IMPACT OF TRANSNATIONAL CORPORATIONS IN THE DEVELOPMENT OF INDIAN ECONOMY

(ABSTRACT)

The Transnational Corporation's (TNC) origin in an organized form dates back to early fifteenth century. Over the years they have been flourishing in a variety of forms and arrangements. The TNCs are the firms that engage in international production occupying the core of the process of globalization. There are about 5,00,000 foreign affiliates established by some 60,000 parent companies. These TNCs mainly hail from developed countries. There is however, some good number of firms belonging to developing countries and more recently firms from economies in transition, including also small and medium sized firms. The world's 100 largest TNCs together hold US$ 1.8 trillion in foreign assets sales with US$ 2.1 trillion abroad, and employment to serve six million persons in their foreign affiliates (1998-1999). FDI inflows increased by 39 per cent globally during 1998-99. Ms&As have further fuelled the increase in FDI, with a rise of more than US$ 202 billion in the value in 1998-1999 as compared to previous year, i.e. 1997-98.

The FDI outflows by home, region, and economy also follows suit the similar trends as that of FDI inflows. The developing countries as a group have played key role in FDI
flows. As a matter of fact, many developing countries are heterogeneous with regard to level of development, size of domestic markets, diversification of production and host of other factors. The recent survey of the TNCs of three developed countries viz. North America, Europe and Japan infers that these countries have been showing sharp inclination towards investing more in the Asian and Latin American and Caribbean economies than in their own economies. This shift in their attitude seems to have been influenced on account of large sized consumer markets enabling business environment and availability of skilled force in China and India.

The developing countries need to be more united and act more cohesively than ever before if they wish to exploit the provisions and deregulation's of WTO to their maximum benefit. The support of liberal developed countries will add weightage to their cause and requirements. The Ministerial Conferences of WTO have proved the concern of all, developed and developing countries to facilitate and promote socio-economic growth and stability globally. However, there is a lurking fear that the latent policy of protectionism in the industrialized countries especially the US and the proliferation of regional trade agreement like APEC and NAFTA tradeoffs like cross border movement of skilled personnel may work as stumbling blocks to the philosophy of free trade of WTO.

The present study deals with regard to impact of TNCs in terms of inflows of FDI, technology transfer, joint
ventures, and subsidiaries, Ms&As, and financial services for overall economic development of India.

The study has pursued the following objectives:

- To study the role of TNCs in India in pre and post independence era.
- To review the foreign investment policies in pre and post independence period focussing on liberalization era.
- To make comprehensive study as regards the foreign investment policy changes in post-liberalization period and their impact on the business operation of TNCs in India.
- To critically appraise the TNCs performance in terms of inflows of FDI, transfer of technology, joint ventures, subsidiaries, mergers and acquisitions and financial services during both pre and post liberalization regime.
- To study the impact of TNCs, in the overall development of Indian economy.

In order to substantiate the objectives, the following hypotheses have been formulated:

- 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.
- That the global TNCs are making investment in India in a big way in post-NEP period in business arrangements of FDI, technology transfer, joint ventures, subsidiaries, Ms&As and financial services and thus contributing to the growth and development of the different sectors of the Indian economy.
- That TNCs are the major contributor in developing Indian economy to fall in line with the global economies helping India emerge as an Asian economic giant in the 21st century.

The scope of the study is defined in terms of subject matter coverage and time span coverage. In terms of subject matter and sectoral coverage, the present research study is related to an enquiry into the broad spectrum of inflow of FDI, joint venture, subsidiaries, merger and acquisition,
financial services and their impact on the development of the Indian economy.

In order to achieve the objectives of the study a sample size of 212 TNCs operating in India in the business arrangement of mergers and acquisitions have been selected to examine their participation in various sectors of the economy in terms of financial and physical performance. In order to study the financial performance of TNCs in liberalizing Indian economy, a sample size of 75 top TNCs operating in India under joint venture, subsidiaries and mergers and acquisitions arrangements has been selected.

The concept of impact takes into consideration the performance appraisal of TNCs in business arrangements of joint ventures, subsidiaries, mergers and acquisitions and financial services in Indian economy. The study covers a long span of period of almost five decades. It has been split into two phases – first phase starting from 1950 to 1990 and the second phase 1991 to 2000. The Research Scholar is of the opinion that the span of period under reference is adequate enough to determine the impact of Transnational Corporations in the economic development of India in terms of comparative study of TNCs business activities in different sectors of the economy at the micro level and in terms of fiscal management, growth of exports, technological advancement, management of BoP, Forex rate management, control of inflation, employment generation and social sector development at the macro level.
Since the advent of NEP in July 1991, Indian government adopted various modes to globalize its economy. On industrial sector front, provisions and regulations have been simplified in order to facilitate efficient production, concession, tax relaxation, tax holidays and various other facilities have been provided to the industrial units. Reforms in trade policy provide stimulus to exports. The government adopted many enabling policies 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 partially convertible on capital account will hopefully bring about overall efficiency in the foreign exchange management.

