STATE, POWER AND MULTINATIONAL CORPORATIONS (MNCS): THE CASE OF INDIAN MNCS

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DECLARATION

I declare that the dissertation entitled **"State, Power and Multinational Corporations (MNCs): The Case of Indian MNCs"** submitted by me for the award of the degree of **Master of Philosophy** of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other university.

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CERTIFICATE

We recommend that this dissertation be placed before the examiners for evaluation

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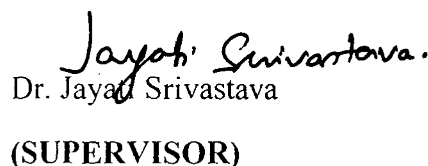

Dr. Jayati Srivastava

(SUPERVISOR)

Dedicated

To

My Late Grandfather

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ABBREVIATIONS

ADR: American Depository Receipt
ASEAN: Association of South East Asian Nations
BHEL : Bharat Heavy Electricals Limited
BIMSTEC: Bay of Bengal Initiative for Multilateral Sectoral, Technical and Economic Cooperation
BPL: Bharat Petroleum Limited
BPO: Business Process Output
BRIC: Brazil, Russia, India, China
CII : Confederation Of Indian Industries
EMNC : Emerging Multinational Corporations
FDI : Foreign Direct Investment
GATT : General Agreements on Trade and Tariffs
GDP : Gross Domestic Product
GDR: Special Drawing Rights
GNP : Gross National Product
GPN: Global Production Networks
GSPC: Gujarat State Petroleum Corporation
GVC : Global Value Chains
IBEF: India Brand Equity Foundation
IMF: International Monetary Fund
IIT: Indian Institute of Technology
IIM: Indian Institute of Technology
IT : Information Technology
LDC : Least Developed Country
MNC: Multinational Corporations
M&A: Mergers and Acquisition
NEC: National Electricity Corporation

NTPC : National Thermal Power Corporation

NSG : Nuclear Suppliers Group

OPEC : Organization of Oil and Petroleum Exporting countries

OVL : ONGC Videsh Limited

R&D: Research and Development

RBI : Reserve Bank of India

SEBI: Securities and Exchange Board of India

SIRO: Scientific and Industrial Research Organization

SAARC : South Asian Association for Regional Cooperation

TCS: Tata Consultancy Services

WTO: World Trade Organization

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Introduction

Multinational corporations (MNCs) play a very important role in world politics in the contemporary world. It is evident from the fact that MNCs control almost half of the GNP of the capitalist world and more than sixty percent of its foreign trade, besides four-fifths of the exchange of technological knowledge. MNCs also have more than 5,00,000 affiliates in the developing world. There are some 82,000 MNCs worldwide, with 810,000 foreign affiliates (UNCTAD, 2008).These companies play a major and growing role in the world economy. For example, exports by foreign affiliates of MNCs are estimated to account for about a 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 labor force of Germany (UNCTAD, 2008). Multinational corporations come to developing world in search of highest possible profits by exploiting cheap labor, raw materials and wide markets. States now have vested interests with the multinational corporations and we find that many of the policies framed by nation-states are formulated to reflect the interests of these MNCs. States back these corporations. These Multinational corporations also influence the host countries in decision-making through various strategies.

In the age of globalization, multinational corporations affect all the processes of government functioning. MNCs own and control huge amounts of valuable commercial and technical resources which results in MNCs affecting decision–making of the governments. Nation-states are attracted by MNCs because they need financial, technical, and commercial resources which are controlled by multinational corporations to improve their economy. Due to this fact, several countries especially developing countries have liberalized their foreign investment laws to get Foreign Direct Investments (FDI).

Multinational corporations are also seen as a threat to decision-making power of a government. There occurs tremendous influence on the states by these multinational corporations with regards to making policies. Due to dependence on these multinational corporations with regards to economic development, states cannot neglect vested interests of these multinational corporations.

Taking the historical evidences, multinational corporations have existed since the beginning of overseas trade. They have remained a part of business scene throughout

history, entering their modern form in the 17th and 18th centuries with the creation of large, European based monopolistic concerns such as the British East India Company. British East India Company played a major role in advancing the interests of British Empire. The British government backed East India Company towards its operations in Asia. The company also exerted tremendous influence on the decision making of British government. By the end of the 19th century, advances in communications had more closely linked world markets, and multinational corporations retained their image as instruments of global capital expansion through commercial ties. In more recent times, multinational corporations have grown in power and visibility. In the present era, MNCs' strategy towards government aims at influencing government policies in terms of policy formulation and policy implementation. Different strategies of multinational companies expansion include Mergers and Acquisition (M&A) along with direct investment in the country concerned.

Multinational corporations play a significant role in agricultural production in developing countries, which are in dire need of private and public investment. Taking recent figures into account, it is seen that FDI flows in agricultural production tripled to $3 billion annually between 1990 and 2007, driven by the food import needs of populous emerging markets, growing demand for biofuel production, and land and water shortages in some developed home countries. These flows remain small compared to the overall size of world FDI, but in many low-income countries agriculture accounts for a relatively large share of FDI inflows; and the latter are therefore significant in capital formation in the industry. Moreover, FDI in the entire agricultural value chain is much higher, with food and beverages alone representing more than $40 billion of annual flows (UNCTAD, 2008).

The FDI inflow in developing countries is less compared to the developed world. There seems to be a wide disparity between the two and the fact that in low income countries a majority of the FDI share goes to agriculture sector means a very wide disparity in other sectors. There are 63 countries considered to be low income countries. The share of these low income countries in which foreign countries are making direct investment is very small; it rose from 0.5 percent in 1990 to 1.7 percent in 2005. (World Bank Report, 2007). There is a wide disparity in FDI pattern. Most of the foreign direct investment

went to a very small number of lower income developing countries.

FDI has specific regional concentration. USA and European countries have the maximum inflows. Taking recent trends into account, it is seen that, FDI inflows increased considerably in Africa (27%) and in Latin America and the Caribbean (13%) in 2008. FDI inflows, to South-East and South-East Asia witnessed a 17% expansion to hit a high of $300 billion in 2008. (UNCTAD, 2008).

Gilpin and many other scholars believe that there is a direct correlation between international economics and international politics. There seems to emerge a direct correlation between economic prosperity and political importance. Marxism lays emphasis on economic aspect as the driving force in international political economy whereas Mercantilist theory emphasizes politics as the driving force for economics. Liberal theory suggests that there is a non-zero sum relation in economic cooperation and it is possible that everyone gains through cooperation. Economic prosperity definitely would result in political importance in world politics. Dependency theory highlights how in spite of having the raw materials and labor force, the third world countries are not able to attain substantial development. The focus is on how these third world countries are made dependent on the developed countries leading to their underdevelopment.

In recent years, MNCs from developing economies such as India, China, and Brazil are becoming key players in the global economy. Indian multinational corporations have made their mark through their competence which has resulted in their worldwide recognitions of their products. India has made itself economically strong through its multinationals gaining success through their performance and operations internationally. India has a large pool of qualified and experienced manpower and has developed strong industrial and technological capabilities in some sectors, which could be shared with other developing countries for mutual advantage. India has increased its expenditure on Research and Development (R & D) from Rs 89,136 million in 1996-97 to Rs 216,395 million in 2005-6. While India contributes to 0.9 per cent of world merchandise exports in terms of high, medium, and low technology exports, its contributions are merely 0.15 per cent , 0.3 per cent and 1.9 per cent respectively .The technology intensive exports have been growing at an average growth rate of around 25 percent over the last three years. (*Research and Development Statistics: 2006-07*, Department of Science and

Technology, GOI).

