

Impact of globalisation in Indian economy

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Key Words

Foreign Companies, MNCs, TNCs, MNEs, Global Corporation, FDI,

Abstract

The era of globalization is being seen as opening numerous opportunities around the world through increased trade, new technologies, foreign investments, expanding media etc. Global markets, global technology, global ideas are seen as symbolizing enormous potential to change the world through more wealth than at any time before. A number of companies worldwide are coming together by way of mergers and joint ventures in order to consolidate their strengths and to take advantage of opportunities of global trade. After adopting new economic policy many global corporations entered in the Indian economy. It is observed that India's total foreign trade, exports as well as imports are increasing but rate of increase in import is more than export as a result, the balance of trade shows unfavorable to India during the post globalization period. Balance of trade in services shows positive trend during the reform period. The FDI has huge contribution to influence the economic behavior is also positively affecting the economic growth.

This article highlights on trend of growth of foreign companies in India, their country wise distribution and their impact on Indian economy. More specifically the objectives of the study are: To study the trend of growth of global corporations in India, to analysis country wise distribution of global corporations in India and to study the impact of increasing global corporate on Indian economy.

Finally conclude that the role of the global corporate is crucial and their existence is indispensable. However, their functioning needs proper regulation so as to ensure protection of national interests. In the present international environment, though, it seems difficult to follow a close door policy, yet it should not be an open policy as well. We have to be selective for allowing the foreign investment and at the same time we must encourage the indigenous industry.

Introduction

The enterprises involved in international business are referred to in various ways: multinational corporations, transnational corporations, global corporations, and so on. Sometimes, the terms are intended to designate a specific type of operation, strategic approach or spatial location, but often such terms are used interchangeably. It also happens that the meaning of the terms varies from author to author and even changes over a period of time. In the publication of United Nations Industrial Development Organization the following multinational business terminology is used.

- i) International Business and International Company
- ii) Multinational Company and Multinational Corporations (MNCs)
- iii) Transnational Company and Transnational Corporations (TNCs)
- iv) Multinational Enterprise (MNEs)

v) Global Corporation (globally *integrated company*)

To sum up, there are different forms of international business operations. The multinational business terminology is defined by various authors as follows:

According to Spero and Hart “a multinational corporation (MNC) as a business enterprise that maintains direct investments overseas and that upholds value-added holdings in more than one country. An enterprise is not truly multinational if it only operates in overseas or as a contractor to foreign firms. A multinational firm sends abroad a package of capital, technology, managerial talent, and marketing skills to carry out production in foreign countries”.

In the report of the International Labour Organization (ILO), it is observed that “the essential of the MNCs lies in the fact that the managerial headquarters are located in the home country, while the enterprise carries out operations in a number of other countries (Host Countries).” The early decades of the twentieth century witnessed the multinational expansion of European companies such as Unilever, Royal Dutch Shell, Imperial Chemical Industries and Philips. In the 1950s and 1960s, following the emergence of the USA as the world’s dominant industrial power at the end of the Second World War, multinationals such as General Motors Corporation, Ford Motor Company, International Business Machines, Coca-Cola and Procter & Gamble took on a prominent role in international business expansion through foreign subsidiaries. The Japanese multinational expansion of the 1970s and 1980s was characterized by global strategies commanded by home based headquarters and manufacturing facilities. A number of companies worldwide are coming together by way of mergers and joint ventures in order to consolidate their strengths and to take advantage of opportunities of global trade.

Objectives

1. To study the trend of growth of global corporations and FDI in India.
2. To analysis country wise distribution of global corporations in India.
3. To study the impact of global corporations on Indian economy.

Estimation of number of Global Corporations

There are various studies on estimation of global corporations but differs with the exact number. Prof. Aswathappa points out that, “there are about 35000 global corporations around the world today, controlling over 1, 70,000 foreign affiliates. It is estimated that the corporations that do business across national boundaries are so large that their annual revenues from worldwide operations exceed the value of Gross Domestic Product (GDP) of entire nations e.g. General motors’ had revenue of \$ 164 billion in 1996, more than the entire GDP of Norway, (\$ 114 billion).”