Financial sector reform is co-related with the fiscal reform. In the changing atmosphere of global economy, financial system control holds a greater significance for the overall growth and development. It was realized that without fiscal reform the economy could not be triggered off. Fiscal deficit can be improved by either raising tax and non-tax resources or by chopping out the lot of expenditures. Under the Structural Adjustment Programme (SAP), emphasis has been given on 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 recurring macro economic imbalances on the one hand, and acceleration of long-run growth of income and standard of living on the other.

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

Banking sector has also witnessed similar trends. 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. Foreign as well as domestic private companies can operate in these sectors now onward.

The government has yet to initiate many vital reform measures. For instance, it has not privatized any public enterprise, including those, which grossly violated the criteria of either public goods or 'core' industry concept. Many of them are loss-making enterprises. Nor has the government closed any 'sick' or unviable public enterprises. The government has referred many of them to the BIFR but has yet to take any concrete step towards either privatization or
closure. The basic problem in many of these enterprises is over employment. Pending either privatization or closure, the government could have at least taken steps to improve efficiency and productivity of labour and management. But even in this respect, actions initiated are grossly inadequate. The divestment programme is also lopsided. Instead of selling shares of unwarranted enterprises the government has sold shares in profit making enterprises, including natural monopolies and core enterprises.

Infrastructure is now open to the private – both domestic and foreign – investment in this sector during the reform period is abysmally poor. The anachronic pricing and subsidy policies together with institutional failure discourage private investment in infrastructure. Various reforms are being made to lure foreign investments. The 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 imports is also rationalized.

Employment and wage policy in the public sector is another area where the reform has failed to make any dent. The exit policy – with respect to both labour and industry – is debated at length, but as of now could not be implemented in either public or private sector. Despite deregulation, bureaucratic controls continue to thwart economic activities,
particularly at the state and the local levels. As a result, corruption and inefficiency continue unabated.

By and large the reform process is benefiting the economy in a better way and augures well for future. The whole economic scene has undergone drastic changes. The major achievement of the economic reforms can be reckoned with in terms of the control of inflation, growth for corporate sector, introduction of capital intensive technology for global competitiveness and modernization. However, there are certain neglected areas of economic reforms, such as, agriculture, social security and health security etc.

The study has proceeded to determine the impact of TNCs in the development of Indian economy from two broad economic parameters, i.e. Micro and Macro.

When the first survey of India's international assets and liabilities was conducted in mid-1948, at that time, the stock of foreign investment in the country stood at Rs. 2560 million and was mostly of British origin. Bulk of this FDI was concentrated in export-oriented raw materials, extractive and service sectors. By 1990, the stock of FDI by TNCs in India had gone up to Rs. 27050 million. Over this period not only the magnitude but also the sectoral composition, sources and organizational forms of investment have tremendously changed.

The study reveals that during pre-NEP period, numerous changes took place in the direct investment by TNCs, especially through 100 % owned subsidiary. The total foreign
direct investment by TNCs takes a leap jump from Rs. 28.8 million in 1948 to Rs. 150.3 million in March 1990. It is quite noticeable that during pre-NEP period most of the foreign investors are interested in participating through two common routes i.e. 100% owned branches and 50% owned branches. This fact reveals that most of the foreign investors intended to control the management in their own hand. During pre-NEP period major foreign investors in India were UK, USA, West Germany, France, Italy, Japan and Switzerland. USA tops the table tally with the highest amount of investment of about Rs. 696.02 million, leaving back UK with the investment of Rs. 582.62 million to the second place. With the inception of New Economic Policy (NEP) in July 1991, Indian economy has witnessed drastic policy and procedural changes. In various phases, most of the sectors are being opened for the foreign investors. The total amount of Foreign Direct Investment (FDI) approved by the Government since 1991 till February 2000 is Rs. 212664.22 crore i.e. roughly around US $ 60.38 billion and the total inflows add upto Rs. 72777.71 crore i.e. US $ 19.86 billion. The total numbers of foreign collaboration approved by the SIA, FIPB and RBI routes together are worth noticeable. It rose from 950 in 1991 to 2224 in 1999. The total number of foreign collaboration approved counts around 17098, which includes 6488 foreign collaborations of technical nature and 10610 foreign collaborations of financial nature. The number of TNCs along with the parent countries has fairly increased.
There are now more than 50 countries, which are potentially participating with larger amount of investment. Along with some existing countries like USA, UK, Germany, France, Japan, Italy and Switzerland, noticeably few prominent among the investing countries surfing on the horizon are Mauritius, South Korea, Australia, Malaysia and Netherlands.

