign Investment in India by the TNCs has shown a great leap forward in the post NEP period as compared to pre NEP period. The number of foreign collaborations witnessed more than double increment in post NEP period rising to 17098 number (1991- Feb. 2000) from 7436 in pre NEP period (1948-1990). The liberalization regime appears to have made good deal of impact on the foreign collaboration approvals. From 1980-February 2000 the total average amount of actual inflow aggregated to Rs. 75933.50 million, out of this, barely 4.2 per cent of actual inflow of FDI belongs to pre NEP period and the remaining bulk of 96.8 per cent of FDI inflows pertain to the post NEP period. The country-wise analytical study for contribution in investment by transnational corporations reveal that India receives
more contribution from USA, UK and Germany based transnationals in pre NEP period. The contribution from USA, Mauritius, UK, France and Japan are more invisible in post-NEP period.

The data for contribution in investment by transnational corporations in sector wise performance for pre and post NEP period reveal that in pre NEP period manufacturing sector has the highest percentage of inflow i.e. (8.6 per cent) which decreased to 53.88 per cent in post NEP period. The reason for this decline is attributed to restrictive government policy of limited participation by the TNCs in manufacturing sector especially in FMCG. Whereas in service sector, petroleum and power there is an intensive increment in TNCs investment in post NEP period compared to pre NEP period. In service sector, inflow of FDI increased from 4.65 per cent in pre NEP to 21.88 per cent in post NEP period, registering an increase of almost 17.23 per cent. The factor contributing to increased amount of TNCs investment is ascribed to WTO policy of preconized TRIMs and government liberal policy towards telecommunication, transport and consultancy services. In petroleum and power sectors, the inflow of FDI in post NEP period increased to 21.29 per cent (from 1991 to Feb. 2000) compared to 20 per cent in pre NEP period (from 1980 to 1990).

Foreign Investment through NRI/OCBs, GDR/ADR in post NEP period registers a whopping growth. Actual Inflow of direct investment through NRI/OCBs schemes received during the period from January 1991 to February 2000 amounted to Rs. 78105.4 million. Inflow of direct investment through GDR/ADR received during the post NEP period (1991 to Feb 2000) amounted to Rs. 126099.3 million. The total amount of FDI approved by the
government since 1991 till February 2000 is Rs. 212664.22 crore roughly around US $ 60.38 billion and the total inflow adds upto Rs. 72777.71 crore i.e. US $ 19.86 billion. In the year 2000 there is further liberalization in the rules of foreign investment which is welcomed by trade and industry community. This momentous decision would enable India to tap its true potential and achieve the target of attracting US $ 10 billion FDI annually on a sustained basis. This would also help to attract FDI inflows into critical sectors of the economy, especially the infrastructure. This is going to send positive signals to the international investor community about the governments commitment to the reform process putting aside all apprehensions.

Transfer of Technology is the corner stone of the process of growth of any economy. The growth of both developed and developing countries depends on the efficiency of such transfer. Substantial number of technology transfer approvals has been witnessed to occur in post NEP period as compared to pre NEP period. Total number of Foreign Technology Approvals (FTAs) during 1991 to Feb. 2000 through SIA, RBI and FIPB routes accounts for 6488. There is a declining trend in FTAs percentage in overall foreign approvals except in 1998 which accounts for 33.31 per cent of the total foreign approvals during the period under reference. The reason of declining trend in the share of FTAs in total foreign approvals may be attributed to soaring inflow FDI during the period under review. This has happened on account of government policy for attracting more FDIs as compared to any other sources of foreign capital.

The present study has brought to the fore that there is a steep rise in Research and Development (R&D) activities in the
post NEP period as compared to pre NEP period (1955-65). The total investment by Central Sector, State Sector and Private Sector accounted to Rs. 35.25 crore, which rose to 9500.72 crore in post NEP period (1997-98). This substantiates the fact that relatively adequate capital has been invested in steering R&D efforts in the desired direction.

Even though transfer of technology is an important aspect of process of growth yet there are some constraints to be appropriately attended to by the government. For transfer of technology basically from advanced countries, which are not similar to the local environment is generally undesirable. The development of technology through local adoption and assimilation is largely owing to the pressure of local environment. Foreign enterprises however may not be responsible to such environmental pressure. In order to strengthen up indigenous R&D, the government should keep a sharp look and should follow the strategy to build up the national technological capacities with autonomy rather than dependence.