David Chappell has beautifully summed up thus: “The rapid growth of the economy in recent decades is perhaps most clearly shown by the fact that in 1970s., the total number of Trans National Corporations (TNCs) was about 700 but grew by 1998 to at least 53,607 that were contracted at least 4,48,917 foreign subsidiaries. The six largest corporations in the world (Exxon, General Motors, Ford, Mitsu, Diamiler, Chrysler and Mitsubishi) have combined revenue larger than the combine budget of 64 nations that include 58 percent of the world’s population (including India, Russia, Brazil, Pakistan, Bangladesh, Nigeria and Mexico). Only seven nations have budget, larger than Ford, Exxon or General Motors namely France, UK, Italy, China, Japan, Germany and United State. Charles Gray found that, 500 companies in 1991 have budget over US\$ 9 billion, but only 57 National Governments have budget as last as these 500 corporations.

In other words corporate are increasingly ruling the world”.

The World Investment Report 2009, published by the United Nations Conference on Trade and Development (UNCTAD), states “there are a total of 8,89,416 multinational companies (MNCs) around the world, 82,053 parent corporations and 8,07,363 affiliates. These companies play a major and growing role in the world economy. For example, exports by foreign affiliates of TNCs are estimated to account for about a one third of total world exports of goods and services, and the number of people employed by them worldwide totaled about 77 million in 2008 – more than double the total labour force of Germany.” Anderson and Cavanaugh in their study observed that, “among the largest 100 economies in the world, 51 are multinational corporations (MNCs) whereas only 49 are countries. To put this in perspective, General Motors is now bigger than Denmark; Daimler Chrysler is bigger than Poland; Royal Dutch/Shell is bigger than Venezuela; IBM is bigger than Singapore; and Sony is bigger than Pakistan.”

The study further shows that, “out of the 200 largest economies of the world, 144 are MNCs. The income of MNCs is 18 times higher than the combined annual income of the 1.2 billion people i.e. 24 percent of the total world population. The study has found that the growth of sales of top 200 corporations is faster than overall global economic activity. Between 1983 and 1999, their profits grew by 362 percent whereas their combined sales grew from 25 percent to 27.5 percent of the world GDP”. The production of goods and services by TNCs outside their home countries grew more rapidly in 2006 than in the previous year. As per the UNCTAD report 2007, “The sales, value added and exports of some 78,000 TNCs and their 780,000 foreign affiliates are estimated to have increased by 18%, 16% and 12% respectively. They accounted for the equivalent of 10% of world GDP and one third of world exports”.

Global corporate are entities that control economic activities in more than one country, fragment production according to the comparative advantages of each host country and shift resources, capital, products, and services between their segments across these countries. According to S. A. Hamed Hosseini, “These corporations have been heavily involved in the internationalization of production, division of labor and flows of FDI. By 2002, MNCs were accounting for 70 percent of the world trade, 70 percent of FDI, 25 percent of World production, 80 percent of skill and technology exchanges.” Their universal demand is for standardize goods that are advanced, functional, reliable and low price. This has led global corporate to turn to new technology and search for economies of scale in their operations. Further Global brands and product labels are spreading across the border.

Growth of Global Corporations and FDI in India

After adopting new economic policy by government of India in July 1991 many Global corporations came in the Indian economic scene. The government opened the doors of Indian market to global corporations as a result the number of foreign companies increased. According to the study of Murthy S., “The growth of multinationals through collaboration with Indian industries has been fast during 1090s; trends of liberations gave a substantial support to foreign collaboration. Out of the total 12760 foreign collaboration agreements approved in the years 1948 to 1988; as many as 6165 (i.e. 48% approx.) were approved during the period 1981-88”.

As per the source of Ministry of Company Affairs, GOI, in 1991 the total number of companies in private sector was 1594. Out of these, 1431 companies were in domestic private

sector and 489 companies in foreign private sector. This number increased to 3963 companies in domestic private sector and 772 companies in foreign private sector in 1997 and it increased up to 92638 in domestic private sector and 3191 in foreign private sector in 2012. This number has been increased more than six times from the year 1991 to 2012.