Indian MNCs have adopted many strategies to compete globally, the most common strategy being that of overseas investments and acquisitions abroad. Also technical tie–ups with global partners to build capabilities and then leverage them in the international markets is a strategy getting common with Indian MNCs. Information Technology (IT) industry has put India on global map in addition to Hindi film industry, pharmaceutical, auto and telecommunication companies. Companies such as Ranbaxy, Infosys, Tatas, Reliance Wipro, Bharti Airtel etc. all are Indian brands with international presence. With leading industry players like Mukesh Ambani, Kumar Manglam Birla, Ratan Tata and many others espousing the notion of "Brand India" and Indian global brands leaving footprints across segments spanning services, manufacturing, culture and knowledge, consensus is that time has never been more right for Indian brands to debut on a global stage. TCS with 169 offices in 35 countries worldwide is dominant in English speaking countries and it also has a strong presence in Spanish and Portuguese speaking regions of the world. Its strategic acquisitions of a banking and Business Processing Outsourcing (BPO) business in Chile, and a banking solutions company in Australia, have helped it gain complementary skills and geographic presence. Wipro, which has commenced operations in vegetable oil business, today has a presence across the largest number of verticals in the IT industry. Wipro has adopted an aggressive acquisition strategy to grow its technology and industry capabilities. Tata group which is responsible for India's biggest foreign takeover, by acquiring the British steel company Corus through his Tata Steel business for £6.7 bn, has also made another big acquisition i.e. Jaguar and Land Rover. These and many instances point to the fact that India has emerged as a strong global player in through its phenomenal economic rise especially through its MNCs.

Chapter 1

Theoretical Debates on Multinational Corporations

Introduction

Multinational corporations play a very important part in the present world. In the present era of globalization and liberalization, multinationals are expanding very fast and they are a major source of FDI for a country.

Multinational Corporations are those firms which are engaged in productive activities in several countries. An MNC is essentially a corporation that invests in other countries for a variety of reasons, to have access to a foreign market, to secure foreign sources of supply, or to have the benefit of lower cost production or lower taxes (Scholte:2000:8).

The definition of multinational corporations has different dimensions. Multinational Corporations can be defined in different ways. One of the way to define MNC is based upon the number of host countries in which it operates. Accordingly, MNC is considered as a business organization operating in more than one country(Agarwal:1991:56). It means that a firm can be called a multinational if it operates in more than one country. MNC can be defined as a business enterprise which owns and controls income-generating assets in more than one country (Fieldhouse: 1986:8). MNC is also defined as an enterprise which owns or controls producing facilities (i.e. factories, mines, oil refineries, distribution outlets, offices, etc.) in more than one country(Dunning: 1971:11). This definition incorporates a firm multinational for controlling foreign facilities. Thus excluding mere exporters, even those with established sales subsidiaries abroad, as it does more licensers of technology. Also a multinational usually comprise of companies or entities whose ownership is private, state or mixed, established in different countries and so linked that one or more of them may be able to exercise a significant influence over the activities of others and, in particular, to share knowledge and resources with others (OECD:1988:16) . This definition suggests that a multinational can be either private owned or state owned.

Another aspect of defining a MNC is based upon the amount of foreign investments. It basically tries to define multinational corporations on the basis of amount which is invested in a foreign country. Through this way, an enterprise can be considered as a

MNC if it has at least 20% of its assets overseas (Fieldhouse: 1986:25). This amount gives a firm the status of a multinational, but also the report of Business International decides that an enterprise becomes MNC when it has at least 35% of its total sales and profit from foreign investments. There are different views regarding this but a multinational usually has a major percentage of its share of profit from foreign investments.

Then, a multinational can also be defined in another way which is different from the two previous ways of defining it. In this sphere Multinational Corporation can be defined based upon the number of host countries and the amount of foreign investments. A corporation can be called be an MNC if it have 25% or more 'foreign content' ,either in assets, employment or income sourcing in a minimum number of countries, usually five or six (Graham:1996:56). Thereafter, another way of presenting a definition of the MNC is through associating it with a parent or dominant enterprise controlling the operations of a network of foreign corporations and furnishing them with common objectives, strategies and resources." (Ghosh:1996:76).

It can be said that there is no agreement on one definition or concept of MNC. There are different aspects which makes a corporation multinational. Also, there are more than one term used for multinational corporations, for example, there is a term "Multinational Company" and another "International Company". But through all previous definitions, MNCs can be defined as a main company which manages a group of branches or subsidiaries in different countries to achieve certain objectives, by working together through a world managerial strategy under the constraints and laws in the home and host countries. According to this definition of the MNC it can be concluded that there are different facts about the MNC. There is a parent company in the home country where the headquarter is situated. There are branches or subsidiaries in different countries which act like a host country. The branches or subsidiaries operate not only to achieve special objectives for themselves, but also for general objectives of the MNC as a whole, according to a certain international strategy. The parent company works under the laws of the home country, while the foreign branches or subsidiaries work under the laws of the host countries. These factors results in calling a corporation as multinational.

Multinational corporations basically invest for the purpose of profit. They try to get as much of profit as possible. There are some general characteristics of multinational corporations. They make direct investments, in a foreign country. In contrast to portfolio investment, which involves the purchase of non controlling equities in a firm or debt instrumentalities of any kind, direct investment implies the establishment of a foreign branch or subsidiary or the takeover of a foreign firm. The underlying motive behind portfolio investment is largely financial , managerial control continues to rest with the borrower , and the liabilities incurred by debt borrowing can be liquidated through repayment (Cohen:2007:22).The main reason behind direct investment and the possession of foreign branches or subsidiaries is primarily the acquisition of managerial control over a production unit in a foreign country. Direct investments are intended to establish a permanent source of income or supply in a foreign economy. They create economic and political relationships of a lasting and significant character. They act as a source of big revenue for the multinational firm. A multinational corporation is essentially characterized by a main headquarter and a cluster of subsidiaries or branches in several countries. There is a common pool of managerial, financial, and technical resources and the head branch operates the whole in terms of a coordinated global strategy. Most of the policy initiatives and major changes in terms of managerial functions are done by the headquarter office. Main functions such as purchasing , production , marketing , research , and other functions are organized and managed by the main headquarter , which is situated in the country of the origin of the multinational company. The long term goal of a multinational corporation is to achieve its corporate growth. There is a vertical integration and centralization of decision making and through it the multinational corporations seeks to perpetuate its predominant position with respect to technology , access to capital, sources of supply , or whatever else gives it competitive advantage and market power (Cox:1997:7-9).

The term, multinational corporation is used to designate any business corporation in which ownership; management, production, and marketing extend over several national jurisdictions. The majority of them originate in rich, developed countries and much of their foreign investment goes to other rich nations. Usually, they go overseas because they possess some special advantages which they want to use fully and also because there

are huge benefits in locating their activities overseas. These benefits may result from employing cheaper foreign labor, to exploiting the prevailing conditions in the country of investment. Multinational corporations are therefore profit oriented and tend to invest in those places from where they expect to get profits. They tend to invest in those countries where they see themselves as having advantage in terms of technology to gain profit. Multinational corporations invest in developing world in search of highest possible profits by exploiting cheap labor, raw materials and wide markets. States have vested interests with the multinational corporations and many of the policies framed by nation-states are formulated to reflect the interests of these multinational corporations. States back these corporations. These Multinational corporations also influence the host countries in decision-making through various strategies. They try to influence the policies of the host government through various means such as bribing the officials and exerting influence on the government (Safarin: 1993:32-34).