The joint ventures and subsidiaries through TNCs in India appear to have gained enough currency during the post NEP period as revealed by the present study. The joint ventures and subsidiaries are mostly coming through Greenfield projects where the project is set up with new manufacturing facilities and new plants and machinery. For this purpose, an Indian joint venture company is to be formed with normally 51 per cent equity held by foreign company. In some sectors, even equity upto 100 per cent is permitted to the foreign companies. With the onset of the NEP consequent upon several liberalization packages for the foreign investors, TNCs are now keen on setting 100% subsidiary in India.
This subsidiary syndrome is not any beneficent to the Indian affiliates for the TNCs reaps the advantage to the full in variety of ways.

The industries wherein the joint ventures and subsidiaries between TNCs and Indian Industries have taken place are agro-chemicals, pharmaceuticals, food processing, electrical equipment, automobile, personal products, computer hardware and software, leather product and host of consumer products. The economic liberalization has paved the ways for TNCs to enter into Indian market under joint venture and subsidiaries arrangement in post NEP period.

From the analysis of the financial performance appraisal of top 25 TNCs under joint ventures and subsidiary arrangement each reveals that the trends in sales, net profit, interest, net worth, tax, imports, exports and earnings per share of automobiles, engineering, electrical industries, food, products, personal care, pharmaceutical, machine tools and miscellaneous sector under reference have increased. This provides a base to corroborate the hypotheses that TNCs help in bringing advanced and sophisticated technologies, strengthening the production facilities, better market strategies and management as a consequence of which, overall growth and development is taking place in Indian economy during the post NEP period.

The financial services sector provides an opportunity to make an optimal utilization of untapped valuable resources. The transnational banks have the tenacity, expertise and financial strength to be benefited the most. As on 31st March 1998, these banks held 6.9 per cent of the countries deposits, 8.8 per cent of
advances, 9.6 per cent of income and substantial 77 per cent of the net profit generated by all commercial banks in India. The transnational banks have shown a significant growth and they are known for their personal customer approach and latest marketing techniques. Overall, the transnational banks have been helping in developing the various sector of economy by making huge investments.

The Mergers and Acquisitions (Ms&As) game in Indian context has already created revolutionary ripples in the sphere of Indian computer sector. With the entry of transnational into the Indian market in the wake of economic liberalization, the Indian corporate are induced to enlarge resources and diversify their business and products to meet the global onslaughts of competitive challenges. During the post 1991 period, corporate India has witnessed a flurry of activities of the Ms&As. During the fiscal year 1998-99 alone, Ms&As deals involving whopping Rs. 151 billion were made. Almost all the major sectors of the economy have witnessed the entry of TNCs through M&A. Nine years since the reforms set in, we see the sell-out to the TNCs as the fastest and most significant “globalization” of the Indian business houses.

From the analysis of the financial performance appraisal of top 25 TNCs operating in India under Mergers and Acquisitions (Ms&As) arrangement belong to Electrical equipment, electronics, diversified and miscellaneous sectors, it is evident that the sales performance, profit earnings, net worth and earning per share are rising at a steady rate. The financial results of these selected TNCs provides a base to corroborate the hypotheses that TNCs operating under Ms&As arrangements are creating better market strategies and provides better resources, better products which results in high
sales, more profit and improved networth, as a result enhanced shareholdings value contributing positively to the growth of Indian economy.

Development of social sector is the responsibility of the central government and the state government both. It is clear from the analysis with regard to the effort of the government in the development of social sector that there has been inadequate effort by the government of the period under review. It seems that the political priorities have taken precedence over the social considerations. It is crystal clear that the lack of social services is the major hurdle in attracting TNCs to take part in the industrial development of the country. The NEP has enlarged the scope of activities of TNCs in all the sectors of economy. It is equally important to call upon TNCs to invest a part of the profit for development of social sector.

TNCs are the motors of economic progress and prosperity so the TNCs and the global social organizations should come forward to invest in social sector so that it can help in developing the country to establish human dignity, alleviation of human sufferings, ignorance, poverty and starvation which act as hindrance in establishing a strong industrial base and economic structure.