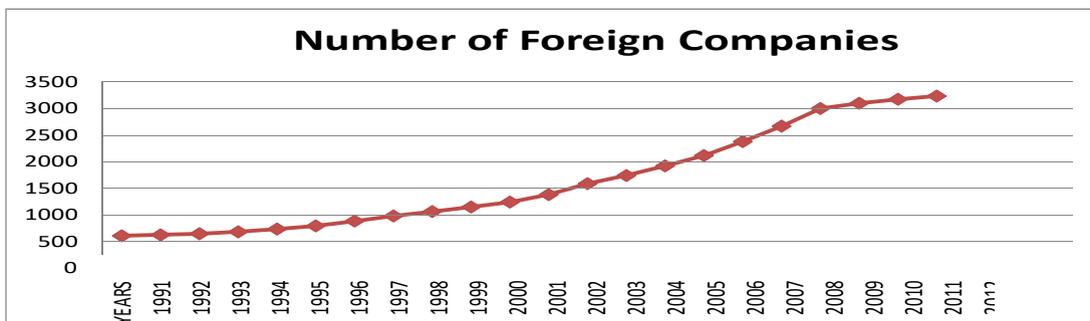
As per section 591 of the Companies Act, 1956, foreign companies are those companies which are incorporated outside India but establish a place of business within India. The number of foreign companies which are reported to have place of business in the country as on 31.3.2012 was 3191. Following table shows the trend of growth of foreign companies in India. Correlation value between number of foreign companies and FDI is, $r = 0.9149$ It is highly positive and shows that with increase in foreign companies foreign capital also increasing and helps to growth of an economy.

Table No. 1
 Number of Foreign Companies as defined under Sec. 591 of the Companies Act, 1956

| (1991-2012) | | | | | |
|-------------|--------|---------------------------------|------|--------|---------------------------------|
| Year | Number | FDI to India US \$ (Million) | Year | Number | FDI to India US \$ (Million) |
| 1991 | 489 | - | 2002 | 1285 | 6125 |
| 1992 | 507 | 129 | 2003 | 1497 | 5036 |
| 1993 | 529 | 315 | 2004 | 1654 | 4322 |
| 1994 | 565 | 586 | 2005 | 1840 | 5987 |
| 1995 | 619 | 1314 | 2006 | 2040 | 8901 |
| 1996 | 679 | 2144 | 2007 | 2310 | 22739 |
| 1997 | 772 | 2821 | 2008 | 2609 | 34729 |
| 1998 | 871 | 3557 | 2009 | 2950 | 41738 |
| 1999 | 956 | 2492 | 2010 | 3050 | 33109 |
| 2000 | 1045 | 2155 | 2011 | 3127 | 29029 |
| 2001 | 1141 | 4031 | 2012 | 3191 | 32952 |

Source: Government of India, Ministry of Corporate Affairs, 57th Annual Report on the Working & Administration of the Companies Act, 1956, New Delhi, p.32, available on http://www.mca.gov.in/Ministry/pdf/57AR_English.pdf

The Distribution of Foreign Companies by their Country of Incorporation



The following table shows the distribution of foreign companies by their country of incorporation defined Under Section 591 of the Companies Act, 1956. It is observed that out of 3191 total foreign companies as on 31 March 2012, 444 are US companies. Next to US, 305 companies are from Singapore and 255 from U.K. Apart from this Japan, Germany, Hong Kong, Korea, France, Netherland and Australia also have major share in total number of foreign companies. It is clear that foreign companies attracted to India from all over the world and their number also increasing which is clear from the following table.

Table No. 2: Distribution of Foreign Companies by their country of incorporation as on 31.3.2011

| Sr. No. | Country of incorporation | Number of Companies | Sr. No. | Country of incorporation | Number of Companies |
|--------------|--------------------------|---------------------|---------|--------------------------|---------------------|
| 1 | USA | 444 | 11 | Italy | 59 |
| 2 | Singapore | 305 | 12 | Malaysia | 48 |
| 3 | United Kingdom | 255 | 13 | Switzerland | 50 |
| 4 | Japan | 200 | 14 | Spain | 40 |
| 5 | Germany | 142 | 15 | China | 38 |
| 6 | Hong Kong | 103 | 16 | Canada | 40 |
| 7 | Republic of Korea | 100 | 17 | UAE | 44 |
| 8 | France | 88 | 18 | Thailand | 34 |
| 9 | Australia | 64 | 19 | Belgium | 27 |
| 10 | Netherland | 60 | 20 | Others | 1050 |
| TOTAL | | | | | 3191 |