Multinational corporations entered their modern form in the 17th and 18th centuries. European-based monopolistic companies such as the British East India Company and the Dutch East India Company during the age of colonization. Multinational corporations were viewed at that time as agents of civilization. They are considered as precursor to modern MNCs. By the end of the 19th century, advances made in communications had more closely linked world markets, and multinational corporations retained their favorable image as instruments of improved global interconnectedness through commercial ties. But the existence of close international trading relations did not prevent the outbreak of two world wars in the first half of the twentieth century. But after those years of wars, an even more closely bound world economy came into being (Micklethwait and Wooldridge: 2003:19-23).

In the contemporary period, multinational corporations have grown in power and visibility, but also have come to be viewed more suspiciously by both governments and consumers worldwide. Multinational corporations are viewed with increased suspicion given their perceived lack of concern for the economic well-being of particular geographic regions. The public impression is that the multinational corporations are gaining disproportionate power in relation to national government. Even with such

concerns, multinational corporations appear poised to expand their power and influence as barriers to international trade continue to be removed (Casanova : 2004:43-47).
Multinational corporations own and control huge amounts of valuable commercial and technical resources. It results in multinationals affecting decision–making of the governments. States welcome MNCs because they need financial, technical, and commercial resources and these are controlled by multinational corporations to improve their economy. Due to this fact, several countries especially developing countries have liberalized their foreign investment laws to get Foreign Direct Investments (FDI). In more recent times, multinational corporations have grown in power and influence. In the present era, Multinational Corporation's strategy towards government aims at influencing government policies in terms of policy formulation and policy implementation. Multinational corporations expand through various means. Different strategies of multinational corporations expansion include Mergers and Acquisition (M&A) along with direct investment in the country concerned. The size of multinational corporations is often referred to as a characteristic which gives them power. Multinational corporations have flexibility which enables them to move between different countries and it may be an important condition which gives them power base. By a threat to move the production unit to another country, multinationals can force a host government to give them advantageous investment conditions. There is a threat that by moving out of a country, the country concerned would be deprived of important technological advantage and knowledge gain. The competence of MNCs, when it comes to bargaining power, organization and marketing may make them more powerful compared to both to states and other smaller local corporations.

The centralization of decision making in multinationals makes them powerful. They tend to be coherent unit. Ownership and control over the means interests of multinational corporations and home country of production is the basic power base of MNCs according to neo-Marxists, because the government is dependent on them in many regards such as knowledge , technological know-how etc. The resources may be divided into the different categories. These categories includes capital, technology, raw materials and communication. It is the control over these resources, and not the formal ownership, that entails important power bases.

Multinational corporations are economic organizations and these are engaged in productive activities in two or more countries. Usually, they have their headquarters in their country of origin, which is, their home country and they expand overseas by building or acquiring affiliates or subsidies in other countries i.e. the host. This kind of expansion is referred to as Foreign Direct Investment (FDI) because it involves engagement in directly productive activities which are overseas. For example, Ford establishing a plant in Mexico to build cars, or Citibank setting up branch office in London to provide financial services. Foreign direct investment (FDI) has expanded at phenomenal rates since World War II. In the 1980s, for example, FDI grew at 28.9 percent per year, which was three times the rate of world trade, and it has been a key force which is integrating the world economy. Although there are 45,000 MNCs with some 280,000 foreign affiliates worldwide, ownership and control of such assets are heavily concentrated. For example, just 1 percent of MNCs own half the total of all existing foreign assets (Gilpin: 2001:18-20).

FDI is an activity which is primarily conducted between rich countries (Cohen: 2007:32).The United Nations center for Transnational Corporations, which is the leading monitor of multinational corporations activity, estimates that for much of postwar period, developed economies were not only the home of over 95 percent of recent foreign direct investment flows, but also the host of over 80 percent of such flows. Even with the recent surge in FDI flows to developing countries, their total share of such inflows is only 37 percent, close to what it was at other periods of FDI booms. In the period since 1985, just five rich nations i.e. United States, the U.K, Germany, Japan, and France were the home of almost 70 percent and host of 57 percent of all FDI flows (Gilpin:2001:38-40).This shows the confinement of these MNCs in the developed countries.

Multinational corporation's decisions to invest in overseas places comprise several elements. An important element is that the firm possesses some firm specific competitive advantage. This is important because the multinational must be able to overcome the disadvantage of doing business a long way from home against foreign companies which will be more familiar with the local environment. There are several kinds of advantages that enable multinationals to go overseas and compete successfully against foreign producers. An important factor is size. Multinational corporations are usually large and

have market power. They can, therefore, obtain finance capital relatively easily and at favorable terms. Also they are often technological or marketing leaders in their industry. They may have pioneered a particular product or developed an efficient system of production. They may also have tremendous marketing power because of a brand name. For example products like McDonald's, or Hilton Hotels etc do good business because of their brand value. These advantages enable such firms to compete successfully in foreign countries (Agmon & Kindleberger:1977:62).

These big multinational corporations could also sell or license their technological or marketing advantages to foreign firms and by that they benefit indirectly from their advantages. Some multinationals do so through licensing agreements and partnerships or alliances. But many do not operate through such alliances or partnerships and instead insist on complete ownership and control. There are two reasons for doing this. Firstly, when control of the advantage remains within the multinational, then the multinational captures all the benefits that flows from the advantage. Because marketing and technological advantage often helps multinational corporations to earn high rates of return, they have a financial reason not to want to share these gains with others, especially firms that may be potential rivals. And also, supply or licensing agreements involve some degree of uncertainty. For many firms, the uncertainties are sufficiently large to make full control attractive (Gilpin: 2001:55-57). There is also the concept of location-specific advantage. There are advantages of producing at the foreign location itself, which the firm can enjoy by being there. When the multinational corporation locates overseas, it can get much better information about the changes in customer requirements and can also respond more quickly to such changes. It avoids the transport costs involved in exporting across long distances. They can enjoy the same labor costs as its rivals in that foreign market. Some governments raise barriers to import in an effort to assist domestic producers. Hence getting under trade barriers becomes an additional, and often very important, reasons for firms to locate inside the foreign country, thereby eliminating that particular disadvantage (Keohane and Doom : 1972:45).

Raymond Vernon has related these location specific advantage with the evolutionary life cycle of producers to account for the timing and sequence of FDI by the U.S manufacturers. The product life-cycle theory, as it is called, argues that at the birth of a

new product, the multinational faces few competitors and will tend to locate all its production close to its customers and research and development centre . In such a way, it can more easily adapt the product to conditions in its primary market. Foreign markets are served by exports. As the product matures and the production process becomes routine and more easily imitated, foreign competitors begin to challenge the exports markets of the pioneering firm. This kind of foreign firms may be able to undercut the prices or services offered by the pioneering firm because they enjoy location specific advantage. To preserve its market share, the pioneering firm may set up production facilities in the foreign country. As the product approaches old age and price competition becomes more severe, with perhaps the entry of low-cost rivals from developing countries, multinational companies are again compelled to shift some of their production in search of even cheaper locations (Vernon:1977:45-46).

Another important element of the explanation for FDI is the strategies that these large firms employ to remain competitive with their main rivals. Much of U.S FDI in the 1960s and 1970s occurred in ' bunches' with several multinational corporations in an industry all locating in a foreign country or area at roughly same time. An explanation to this is that many of the MNCs were matching the actions of their competitors before one of them gained an edge by being the only one going overseas. By following the leader these firms try to minimize their risks and maintain a certain market stability or competitive equilibrium in the industry (Barnett and Muller :1975:69-70).