10.2 Overall Impact Of Transnational Corporations (TNCs) In the Development of Indian Economy:

The impact of TNCs on Indian economy from the view points of micro-parameters gives vent to the fact that TNCs business activities in the post NEP period have been on the rise as compared to pre NEP period, both in terms of number of foreign
collaboration approved and actual inflow of FDI. TNCs from more than 60 countries are taking active participation in foreign investment. TNCs from the developing countries such as USA, UK, Germany, France, Japan, Italy, Switzerland, and great number of TNCs from some developing countries such as Mauritius, Korea and Malaysia are the prominent investors in Indian market. Overall, packages of liberalization policies measures, unleashing many of the controls, restrictions and reservation and importantly the size of potential consumer market and also the availability of cheap technical, professional, skilled and unskilled personal are attracting the TNCs, from different countries to invest in Indian market.

The inflow of foreign direct investment through technology transfer, joint venture, subsidiary, mergers and acquisitions and financial services has increased the capital stock, productive capacity, technical know-how, creating international competitiveness and managerial skill in India. TNCs have played an important role in the mergers and acquisition activity; TNCs were involved in about 32 per cent of acquisition and 8 per cent of merger cases. Overall, the TNCs through FDI help the economy grow and develop.

The impact of TNCs through macro parameter reveals that the Gross Domestic Product (GDP) growth rate, index of industrial production, gross domestic capital formation and gross domestic savings as per cent of GDP has shown improvement especially after the NEP period. There is overall improvement in Balance of Payment (BoP) in post NEP period. The analysis of price indices vis-à-vis the inflation rate produces a mix result, despite the achievement of high growth rate of GDP, the inflation has not
been caged as desired. The foreign exchange reserves have fairly increased during the post-NEP period. The trade balance has shown a sign of improvement as the export-import ratio has spectacularly improved. So much so that the exports now finance nearly 90 per cent of imports against 50 to 60 per cent during 80's. The external debt is efficiently managed to reap the gains of high growth rate of exchange through keeping maturity structure and the amount of commercial debt under manageable limit. The impact of TNCs is very much pronounced in terms of inflow of non-debt foreign capital i.e. FDI during the post-NEP period.

10.3 Findings vis-à-vis Statement of Hypotheses:

**Hypothesis One:**

"That India fulfills the pre-requisites for attracting foreign investment by Transnational Corporations (TNCs) in different sectors of the economy since the advent of economic liberalization regime of July 1991".

Since the introduction of NEP in July 1991, Indian government adopted various modes to globalize its economy. On industrial sector front, provisions and regulations have been specially simplified in order to facilitate efficient production. Reforms in trade policy have provided enough stimulus to exports and overall trade promotion and development. The government adopted many reform packages and procedures to attract more and more foreign investment. Special concession and repatriability norms have been formulated to lure NRIs and TNCs. The Foreign Exchange Management (FEMA) bill replaced FERA in 1999. FEMA in the wake of rupee being fully convertible on current account and partial convertible on capital account will hopefully bring about
overall efficiency in the foreign exchange management. The government has also begun to explore the feasibility of introducing full Capital Account Convertibility (CAC). It seems to have been inspired by the burgeoning foreign exchange reserves and the relative stability of the exchange value of rupee after the reform on the one hand and relatively better performance of the economy in the recent years on the other.

In the infrastructure sector, various reforms are being made to lure more foreign investment, uniform tax holiday has been increased from 5 years to 15 years for all infrastructure sector projects. Foreign investment implementation authority has been created to smoothen flow of FDI into the infrastructure sector and the import duty structure for project has also been rationalized.

Financial reform is co-related with the fiscal reform. In the changing global economic milieu, financial system control holds greater significance for the overall growth and development. It was realized that without fiscal reform the economy could not triggered off. Fiscal deficit can only be improved by either raising tax and non-tax resources or by chopping out the lot of expenditures. The Structural Adjustment Programme (SAP) introduced in 1991, emphasized the pruning of government expenditure, particularly subsidies and bureaucratic expenditure. The actual implementation of SAP varied between the centre and the states and also among the states. SAP was initiated with the twin objectives of preventing macro economic imbalances on the one hand, and acceleration of long-run growth of income and standard of living on the other.

The most significant changes have taken place in capital market. Capital market plays a vital role in new economic
arrangements. Reforms have been implemented in capital market, to attract more investors. Government of India established a regulatory body namely SEBI to control and regulated activities of the capital market and ensure the interest of investors. Modernization of stock exchanges and introduction of buy back of shares, Demat trading are recent steps in this direction in a bid to globalize the capital market.