There emerged new species of foreign investors in post-NEP period such as NRIs/OCBs, GDRs/ADRs. They are shaping the destiny of the Indian economy in general, and Indian industries in particular. Total actual inflow of FDI received during the period from January 1991 to February 2000 through various NRIs schemes, GDRs/ADRs and FCCBs amounted to Rs. 204204.7 million. Foreign Investment in terms of FDI is promoting rapid economic growth and development of the Indian economy. However, there are some policy and political impediments demoralizing investor's confidence. The government is all poised for adopting more liberal and attractive policies to lure foreign investors. The participation by the TNCs and foreign affiliates in multifarious ways has contributed towards increased production, enhanced exports and qualitative marketing network integrating Indian economy with the global economies.

Technology is lifeblood for modern corporate sector in particular and for common men in general. Technology transfer is a major variable in the strategies of TNCs. At the first instance, it has been proved that more and more
technology transfer is occurring in post-NEP period as compared to the pre-NEP period. The analysis reveals that the in-house industrial R&D expenditures in Indian corporate sector have registered a higher growth since inception of the NEP. R&D growth rates are higher and increasing only in those industries, where large numbers of foreign collaborations are being matured.

Technology transfer is only one element of the technological capability and hence is not adequate enough to ensure the dynamics of technological progress. It has to be backed up with domestic technological efforts on a continuous basis to make the imported technology appropriate enough to local conditions. On the other hand, investment on domestic R&D and other domestic technical efforts became necessary to assimilate and adopt imported technology to local conditions. More often this combined process of import and local adoption leads to the development of new and modified technology, which the firms tend to export to other countries. Thus, a firm with an import-adapt technology strategy and seeking complementary relationship between technology-import and domestic technology-efforts not only ensures the efficient use of the imported technology but also enhances its own technological capability in a dynamic sense and thereby, the national technological capability.

The liberalization policy for foreign investment by Indian firms along with the new economic environment seems
to have given joint ventures, subsidiaries and financial services the needed boost. Capital inflows through these routes have changed the nature and formulation of capital flows in the economy. The analysis of the study has made it crystal clear that in post-NEP period not only the number of joint ventures, subsidiaries and financial services is increasing but also the number of countries, industries and financial corporates are increasing in the map of Indian joint ventures, subsidiaries and financial services.

Joint venturing is a very important foreign market entry and growth strategy employed by Indian firms. It is an important route taken by various corporates to enter into the international market. In several case joint ventures, as in the case of foreign subsidiaries, help Indian firms to stabilize and consolidate their domestic business, besides the expansion of the foreign business. From the analysis of the financial performance appraisal of top 25 TNCs under joint venture arrangement, it is discernible that sales, net profit, net worth and earning per share in sectors, such as, automobiles, engineering/electricals, food products/personal care and miscellaneous industries, are on a rising trend since New Economic Policy (NEP) period. It is a healthy approach of globalization through liberalization, as it helps in creating more employment, bringing advanced and sophisticated technologies, creating a strong footing to make further dent into both domestic and foreign markets and provides efficient management system in the economy.
In post-NEP period, there is a substantial increase in numbers of formation of corporates through subsidiary arrangement. Performance appraisal of 25 TNCs operating under subsidiary arrangement in four sectors viz. pharmaceutical, engineering/machine tools, personal care and miscellaneous sector during post-NEP period reveals that the sales, net profit, net worth and earning per share have grown up at steady rate. The impressive performance of 25 TNCs is attributed to overall scheme of globalization and liberalization. With the help of subsidiaries, TNCs have strengthened their production base, improved market strategies and efficient management.

The market for financial services is witnessing a vibrant growth during the last decade. Financial service institutions now spend substantial amount on communicating a variety of brands and corporate messages to a range of interested groups. The transnational banks have entered in Indian market and helping in developing the various sectors by making huge investments with quality of service delivery and well organizational value system. Financial service sector creates 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 winning loyalty of customers and enhancing margin of profits.
The Indian economy, to sum up, is all set on high growth path since the advent of New Economic Policy of July 1991. The activities of TNCs in Indian economy have substantially increased the growth of industrial output and foreign currency reserves. The consequential increases in foreign direct investment through joint ventures, subsidiary and financial services, are perceived to have helped substantial capital accumulation, technological progress, and creating international competitiveness among Indian corporates.