Therefore, FDI is typically carried out by large firms possessing some particular competitive advantage that they do not want to share with rival firms. These firms tend to become multinational so they can enjoy the advantages of locating in a foreign site. Such locational advantages include getting under trade barriers, operating close to large markets, and getting access to inexpensive labor. But the fact is that the technological flow to the host nation is inevitable. This helps the host nation increase its competitiveness but the profit incurred by the investing MNC is far more than the loss that can be imagined through transferring technology and thereby making the domestic companies competitive enough. Gain for the multinational is far more than the risk of transferring the technology to the host country but whatever gain that a host country gets through the technology transfer is beneficial for the development of the host country.

Theoretical approaches to Multinational corporations

There are several theoretical approaches in the field of international political economy which have been used to study multinational corporations. The proponents of different theoretical perspectives disagree as to what extent multinational corporations should be viewed as global political actors. Some see them as autonomous actors with considerable power over both nation states and the international system as a whole. Others see them mainly as instruments of state. Multinational corporations should be primarily viewed as global political actors. In doing so, there shall be concentration on similarities and differences between prominent theoretical perspectives used to study multinationals. Multinational corporations are considered as global political actors because they play a crucial role in the sphere of its economic and foreign policies of government. To be an actor in the global politics the multinational corporations should possess certain system, qualities, including relative autonomy in relation to other global actors and power over other global actors. Multinational corporations command considerable autonomy and command in the international politics. It is evident through the impact which they have on the policies of the government concerned.

There are different aspects of analyzing the theoretical aspects of multinational corporations. These theoretical perspectives may be classified according to different criteria. These criteria include aspects such as their normative attitude, the primary unit of analysis, or assumptions concerning the nature of the economic and political framework in which the multinational corporations act.

There are three main groups of theories, relevant to the studies of multinational corporations which can be recognized. These groups are liberal theory, mercantilist theory and theories of imperialism.

Liberal theory highlights the benefits of multinational corporations. Economic relations are seen as mainly harmonious. There seems to be benefit for all participating actors. Liberals take the point of view of multinational corporations, both analytically and normatively. Within the liberal perspective, there are three different liberal approaches can be identified. In the first approach, there is the business school perspective which focuses on the multinational corporations itself, its organization, management and

strategy. The emphasis is on economic efficiency. The relations between multinational corporations and nation states are not dealt with in this tradition.

Then in the second approach, there is the traditional liberal perspective, based on economic theory. The works in this category devote more attention to the domestic and international effects of multinational corporations. These effects are assumed to be mostly positive both for home and host countries. In this school the main kind of study the focus is mostly on developed countries.

The third liberal approach is called sovereignty-at-bay approach. Advocates of this perspective share the mostly positive view of multinational corporations with other liberals. The proponents of the sovereignty-at-bay perspective also stress the political impact on multinational corporations. Multinationals are seen as autonomous actors which restrict the power of states (Gilpin: 1975:23-28).

The main assumption of liberalism is that the nature of international economic relations is essentially harmonious. Adam Smith had argued that international economic relations could be made a positive sum game. It means that everyone could gain , and no one need to lose , from a proper ordering of economic relations, although the distribution of these gains may not be equal. Following Smith, liberalism assumes that there is a basic harmony between true national interest and cosmopolitan economic interest. Great Britain and the United States gained the most from the international free trade but everyone else gained as well.(Vernon:1977:52).

Liberals suggests that, given this underlying identity of national and cosmopolitan interests in a free market, the states should not interfere with economic transactions across national boundaries. Everyone will benefit in the long run as a result of a more efficient utilization of the world's scarce resources through free exchange of commodities, removal of restrictions on the flow of investment, and an international division of labor. Liberals maintain that the national interest is therefore best served by a generous and cooperative attitude regarding economic relations with other countries (Gilpin: 1975:49-50). The pursuit of self interest in a free, competitive economy achieves the greatest good for the greatest number in international no less than in the national society.

Mercantilists and Marxists, on the other hand, begin with the assumption that the essence of economic relations is conflictual. There is no underlying harmony. The argument is that one group's gain is another's loss. Therefore, in the language of game theory, whereas liberals regard economic relations as a non- zero-sum game, Marxists and mercantilists view economic relations as essentially a zero-sum game.
The goal of economic activity is the optimum or efficient use of the world's scarce resources and the maximization of world welfare according to the liberals. Whereas most liberals refuse to make value judgments regarding income distribution, Marxists and mercantilists stress the distributive effects of economic relations. For the Marxists, the distribution of wealth among social classes is central .For the mercantalists it is the distribution of employment, industry, and military power among nation-states that is most significant. Therefore, the goal of economic and political activity for both Marxists and mercantilists is the redistribution of wealth and power (Gilpin: 1975:44-46).

These three perspectives differ in their views regarding the nature of the economic actors. In Marxists view, the basic actors in both domestic and international relations are economic classes. The interests of the dominant class determine the foreign policy of the state. For mercantilists, the real actors in international economic relations are nation states and the national interest determines the foreign policy. National interests may be influenced by the economic interests of classes, elites, or other sub-groups of the society but factors of geography, external configurations of power, and the exigencies of national survival are primary in determining foreign policy. Therefore, whereas liberals speak of world welfare and Marxists of class interests, mercantilists recognize only the interests of particular nation-states (Galtung: 1971:36-37).
Although liberal economists like David Ricardo and Joseph Schumpeter recognized the importance of class conflict and neoclassical liberals analyze economic growth and policy in terms of national economies, the liberal emphasis is on the individual consumer, firm, or entrepreneur. The liberal ideal is summarized in the view of harry Johnson that the nation – state has no meaning as an economic entity (Vernon: 1977:49).
There are differing conceptions of the nature of the state and public policy. According to liberals, the state represents an aggregation of private interests and public policy is but

the outcome of a pluralistic struggle among interest groups. Marxists, on the other hand, regard the state as simply the 'executive committee of the ruling class' and public policy reflects its interests. And the Mercantilists regard the state as an organic unit in its own right and the whole is greater than the sum of its parts. Public policy, therefore, embodies the national interests or Rousseau's '"general will '' as conceived by the political elite (Gilpin: 1975:33).

Multinational corporations have various effects on a country. Again the debate between three different theoretical perspectives is telling. Economic liberals see them as forces for positive change, spreading good things like technology and efficiency around the world. It means that MNCs have good effect all around the world with cooperating nations gaining with such collaborations. Economic nationalists see them as agents of the states. They exploit these countries for their own benefit.

Marxist and structuralists tend to see MNCs as creating a world marked by inequality and dependency. With the collapse of soviet economic model and with growing multinational corporations control on a huge portion of world's crucial economic resources, which is, capital, technology, and management skills, it seems that there is few alternative models other than the capitalist development strategy. But it also generates huge criticisms and fears especially among the third world countries. There are various views on the effect of MNCs on world economy.

One of the views is "the race to the bottom" view. According to this view, capital will increasingly be able to play workers, communities, and nations off against one another as they demand tax, regulation, and wage concessions while threatening to move. According to this view, increased mobility of multinational corporations benefit capital while workers and communities lose. A modified version is that the winners in the race to the bottom will include highly educated or skilled workers or workers in particular MNC rent-appropriating professions which includes lawyers and investment bankers, along with the capitalists. And the losers will be unskilled workers and the unemployed (Cox: 1997:45-46).