Banking sector and insurance sector have also witnessed the impact of liberalization. RBI announced reduction in CRR, SLR and time factors in various related transactions. Private and foreign banks are invited to operate in banking services. Insurance sector has been thrown open to the private sector. Now foreign as well as domestic private companies can operate in these sectors ensuring improved and qualitative service to the customers.

The whole economic scene has undergone a drastic change. The major achievements of the economic reforms can be reckoned with in terms of huge amount of inflows of foreign capital, not only foreign direct investment but also portfolio capital, which helped India to emerged as one of the potential consumer markets in Asia. It can be deduced that India fulfills the pre-requisites for attracting foreign investment in different sectors of the economy, hence, hypotheses one is proved positively.

**Hypothesis Two:**

“That the global TNCs are making investment in a big way in post-NEP period in business arrangements of FDI, transfer of technology, joint ventures, subsidiaries, merger and acquisition and financial services and thus contributing to the growth and development of the different sectors of Indian economy”.
Foreign investment has been a major factor in stimulating economic growth and development in recent times. The structural changes and international integration have made foreign investment a coveted tool of economic development. Foreign collaboration approvals and actual inflow of FDI by TNCs in post NEP period (1991 to Feb. 2000) shows a rising trend. TNCs have brought in new technologies and products that our domestic companies are unable to evolve. FDI through TNCs helps in several stages of industrial development by providing up-to-date technology to Indian companies and to determine purchase prices on commercial considerations rather than on those imposed by the government. Mergers and Acquisitions are very important TNCs market entry as well as growth strategy. It is helping the economy in acquiring new technology and creating huge market and distribution network.

The financial service sectors are creating new concepts and thus they have enough that they can sell. Their prime attention is on the formation of sound marketing mix as they believe in the philosophy of improving quality, expanding market, maximizing the range of profit and thus making possible a fine fusion between customers and generating profits.

The Indian economy is set on high growth path since the advent of NEP. The consequential increase of capital flows in variety of arrangements i.e. FDI, transfer of technology, joint ventures, subsidiary, merger and acquisition and financial services are helping in capital accumulation, technological progress and creating international competitiveness. It is crystal clear from the foregoing analytical study that in the post NEP period the activities of TNCs in Indian economy have substantially increased. The TNCs
are now poised to invest more in India through increasing their equity stake in their Indian counterparts, setting up more joint ventures, subsidiaries, merger and acquisition and tending to have entered into more strategic alliances. Their participation in multifarious ways has contributed towards increased production, enhanced exports and qualitative marketing strategy integrating Indian economy with global economies. The second hypothesis is thus positively proved.

**Hypothesis Three:**

"That TNCs are the major contributor in developing Indian economy to fall in line with the global economies, helping India emerge as a Asian economic giant in the 21st century."

In the post reform period there has been overall improvement and recovery in macro stabilization indicators—Gross Domestic Product (GDP) growth rate, index of industrial production, gross domestic capital formation and gross domestic savings and investments as per cent of GDP have shown a sign of recovery and improvement. There is a drastic cut in the gross fiscal deficit both in centre and state. The current account balance and foreign exchange reserves have substantially improved. The trade balance has also shown a sign of improvement but not as much as current balance. The export-import ratio has also spectacularly improved. The import cover up of foreign exchange reserves has improved significantly during the post-NEP period. The most crucial parameter of measuring economic health is Balance of Payment (BoP). The analysis with the regard to the balance of payment reveals that there has been over all improvement in balance of payment in post-NEP period. External debt management
appears to be top priority of the government to reap the gains of high growth rate of export through keeping maturity structure and the amount of commercial debt under manageable limit. Here the impact of TNCs is very much pronounced in terms of bringing no debt-creating foreign capital. The growth of employment in the private sector is more than public sector during the post NEP period. The reason for this is that the large number of TNCs is entering with huge investment in financial services, pharmaceutical, telecommunication, automobiles, and engineering and electronics industries. The presence of TNCs has increased the demand for skilled, semi-skilled and highly skilled technicians.

With the advent of economic liberalization regime, TNCs businesses in India have galvanized, contributing positively towards the overall growth and development helping India emerge as a Asian economic giant in the 21st century. The Research Scholar is, however, apprehensive of certain areas of TNCs operations in India, which he has elaborated in the Suggestions and Recommendations part.