The Mergers and Acquisitions (Ms&As) of companies have increased in number over the decade. The major factor leading to the Ms&As of companies is the combination of production capacity and increasing market share. Ms&As are very important market entry as well as growth strategy. The Indian corporates are induced to enlarge resources and to diversify business to meet the challenges of global competition. The market for takeovers is becoming active and a trend is being set by established corporate groups towards consolidation of markets share and diversification into new areas through the acquisition of companies. The financial performance appraisal of top 25 TNCs operating in India under Ms&As arrangement belonging to different sectors, reveals that the sales performance, profit earning, net worth and earning per share are increasing at a steady rate. The strategic alliances through Ms&As between TNCs and Indian companies have provided better resources, quality product,
and sizeable market penetration, which has ultimately resulted in high sales, more profit earning, rise in earning per share and better networth. All these are attributed to overall scheme of globalization of the Indian economy.

Global economic system can not survive in vaccume without a sound, just social sector. TNCs are an important instrument of global economic system. The dream of management of nature, management of earth and global green revolution will become a reality only when TNCs make some investment out of their profit in tackling hunger and strife of the natives in India and other developing countries. The development of social sector is the concomitant task of TNCs with Indian corporate with a commitment to human dignity with an emphasis on individual who merits assistance for alleviation of hunger, ignorance and poverty. It is a commitment to humanity and not to a political agenda of any nation or group of nations.

The resources raised from the capital market (distribution by issue type) reveals that the Overseas route particularly Euro issue is quite popular - an amount of Rs. 18099 crore has been raised through Euro issue constituting approximately 32 per cent of the total resources raised from the capital market. Private placement of issue has continued to be most favored route of the corporate for raising fund during the post-NEP period. Foreign private sector mobilized fund to the tune of Rs. 1340 crore in 1998-99 as compared to Rs. 2676 crore mobilized in 1997-98, registering a decline
of almost 50 per cent. The decline is however, attributed to the strict adherence to capital adequacy norm.

Mutual Fund industry has remained in doldrums for quite some time. It received a major setback after UTI fiasco. The foreign mutual funds floatation amounted to Rs. 3.72 crore in year 1998-99, which constitutes 5 per cent of the total mutual fund floatation in India. The foreign mutual funds appear to have responded to the proposal and incentives provided in Union Budget for 2000-2001.

The impact of TNCs viewed from macro parameters reveals the following facts:

- In the post reform period there has been overall improvement and recovery in the macro stabilization indicators. GDP growth rate, index of industrial production, gross domestic capital formation and gross domestic savings as per cent of GDP has shown a sign of recovery and improvement specially after the adoption of NEP, excepting of course few hick-ups in certain years. However, the same have been offset through timely and appropriate reform packages, brought about by the Indian governments.

- However, the continuous fall in the value of rupees seems to have resulted in increase in the burden of international debt adversely affecting the confidence of foreign investors. The rupee exchange rate has not been stabilized.

- The analysis of price indices vis-a-vis the inflation rate produces mix result. Despite the achievement of high growth rate of GDP, the inflation rate has not been caged as desired.

- The Incremental Capital Output Ratio (ICOR) which measures the productivity of capital has been witnessed to be higher during the reform phase signaling lower capital productivity. However, from the last couple of years under reference, there are indicia of improvement in capital productivity as a result of decline of ICOR.

- The analysis brings forth that there is a drastic cut in the gross fiscal deficit both in center and state. The average inflation rate is down to single yet at the higher rate compared to the developed economies. The current account balance and foreign exchange reserves have been 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. In the present scenario, exports finance nearly 90 per cent of imports against 50 to 60 per cent during 1980's. The import cover up of foreign exchange reserves has improved significantly during the period under review.

➢ On the tax front, the picture is grim. The drop in the share of direct taxes and high share of commodity taxes indicates an inappropriate tax mix. However, the paradigm shift in the policy of government to corporate taxes is an indicative of giving priority to foreign investors.

➢ The scanning of the data regarding the exports, imports and trade balance reveals that the effort for the export promotion appeared to have nullified by the policy of import liberalization. The trade gap has narrowed down only in those years in which import growth was restricted but export promotion was accelerated. However, the Research Scholar observes that the trade has fairly enlarged due to growing businesses by the TNCs in the wake of liberalization for globalization.