Another view is the view of "the climb to the top". This view is the opposite of the earlier view. It suggests that multinational corporations are attracted less by low wages and taxes than by highly educated workers, good infrastructure, high levels of demand, and

agglomeration effects arising from the existence of other companies that have already located in a particular place. According to this view, competition among states for FDI will lead countries in both the North and the South to try to provide well educated labor and high-quality infrastructure in order to retain and attract foreign investment. Thus, footloose capital and competition, far from creating a race to the bottom, will induce a climb to the top around the world (Bluestone and Harris : 1982:49-50).

There is another viewpoint. This climb to the top could lead to the outcome represented by the third view which is the "neo-liberal convergence" view. This is a widely held mainstream which claim that free mobility of multinational corporations, in the context of deregulation and free trade, will produce increased living standards in all countries. This process will, moreover, transfer capital and technology abroad, thereby raising the standards of living of those in the poorer countries at a faster rate than those in the wealthier ones which will eventually generate a worldwide convergence in living standards. This may result from the process of competition for capital, or simply from the market processes of dissemination of capital and technology throughout the globe (Keohane and Doom: 1972:76-77).

These views are along with another viewpoint, which is, "uneven development." This view has been held for a long time. It holds that one region of the world will grow at the expense of another region. For a long time, the dominant version of this view was the theory of imperialism. If the South integrated itself with the North, the North would grow at the expense of the South. Now, the fear seems to be the opposite and it is that by having to compete with cheap Southern labor, an integrated world economy will help the South grow, but this time at the expense of the North (Krugman and Venables: 1995:33).

Liberalism, Marxism and mercantilism also have differing views on the relationship between economies and politics. Their differences on this issue are directly relevant to their contrasting theories of international political change. The liberal ideal is the separation of economies from politics, in the interest of maximizing world welfare and the fulfillment of this ideal would have important political implications. The classical statement of these implications was that of Adam smith in *The Wealth of Nations.* Economic growth, Smith argued, is primarily a function of the extent of the division of

labor, which in turn is dependent upon the scale of the market (Gilpin: 1975:36). Therefore, he attacked the barriers erected by feudal principalities and mercantilist states against the exchange of goods and the enlargement of markets. According to Smith, if men were to multiply their wealth then the contradiction between political organization and economic rationality had to be resolved in favor of the latter. That is, the pursuit of wealth should determine the nature of the political order.

For liberals, the long term trend is towards the world integration, where the functions authority, and loyalties will be transferred from smaller units to larger ones , from states to federalism , from federalism to supranational unions and from these to super-states . The logic of economic and technological development has set mankind on an inexorable course toward global political unification and world peace.

Neo mercantilist theory focuses on nation states. According to this perspective, the role which the multinational corporations can play in international politics is determined by the international structure of power. The autonomy of multinational corporations is dependent on state politics. Normatively, proponents of this perspective tend to take the point of view of home countries. The negative effects of multinational corporations on home countries are stressed. The state is seen as the main actor on which the dynamics of multinational corporations are dependent. State controls the policies and working of multinational corporations which results in the domination of state in controlling multinationals.

Mercantilist/Economic Nationalists writers like Alexander Hamilton, Frederich List, Charles de Gaulle etc. have emphasized the primacy of politics. According to this view, politics determines economic organization. Whereas Marxists and liberals have pointed to the production of the wealth as the basic determinant of social and political organization, the mercantilists of the German Historical School, for example , stressed the primacy of national security , industrial development , and national sentiment in international political and economic dynamics.

In response to Engels's interpretation of the unification of Germany, mercantilists would no doubt agree with Jacob Viner that " Prussia engineered the customs union primarily for political reasons , in order to gain hegemony or at least influence over the lesser Germen states. It was largely in order to make certain that the hegemony should be

Prussian and not Austrian that Prussia continually opposed Austrian entry into the union, either openly or by pressing for a customs union tariff lower than highly protectionist Austria could match "(Barnett and Muller:1975:71-77). In pursuit of this strategic interest it was "Prussian might, rather than a common zeal for political unification arising out of economic partnership that played a major role" (Barnett and Muller :1975:72).

Neither liberalism nor mercantilism has developed theory of dynamics. The basic assumption of orthodox economic analysis liberalism is the tendency toward equilibrium. The view of liberalism takes for granted the existing social order and given institutions. The process of change is assumed to be gradual and adaptive. It is assumed to be a continuous process of dynamic equilibrium. There is no necessary connection between such political phenomena such as war and revolution and the evolution of economic system. But neither is inevitably linked to the evolution of the productive system. For the mercantilists, change as taking place is due to the shifts in the balance of power. But also the mercantilist writers such as members of the German historical school and contemporary political realists have not developed a systematic theory of how this shift occurs.

For Marxism, dynamics is central. Marxism is essentially a theory of social change. It emphasizes the tendency toward disequilibrium owing to changes in the means of production and the consequent effects on the ever present class conflict. The view which is shared similarly by Marxists and mercantilists is that every interdependent international economy is essentially an imperial or hierarchical system. The imperial or hegemonic power organizes trade, monetary, and investment relations in order to advance its own economic and political interests. The system would fragment into autarkic economies or regional blocs in the absence of economic and especially the political influence of hegemonic power (Gilpin: 2001:54). For liberalism, maintenance of harmonious international market relations is the norm but for Marxism and mercantilism, conflicts of class or national interests are the norm.

Theories of imperialism may be traced back to writers like Disraeli and Kipling, and liberals like Hobson and Angell. But the modern theories of imperialism stem from the writings of Lenin, Bauer, Hilferding and Luxemburg. The main concepts in theories of imperialism are inequality, dependency and exploitation. The relation between center and

periphery states is assumed to be exploitative. Marxist and Leninist theories have been updated and applied to the activities of multinational corporations. The aspect of exploitation plays a dominant role and developed world is seen as the only beneficiary through the gains of MNC.

The neo-Marxist perspective focuses and stresses the exploitation by multinational corporations. The main units of analysis are the classes. The focus is concentrated on the influence of multinational corporations on the governments in the dominant home countries. Class is seen as a consequence of multinational corporations and there seems to be a widening gap between the rich and the poor and also the emergence of class gap as a consequence of multinationals.

In the Marxist theory, the concept of the contradiction between economic and political relations was enacted into historical law. Whereas classic liberals held that the requirements of economic rationality must determine political relations, the Marxist position was that the mode of production determines the superstructure of political relations. Therefore it is argued that history can be understood as the product of the dialect process – the contradiction between the evolving techniques of production and the resistant sociopolitical system(Galtung: 1971:69-74).

Engels , in his famous polemic , *Anti – Duhring* , openly considers whether economics or politics is primary in determining the structure of international relations. E.K. Duhring has argued that property and market relations resulted less from economic logic of capitalism than from extra extra economic political factors. "The basic of exploitation of man by man was an historic act of force which created an exploitative economic system for the benefit of stronger man or class." (Cohen: 1968: 12). Engels in his attack on Duhring used the example of unification of Germany, the requirements of industrial production had become incompatible with its feudal, politically fragmented structure.

Both Smith and Engels argue that the nation state represented a progressive stage in human development, because it enlarged the political realm of economic activity. In each successive economic epoch, advances in technology and an increasing scale of production necessitate an enlargement of political organization. As the city-state and feudalism restricted the scale of production and division of labor made possible by the industrial revolution, they prevented the efficient utilization of resources and were

therefore , superseded by large political units . For Smith it is a desirable objective and for Engels, it was an historical necessity. Therefore, in the opinion of liberals the establishment of the *Zollverin* was a movement towards maximizing world economic welfare. For Marxists it was the unavoidable triumph of German industrialists over the feudal aristocracy (Gilpin: 2001:47-51).