10.4 Suggestions and Recommendations:

In the post-NEP, the Indian economy has witnessed drastic policy and procedural changes for the inflow of FDI. However, much more is still needed to be done in the realm of policy formulation focussing FDI, such as, single window clearance for strategically significant projects i.e., telecommunication, information and technology, power and the projects in other vital sectors of the economy. In this connection it is essential that there should be clear line of demarcation for the investment through automatic route and FIPB route in respective sectors.
The foreign investors are skeptical with regard to labour laws. The labour laws need to be streamlined and suitably amended for unimpeded flow of foreign investment.

The enabling policy framework in compatibility with WTO provisions, such as, IPR and TRIM need be tuned for facilitating promotion of trade and investment. However, the larger interest of the country should be protected.

The reforms in financial sector, banking sector, insurance sector, public sector, fiscal and monetary policies need to rationally continue for the benefit of both the Indian corporates and the TNCs.

On the tax front, the picture is somewhat grim. The drop in the share of direct taxes and relatively high share of commodity taxes indicate an inappropriate tax mix. The paradigm shift in the policy of the government to corporate tax is an indicative of giving priority to foreign investors. In a liberalized environment, rationalized tax laws for global competitiveness should govern the industry.

The TNCs show interest in setting up their business houses in those areas where the infrastructural facilities are adequate enough. They avoid investment in the rural areas and the states with inadequate infrastructural facilities. This kind of investment bias by TNCs would lead to regional imbalance. In order to avoid such condition, the state government together with the central government should come forward with policy packages in terms of incentives and tax relaxations for TNCs to invest in rural areas, which are endowed with factors of production. Besides, the
government should also frame-up the policy to develop the infrastructure in the regions potential for investment.

The TNCs evince keen interest in producing only those products where the margin of profit is much higher. They do not take low margin profit products into consideration. The government should introduce policy package to increase the role of free market in relation to entry and operation of FDI. The government should come up with more incentives in the areas where the profit margin is low to attract more TNCs to invest in these areas.

The TNCs generally follow high-tech intensive production process, adversely affecting over all scheme of employment generation. The government should invite TNCs to undertake the projects for investment, leading to absorption of unemployed hands of the country. The TNCs should also be encouraged to invest in technology for development of the agricultural sector. In the face of ongoing liberalization for globalization of the economy, it now becomes mandatory that the government should increase its national expenditure on R&D for better research and development programmes. In this endeavor, the TNCs should be made to participate in terms of FDI, technology and exchange programmes for interaction of scientists through seminar, symposia and workshops.

The foreign investment by TNCs is contemplated to impact the income distribution within the host country. They exploit the local savings and adopt the policy of less capital and more borrowings. As a consequence, they tend to monopolize the best investment opportunities in the host country to the detriment
of state companies and private capitalist, inducing the latter to remit their capital abroad rather than invest in unpromising projects at home. In order to avoid this situation, it is essential that the government should speed up the liberalization process with greater transparency and stability, according incentives for increased FDI inflows by the TNCs. The announcement made by the central government to resort to second generation of reform measures would be a welcome step in this direction.

There is a growing feeling that the TNCs transfer only obsolete technology or machine to the foreign collaborators. To avoid this, the government should work out the needs and requirements of technology appropriately suitable to the country, and should also evaluate the terms and conditions of different suppliers and proceed cautiously with the programme of import of foreign technology.

High and sophisticated technology transferred by TNCs does not match with the atmosphere of Indian industries. To offset this, emphasis should be given on import of technology from only developing countries, such as, Singapore, Korea, Malaysia and Indonesia. The socio-economic set up of these countries is much similar to that of the Indian industrial culture. The government technology policy should identify and pin point technological gaps, the sources of innovations and the efficiency of R & D.

In order to strengthen the industrial base in terms of suitable technology, the government, the corporate and the TNCs should join hands for establishment of more subsidiaries and joint ventures in the country. A proper study should be made before the
import of technology with regard to quality of technology and the price paid for it.

Transnational Corporations are creating the dilution of cultural and social values through strong advertising campaign weakening the emotions and excitement for nationalistic sentiments. It is also widening the gap between rich and poor and corrupting the public officials. To check this, government should keep a strict vigilance towards the - advertisements which can distort the cultural and social values of the country.

TNCs are keenly interested in establishing 100% subsidiaries and they are shifting the large chunk of profit to their parent company. To check this practice, government should take some corrective measures for maintaining shareholders confidence in domestic companies.