➢ The most crucial parameter of measuring economic health is the Balance of Payment (BoP) of the country. The analysis with regard to the balance of payment reveals that there has been over all improvement in BoP in post-NEP period. The policies of liberalization, privatization and globalization have symbolized fairly good amount of control in the deteriorating condition for BoP. Right from the inception of 1993-94, there has been a remarkable impact of liberalized foreign investment policy on the flow of foreign capital through TNCs. These, among others, led to substantial increase of foreign exchange resources. As a result, in the successive years the BoP indicated an easing of pressure on the current account and the buoyancy in the capital inflow. There has been noteworthy slow down in the growth of both imports and exports in the year 1996-97 but however, the trade deficit was lower than the previous year 1995-96.

➢ The substantial increase in the capital flows in the remaining year under reference has led to decline in deficit in current account of the BoP to about 1 per cent in 1998-99 as against 1.4 per cent in 1997-98. The exports however, recorded a negative growth in 1998-99 after remaining sluggish in the remaining previous two years.

➢ The government needs to streamline the trade policy to eliminate various impediments to trade and to promote export growth. In this
regard, the Research Scholar observes that the role of TNCs would be vital by establishing larger number of Export Oriented Units. The EXIM policy, 1997-2002, is a very significant step in the direction of overall promotion of trade.

- 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 non-debt creating foreign capital.

- The government has recorded the highest priority to promote sustainable employment. From the analysis it is discernible that the growth of employment in the private sector is higher as compared to public sector during the post-NEP period. The reason for this is attributed to entry of larger number of TNCs in financial services, pharmaceutical, telecommunication, automobiles; engineering and electronics industries. However, the Research Scholar is apprehensive that the presence of TNCs in capital intensive industries may have adversely affected the employment level, but at the same time, the demand for skilled, semi-skilled and highly skilled labour would have certainly increased in view of growing number of joint ventures, mergers and acquisitions and subsidiaries in telecommunication, electronics, information technologies and automobile industries.

- The foreign banks whose presence in the Indian economy is growing in the wake of economic liberalization have earned much higher rate of interest income and have maintained rate of interest throughout the period under review. As a consequence, their net interest income is higher than the Indian banks.

The advent of economic liberalization with freedom of entry to TNCs in variety of business arrangements such as FDI inflows, transfer of technology, joint venture, merger and acquisition, subsidiaries and financial services have lent substantially to the overall growth and development of the Indian economy. The increased operation of TNCs with variety of business arrangements in the wake of economic liberalization has brought to the fore that TNCs are major contributor to the development of Indian economy. However,
there are certain apprehensions with regard to free operation of TNCs, needing serious attention of the government, which are dealt with in the following suggestions and recommendations part.

The Research Scholar has offered the following suggestions and recommendations based on the findings of the study:

➢ Procedural bottlenecks in inflow of FDI need to be removed. FDI routes to be brought to the minimum of two i.e. Automatic and FIPB-routes for the project to be selected on merit.

➢ Infrastructure sector to be developed by according incentives to the TNCs to invest in underdeveloped regions and rural areas for avoiding regional bias.

➢ Labour laws to be rationalized for unimpeded flow of foreign investment.

➢ Enabling policy framework with regard to IPR and TRIM of WTO needs to be framed in compatibility with larger interest of the country.

➢ Continuance of financial, fiscal, monetary, trade and investment and industrial reforms for global competitiveness.

➢ Corporate tax and other tax laws to be rationalized for global competitiveness:

➢ Introduction of policy packages for enticing TNCs to take up the production of low margin profit products along with high margin products.

➢ Inviting TNCs to undertake the projects for investment leading to employment generation.

➢ TNCs to be invited with technology for agriculture sector development.

➢ Participation of TNCs in indigenous R&D development and strengthening up of R&D programmes in terms of FDI, technology and exchange programmes.

➢ Proper analytical study needed for import of appropriate technology suitable to our socio-economic environment.
More emphasis to be accorded to import-technology from developing economies as their socio-economic set-up is much akin to ours.

Joint ventures and subsidiaries to be established keeping in view the interest of Indian counterparts (corporates).

Calibrated encouragement to the strategic alliances through M&A for better resources, quality products and market penetration.

Rationalization in policy framework with regard to NRIs / OCBs, GDR / ADR for the needed boost in foreign investment.

The attention of TNCs operating in India to be drawn towards their social responsibility and social sector development.

In the wake of liberalization for globalization, TNCs hold the promise of helping the Indian economy to leapfrog several stages of industrial growth and development.

The study has also pointed out direction of future researches in the realm of global business. The Indian TNCs operating abroad by means of various business arrangements viz. FDI, joint ventures, subsidiaries and financial services are another significant portents to determine their impact on economic development of India.