The dependency school builds on Marxist theories in some aspects. Similar to the Marxists, the dependency theorists focus on the process of production and its dynamic structure. But when the Marxists study processes inside the metropolis from a class perspective, the dependentistas apply a holistic view of the world capitalist system and focus on underdevelopment effects in the periphery. They focus on structural relations between centre and periphery nations and the centre and periphery inside each nation.

Multinational Corporation and the State

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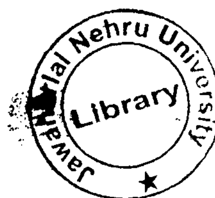
Multinational corporations can be seen as instruments of states, because both home and host countries can use them for their own purposes. In such a role these are seen as a passive instrument of state policies, multinationals are not autonomous actors. There is another perspective which tends to give multinational corporations a passive role is represented by those studies which focus on how other actors perceive multinational corporations. The relation between the multinational corporation and the government in the home country, which is crucial for an understanding of the autonomy of MNC, is treated quite differently by different scholars.

Those who are proponents of the business school and traditional liberals see multinational corporations as mainly economic actors and do not refer to the question of political autonomy. Even though multinational corporations are often described as passive in political issues, the liberals stress their autonomy in relation to the home country's government. The sovereignty-at-bay model emphasizes the autonomy of multinational corporations more strongly than traditional liberals. In the neo-mercantilist perspective , multinational corporations are seen as instruments of home country. According to Gilpin, the US-based MNCs are an important power base for the United States (Gilpin: 1975:54-56).



Neo-Marxists assume that MNCs and the home country government have almost identical interests. Therefore the question about the autonomy of MNCs is less relevant. For the dependency theorists, the relationship between multinational corporations and the home country government is not important. The international capitalist system is studied as a whole and the multinationals and governments of the metropolis are not separated analytically. Galtung's structural theory of imperialism deals with structural relations in the international relations and not primarily with multinational corporations. (Galtung: 1975:58). The global orientation of multinational corporations can be viewed as a sign of their autonomy. Therefore, sees them as autonomous actors.

Multinational corporations involve employees of the home countries and also of the host countries. Multinationals also involves trade unions, mass media, politicians as well as other corporations. There seems to be a relationship between multinational corporations and nation states. The distinction between home countries and host countries is important. Multinational corporations command power in home countries and this is emphasized by Neo-Marxists.

The multinational corporation and host country relationship is an important factor. There are divergent interests between multinational corporations and host countries. Some degree of mutuality and the possibility of joint gains is possible between the two. Both the multinational corporation and the host country government are monolithic entities. Liberal theorists argue that there is a shift in the balance of power to the advantage of host states because the states learn how to deal with multinationals. Another important distinction is between industrialized and developing countries. Conflicts seem to be more common between multinational corporations and developing countries and it can be said that multinationals have greater power over developing countries than over industrialized countries. This is because developing countries have inadequate political and economic institutions and lack various resources when compared to rich countries. They are also often are more dependent upon one single multinational corporation .Both Liberals and Neo-Mercantilists, who share a predominantly positive view of multinational corporations , often study cases where the host country is a developed country. But the theorists of imperialism, who stress upon exploitation and impoverishment, mostly take their example from asymmetrical relationship between a multinational corporation and its

industrialized home country, and the multinational and a developing country (Barnet & Muller :1975:47-49).

Multinational corporations have huge power in economic issue areas. Multinational corporations have power over five economic functions. These functions includes production, financing, marketing, technical development and management. In political issue areas, there are great differences between the theoretical perspectives on the extent of power by multinationals. Traditional liberals and neomercantilists tend to neglect the political power of multinational corporations. But theorists of imperialism, especially Neo- Marxists, stress the intervention of multinationals in political processes.

Multinational corporations also affect cultural and social conditions in the countries where they are operating but the maximum impact seems to be on economic and political power over the country. They influence the various dynamics of the country and its operation to a considerable extent. The products have huge impact on the cultural and social aspect of the host countries. The entry of multinational corporations in a country affect various spheres of the country such as eating habits, dressing patterns etc . People tend to get influenced by the foreign patterns of living and also the multinational corporations bring along with them their own employees which results in intermingling of cultures. There is a possibility of both the cultures getting influenced but there are more chances of the underdeveloped country getting influenced as the developed country is seen as superior in terms of various dynamics.

There is a direct link between power bases that are derived from the relations between multinational corporations and other actors in the international system. They may be manipulated by multinational corporation to serve their interests .Multinational corporations get the market power through the structure of the industry in which they operate, which is mostly monopoly or oligopoly. The Neo-Marxists emphasizes the influence of multinationals on their home country governments. In their view the interests of multinational corporations and home country are almost identical, because the government is dependent on the multinationals and because the government officials are often recruited from multinationals in many countries especially in USA(Galtung: 1971:88-98).

Multinational corporations lack the territorial sovereignty and the military base of nation states. The power that they command is based on economic resources and informal links with other powerful actors. The power of nation states is much more formalized and tangible. All nations whether in North or South, have always had to confront economic pressures which resulted from the emerging neo-liberal global regime. There are also enormous differences across countries in the institutions, structures, and social and political priorities that intermediate between firms, workers, and governments on the one hand and MNCs, international groups and international organizations on the other. The structural context strongly affects the impacts that multinational corporations have on a country. These structures have made a significant difference in the way national economies have experienced global economic forces and responded to them. Countries that have been able to insulate themselves from and manage global forces have performed the best. Here the East Asian miracle economies are the most important examples in the South, while Sweden is an example from the North(Galtung:1971:102).But both models are being undermined by domestic and external forces of neo-liberalism.

Multinationals are therefore an inevitable phenomena in the present globalised world and there is a large areas in which the influence of the multinational corporations can be felt. These companies have made a very strong impact in the progress of the third world countries through transfer of technology, knowledge etc. But on the other hand they have also resulted in a wide disparity between the rich and the poor which has resulted in a lot of criticism for these MNCs.

Chapter 2

Emergence and Growth of Multinational Corporations

Multinational corporations play a crucial role towards integrating the world economically. They are the drivers of integrated world economy. Various factors have resulted in their emergence as an important entity of the world. There are different views on the dimensions of multinational corporations. Some see them as dominating whereas others see them as exploiting and also some considers them very important for the economic progress of a country. Multinational corporations were seen as an instrument of dominating the world during the 1960s and the 1970s.

American multinational corporations were extremely influential and were seen as playing a dominating role in world politics. It was argued that due to sophisticated management methods, large American enterprises would take over Europe and the world (Agarwal: 1991:34-35) During the time multinational corporations were seen as exploiting the underdeveloped countries because they were utilizing the resources of these countries without transferring the technology to them. These underdeveloped countries were getting heavily dependent upon the developed countries.

Many scholars such as Ander G. Frank, M. Ayub, Samir Amin, etc have highlighted this issue. A.G. Frank has talked about the concept of core and periphery in which he has argued that the developed countries or the core are exploiting the underdeveloped countries or the periphery to the extent that these underdeveloped countries are getting further underdeveloped because of heavy dependence on these developed countries. These underdeveloped countries do not have the capability to utilize the resources and therefore they depend on the developed countries for the proper utilization of the resources. The developed countries, according to these scholars, have no intention of providing the technological know how to the underdeveloped countries and therefore there is occurring no development of the underdeveloped countries. These multinationals are the prime agent of the developed countries for exploiting the resources of the underdeveloped countries. These ideas were predominant during the 1960s and 1970s.