Source: Government of India, Ministry of Corporate Affairs, (March, 2011): 55th ANNUAL REPORT on the Working & Administration of the Companies Act, 1956, New Delhi, p.25 available on http://www.mca.gov.in/Ministry/pdf/55AR_English.pdf

Impact of Global Corporations on Indian Economy

The operation of the global corporations increases with the reduction of barriers to trade and investment. The benefit of larger world trade, larger incomes, lower cost and prices due to economy scale follow for their operations. The share of global capital raises productivity and wages by shifting employment from local to global market. The vast amount of unused resources can be diverted to productive purposes. The inflow of funds would have simultaneously led to the growth of allied industries that also help to increase employment opportunities indirectly.

The functioning of global corporate has been said to make its impact on the economic structure and social systems in the country. Impact of global corporate can be examined on the basis of the parameters as follows.

i) Increasing flow of Goods and Services

The observation of the total foreign trade, the exports are increasing at a decreasing rate but the imports are increasing at an increasing rate during the period of 1991-2012. India's total trade increased from Rs. 91893 crore in 1991-92 to Rs. 229031 crore (2.49 times) in 1995-96; from Rs. 257737 crore in 1996-97 to Rs. 454218 crore (1.76 times) in

2001-02; from Rs. 552343 crore in 2002-03 to Rs. 1116827 crore (2.02 times) in 2005-06 and from Rs. 1412285 in 2006-07 to Rs. 2209270 (1.56 times) in 2009-10.

ii) Balance of Trade in Services

Services trade surplus which increased steadily in this decade to reach US\$53.9 billion in 2008-09, fell drastically in the global crisis year of 2009-10 to US\$ 35.7 billion. This was caused by the collapse in exports of non-software services, particularly business services, the slow growth of software services, and the rise in import of non software services, particularly business and financial services. The low service trade surplus situation continued in the first half of 2010-11.

iii) Increasing Flow of Capital

It is observed that with increase in number of foreign companies the amount of FDI also goes on increasing but it is in many folds. In 1991 number of foreign companies was 489 and FDI was \$129 mn. In 2001 number of foreign companies increased as 1141 the amount of FDI was US \$ 4031 Million that increased more than seven times i.e. US \$ 29029 Million and in 2012 number of foreign companies increased as 3191, the amount of FDI also increased as US \$ 32952 Million.

iv) Information and Technology

7,941 technology transfer approvals sanctioned by the government during 1991 -2011. USA ranks number one in providing technology to India with 1750 approvals since 1991. The sector wise technology transfers out of the total technology transfer approvals. Electrical equipment including computer hardware and software sector made highest technology transfers i.e. 1255 technology transfer agreements concluded from the rest of the world over a period of 18 years i.e. 1991 - 2008.

Many MNCs help in improving the infrastructure and provision of basic needs in their specific areas of operation. They either do so directly or provide funds for this purpose to civil society organizations. This also improves business conditions within and in the vicinity of the areas where they are operating. In some cases, large-scale economies, quality control and a healthy competition lead to price cuts and other benefits for the end-user. People have more access to the comforts of life with a large variety of choices. Another significant advantage of foreign companies is its contribution to government revenues.

Conclusion

At present the world economy is an integrated economy i.e. a world without borders, a world in which all goods and factors can be transported across different regions at negligible cost. Some industries spread their production process across many regions searching for the ideal environment for each specific phase of production. The magnitude and dimensions of human activities are squarely rising. The concept like '**closed economy**' and protectionist policies are being gradually replaced by '**market based global corporate economy**'.

Thus the most significant development in international economic scenario during the past two decades has been spectacular rise in power and influence of giant global corporate. It may be said that the role of the global corporate is crucial and their existence is indispensable. However, their functioning needs proper regulation so as to ensure protection of national interests and to maintain the character of national economy as a separate family of the global

economy. In the present international environment, though, it seen difficult to follow a close door policy, yet it should not be an open policy as well. We have to be selective for allowing the foreign investment and at the same time we must encourage the indigenous industry.

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