TNCs are also shifting their fast moving and profitable products from Indian affiliates to their 100% subsidiaries, as a result, the profitability of the affiliates are affected, shattering the confidence of the Indian share holders. The government should check these activities through policy framing in the larger interest of the Indian corporates.

The strategic alliances through merger and acquisitions should be encouraged for better resources, quality products and sizeable market penetration.

The newly emerging species of foreign investors, such as, NRIs / OCBs, GDRs / ADRs in post-NEP period are believed to shape the destiny of the Indian economy as substantial amount of funds has been governed through them. In order to garner and raise funds through these routes the government should pay
attention to further remove the procedural impediments and legal implications such as, more incentives to the NRIs through introduction of some more lucrative schemes, minimum legal procedural barriers for raising fund through GDRs / ADRs.

The TNCs along with the Indian corporates and government should be made committed to come forward to share the responsibility of developing the social sector in India, in terms of alleviation of hunger, ignorance and poverty, investment for quality education, healthy sanitation and concern for the neat and clean environment. TNCs must be convinced that investment in the social sector is a commitment to a humanity and not to a political agenda of any nation or group of nations.

Our future policy announcement should now lay considerable emphasis on attracting both types of foreign investment, including direct and indirect, for a long-term stable growth of the economy. The findings of the study reveal that greater number of financial services, spate of mergers and acquisitions, technological collaborations, host of subsidiaries and joint ventures have been witnessed in post-NEP period, contributing to the growth of various sectors of the economy.

10.5 Direction For Future Researches:

The present thesis has critically delved into the varied facets and dimensions of foreign investments by transnational corporations in terms of FDI inflows, transfer of technology, joint ventures and subsidiaries, Ms&As and financial services in India. The study has further proceeded to assess the impact of transnational corporations on the development of Indian economy in the wake of economic liberalization for globalization. Based on
the findings of the study, suggestions have been offered by the Research Scholar for attracting substantial amount of foreign investments. The study has also pointed out towards certain lurking threats keeping in view the freedom of TNCs operating under liberalization regime. The study has therefore given warning signals for the government of India to further streamline liberalization policy-packages, so that maximum leverage can be availed of from TNCs businesses in India.

The study is of tremendous academic utility contributing to the existing stock of knowledge on the subject matter of global finance. It has successfully provided the logical framework of the study for making profound application to the areas and scope of operation of Indian TNCs abroad – not covered under the gamut and scope of the present study on account of time constraint, vastness of the scope of the subject-matter and lack of relevant structured data.

In fact, Indian TNCs is spreading over a large number of countries encompassing a wide range of industries. India’s foreign investment in developing countries covers Africa, the Middle East, South and Southeast Asia.

A separate study is required to throw light on multifarious aspects of Indian TNCs investing abroad in terms of analysing trends in pattern of investment by way of equity i.e. FDI, joint ventures, subsidiaries and transfer technology. In the wake of economic liberalization, the government of India has made provision for automatic approval for Indian direct investment and joint ventures and wholly owned subsidiaries abroad. The study is required to delve into the liberalization policy packages for Indian
equity investment in joint ventures and wholly-owned subsidiaries abroad in the context of the new Liberalized Exchange Rate Management System (LERMS) policy as well as the simplification of procedures abroad by Indian business corporates.

The subject matter of technology transfer among developing countries with focus on India has, of late, warranted closer scrutiny and more intensive study. With globalization of international trade, there has been a growing realization among our policy makers that developmental strategies should be evolved to share technology transfer among developing countries themselves in specific area of operation to facilitate an increase in trade flows and to help maximize welfare with increment in total product. This aspect needs to be researched critically and thoroughly.

Trade in services or in other words, internationalization of services helps in foreign exchange earnings that form a part of the invisible earnings. Such earnings lessen the current account deficit and solve a major problem of the developing countries have to face. In India, where the planners are contemplating to bring down the current deficit to the possible minimum i.e. 1.4 to 2 per cent of the gross domestic product, trade in services, more particularly the financial services, has a crucial role to play in the process of economic development. A project is needed to be undertaken separately to research all the aspects of trade in services in the context of economic liberalization for globalization.

In fine, the Indian TNCs operating abroad by means of various business arrangements viz., FDI, joint ventures, subsidiaries and services are yet another significant potential spheres to determine the impact of economic development of India.