During 1980s there was a negative feeling towards multinational corporations but thereafter, there occurred a shift in the perception towards the multinational corporations and instead of being perceived as negative forces, large corporations became the symbols of progress in an increasingly integrating world which provided with the much needed capital and employment. Under the logic of neo-liberal orthodoxy they were started to be seen as an integrating forces of the world and it was held that the world is becoming integrated due to these multinational corporations.

Thereafter, the trend shifted during the next decade and the only way of progress was seen to be the open economy allowing foreign multinational corporations to invest in a country. Such policies were recommended by World Bank and the IMF. Liberalization was seen to be the main factor towards economic growth and multinational corporations played a big part in it.

But now there seems to be again a difference in opinion regarding the impact of these multinational corporations. Under the influence of the anti- globalist movement and thinking, big multinationals are not in a favorable situation. The present trend is highly mixed one. Many scholars especially in the developing world argue that the multinationals have become so big that they threaten their democratic institutions and spoil their culture The big multinationals have become so powerful that they destroy the very fabric of the democratic societies(Wilking:2004:35-46) . Big corporations don't sell physical products such as commodities but also emotional products which includes their cultural influences i.e way of dressing, eating behaving etc and thereby changing and spoiling our cultural landscape(Klein:2008:28).

Multinational Corporations: Their Rise

The rise of multinational corporations can be traced back in time when there started trade between countries for various reasons. For the purpose of trade, there occurred migration of people and merchants. The trade opened many avenues for the connectedness of the world as a whole. Flows of people, trade and capital across political borders have occurred for thousand of years. International trade began to develop in the near east around 3500 B.C. They identify the first multinationals appearing in the old Assyrian kingdom shortly after 2000 B.C. (Moore and Lewis: 1999:18-20). Between 1000 and

500 B.C. ancient Phoenician merchants , especially those located on the island of Tyre, which is located off the coast of today's Lebanon created firms which traded in silver from Spain, tin from Britain , ivory from Africa and textiles from all over the Mediterranean. These firms had specific things to trade (Micklethwait and Wooldridge: 2003:5)

The Roman empire controlled the Mediterranean region between 50 BC and 500 AD, which was linked by roads, harbors and a common currency. For nearly 1500 years from before the beginning of the Christian era, trade routes known as silk routes joined Europe, the Middle East and China. From the sixth century Islam spread outwards from Arabia into Asia, Africa and the Iberian peninsula. This provided a political and ideological basis for the growth of trading connections and knowledge. It resulted in more avenues for connecting the world as a whole.

Different kinds of voyges undertaken by Spain and Portuguese explorers to the new world and Asia in the fifteenth and sixteenth centuries saw transfers of technology .on a new scale. The whole of American civilizations, including the Aztecs and the Incas, were destroyed by Europeans Armies. By the end of fifteenth century Portuguese explorers discovered the water route between Asia and Europe through the Cape of Good Hope, transforming the possibilities of trade between the two continents. Even though merchants were trading between different political sovereignties for centuries, it can be said that the use of the word 'multinational' is not associated before the modern idea of the nation state took place. Scholars and Political scientists traditionally identify the origin of the modern system of nation states to the peace of Westphalia, which ended the thirty years war in Europe in 1648.

Colonization process gave the start for connectivity between different nations as it was required to get in contact with different cultures. It gave rise to more options to get connectivity between the world .When the process of European colonization started from the seventeenth century, state sponsored trading companies were created to support colonial trading systems. The English , Dutch and the Danish East India companies , the Hudson Bay company , the Royal African company and similar firms were given monopoly trading rights by their respective governments (Micklethwait and Wooldridge:2003:17-24).

The Royal African company , which was created in Britain in 1672 and dissolved in 1752 exchanged European products for African commodities such as pepper and ivory for slaves , and these were transported to west Indies. During the eighteenth century , therefore, the integration of civilizations had been in progress . Europe , Asia , Africa and the Americas were joined by strong trade links. There was a 'global' market in some products, including Wine (Agarwal: 1991:68). There was also a flourishing Atlantic economy.

But distance remained a formidable obstacle to the closer integration of national markets. There was a factor of time for connectivity to take place as the technologies available at those times were not fast enough. Transport costs were very high. World trade probably grew at only over 1 percent per annum between 1500 and 1800. There seems to have been little or no price convergence between continents. Moreover, periodic wars between the European nations constantly disrupted integration (Micklethwait and Wooldridge:2003:23-25).

Integration occurred slowly as a process. Due to trade and commerce, integration occurred first on a local and regional, and then on a national basis. After that as the century went on, it took place on a global scale. The process gained momentum slowly. Slowly the boundaries for decisions affecting all aspects of production widened in space. Different factors like what to produce, how to produce it, and where to borrow the funds, buy raw materials, hire the labor, locate the firm, and sell final outputs were not bounded either geographically or politically.

The process of integration as a process promoting specialization on a world scale developed with the rise in foreign trade and the movements of capital and labor across different countries. Whenever and wherever this process occurred, the emergence of a "global economy" can be measured by observing the rise in the ratio of trade to national output for individual countries and for the world as a whole. Also, the international dynamics of trade started to have an impact on the policies of sovereign states. The sovereign states dictated according to the world dynamics and there were many policies which were undertaken out of pressure. The rulers and political leaders recognized the harmful effects of aggressive competition against foreign enterprise and capital, and

began to cooperate to establish a world order more conducive to commerce between sovereign nations (Graham: 1996:132-136).

When the process of global integration was continuing, there was widespread trade in different commodities and during the process of global integration, global transfers of commodities, technologies, and cultural practices certainly continued as they had for centuries past. The commerce of that time seems to have more in common with its medieval past than with the kind of international economy that came into prominence after the coming of the railways. Measuring on any of the indicators used to measure degrees of integration achieved by national economic systems, the interconnections across continents and countries down to the middle of the nineteenth century seem limited. Before 1846 ratios of exports to production and imports to national consumption probably remained in the 1–2 percent range for the majority of European countries. Even for small maritime powers, such as Britain, Portugal, and Holland, ratios of trade to income fell below 15 percent (Bairoch: 1976:23-25).

There was little influence of long distance trade and the process of integration of world economy and therefore, commodity prices on local and national market were not in much degree influenced by long-distance trade. Some commodities like gold and silver were not much influenced by international trade. Setting the prices for sugar, tobacco, coffee, cocoa, spices, and cotton fibers were to some extent set by the interactions of consumers and producers within the trading systems of Portugal, Spain, France, Britain, and Holland. These countries dictated the price factor as they were a kind of monopolistic entities in the foreign markets in those times.

Before railways were established, the prices were determined by conditions of demand and supply in segregated markets. The advent of railways made it easy to transport the materials in a bulk amount and in a short time resulted in the affect on price by the prevailing conditions in different regions. The spread of railways gave rise to increase in trade. Enlargement of rails grew from around eight thousand in the 1840s to well over a million by World War I. Railways did a great deal to integrate markets and to open up the interior of continents, especially for regions within Europe and North America poorly serviced by rivers and canals. For heavy and bulky goods or where speed mattered for the

delivery of perishable produce and for the movement of passengers, costs could be reduced dramatically by shifting goods and people from road to rail.

During this time, producers and traders the world over remained not merely insulated from foreign rivals but also protected by transport costs and barriers of many kinds from competition even within national boundaries. Local and regional price structures survived well into the second half of the nineteenth century (Buchan:1994:15-22).

"Given the persistence of geographical and political impediments to flows of exports and imports across and within borders, it is also not surprising to find that wages and the returns on capital and land engaged in producing comparable commodities continued to diverge by wide margins from country to country down to modern times"(Graham:1996:66).

The situation continued in this direction of expanding world integration till 1900, when sophisticated institutions in banking and finance had become engaged in moving short and long term loans around the world, the marked divergence of interest rates within as well as across countries provides evidence of abiding imperfections in international markets for capital (Neal: 1990:29).These institutions facilitated the international trade in a big way.

The emergence of multinationals as big entities is a long drawn process and considering the time between 1846 and 1914, steps toward the integration of regions, nations, and continents into a global economy occurred when more and more communities and countries came to be seriously involved with exporting and importing with foreign investments. It resulted in migration of people to different places. Over these decades technological, institutional, and political innovations promoted integration within and across regions, national economies, and continents.

These innovations were crucial towards integration of the world as a whole because these innovations resulted in easier way to connect with the other countries. This was crucial because time was a major factor which resulted in lesser connectivity. As the process of connectivity became faster, it resulted in the integration of the world in a much faster rate. It facilitated the expansion of multinational corporations because better connectivity made it easier for the firms to reach the other parts of the world and make investments.

There were many factors but an important factor towards this was the improvements in the capacity of transportation systems to carry more goods which continued to lower value for freight embedded in the prices of an increasingly diversified range of products and raw materials sold on national and foreign markets. Different modes of transportation such as the transfer of goods from routes over land to water reduced costs for transportation. Despite the spread of surfaced roads and better modes of cartage, the competitive advantages of waterborne transportation continued till 1914, long after the emergence of steam-powered carriage by railways. Transporting goods by water remained highly competitive, even though the tonnage of steam-powered vessels did not overtake that of sailing ships until very late in the nineteenth century. Freight rates by sea fell by a factor of four between 1820 and 1913, while the tonnage of merchant shipping available expanded five times over the same period (Bairoch:1976:19-25) .

These improvements were important because these were the ways through multinational corporations could expand. These vast improvements in connectivity made international trade much easier and the trade was done through the multinational corporations as they were the prime means through which goods could be sent to other countries for consumers to buy them. The emergence of steam power gave a good boost to international trade which made the expansion of multinational corporations more feasible. This kind of power resulted in much more advanced ways for connectivity between the countries. Different kinds of innovations were made which made use of steam power for transportation across places.

Also, the discovery of intercontinental cables reduced the time taken to communicate around the globe to hours compared to the weeks and days needed to send messages by land, sea, and rail. Once in place, links by telegraph reduced the risks of investment in production and inventories for distant markets and permitted metropolitan firms to rationalize transactions around the globe. In all the places, the contribution of cheaper and speedier forms of communication and transportation to the widening of markets, to efficient allocation of resources, and above all to the realization of the economic potential inherent in the evolving technologies of the industrial revolution was important. Therefore invention in communications was an important reason for the rise of multinational corporations.

These multinationals could reach other parts of the world easily and therefore, it resulted in the expansion of multinational .Initially most of the multinational corporations emerged from the developed countries because they had the resources to make investments and also because they had the technology to make proper utilization of the resources. Some of the underdeveloped countries were totally dependent on these multinational corporations for many of the products because they just did nit know how to make them.

There occurred enormous amount of foreign investment in the world until 1914 in both the developed countries as well as the colonies. The total worlds stock of foreign investment by 1914 is usually been estimated at between $40 billion and $ 45 billion (Fieldhouse: 1986:67-72). There also started the process of clustering of free standing companies and it was characteristic of the network forms of organization which was widely employed.

During the inter war periods there was not much expansion in multinationals although they continued to operate. After the world war II, there emerged world bank , IMF and GATT. These institutions came into being by the efforts of the developed countries. Multinational corporations saw their rise after the emergence of Bretton wood because there were policies which were conducive for expansion of world trade. Policies such as lowering of tariff rates gave an opportunity for the multinational corporations to expand to other parts of the world. Thereafter there occurred phenomenal growth of multinationals.

Reasons for the rise of MNCs

The growth of multinationals can be attributed to various factors. The diffusion of modern economic growth created an accelerated search for raw materials and foodstuffs and for markets for manufactured products. This process began with the industrial revolution in Britain and it intensified over the time. The new capital intensive industries such as chemicals, machinery, and packed food products which grew towards the end of nineteenth century were large consumers of raw materials. Productions of industries such as chemicals and electrical production consumed large amounts of minerals such as copper, aluminum, and zinc. In the late nineteenth century petroleum , which was initially

used as kerosene for lighting and heating , began to be used as an alternative to coal to drive trains and steamships , while it was the only fuel that be used in automobiles. This resulted in search for such commodities and it resulted in the rise of inter country trade and multinationals which specialized in a particular kind of trade started to make its presence felt.

During the progress of nineteenth century, the liberal policies started to take hold. Most governments treated foreign firms as domestically owned firms. Geographical distance was greatly reduced by the improvements in transport and communication. In earlier times the roads were not proper and it was heavily dependent upon weather and therefore with the improvement in transport systems, the interconnectivity increased and therefore multinationals started to expand.

During the first half of the century improvements in sailing ships technology resulted in a sharp fall in the ocean freight rates. From the mid- century, the use of steamships also expanded. The opening of Suez Canal in 1869 provided a shorter route between Europe and Asia. Sea journey times and costs continued to fall with the opening of the Panama Canal in 1915. By then the travel by ships across Atlantic took only six days (Wilkin: 2004:17-29).

The Telegraph was a very important innovation. In 1852 London and Paris were joined by electric telegraph. These transport and communication improvements opened new markets and made the exploitation of natural resources in distant lands more feasible. Ores and metals could be shipped economically from various regions of the world with much ease. This facilitated multinational corporations to expand as they could have better connectivity with their branches in other countries. (Micklethwait and Wooldridge: 2003:25-26).

Also the expansion of multinationals was facilitated by the appearance of new types of firms. In the eighteenth century most firms everywhere were small and family owned. Owners were usually responsible for paying off all firms debts. During the nineteenth century legal reforms permitted new forms of corporate governance. During the first half of the century, many states in the United States permitted limited liability. There started emergence of big companies as many small firms started to merge together to create a large enterprise which could further expand.

The war period, i.e, 1939 to 1945, were not conducive towards a much faster growth due to protectionist policies advocated by most of the countries. There occurred growth in multinationals due to various factors afterwards such as the rate of globalization intensified and there was a general policy towards deregulation. After world war II, there occurred the cold war period where there was a kind of division of the world into two blocs headed by the United States and Soviet Union. United States had adopted the liberal policies or the capitalist policies and therefore there occurred free trade between the capitalist countries and there occurred multinational corporations from the developed countries which resulted in their further expansion. Due to persuasion of socialist policies by the Soviet Union and other socialist countries , there was not much increase in large multinationals but state controlled firms emerged from these countries. After the collapse of Soviet Union , there was a increase in the globalization process and the multinational corporations started reaching in those areas where they were restricted earlier. Thereafter, a trend towards tariff reduction further enhanced expansion and rise of multinationals (Buchan:1994:71-80).

Development in information technology and the use of communication devices such as geo-stationary satellites permitted instantaneous communication possible and it gave a great boost to expansion of multinationals. The expansion in technological innovation in computers further helped multinationals grow.

Bargaining Power of Host Governments

Multinational Corporations (MNC) are important actors in the contemporary global political economy. They can be viewed as economic actors following the logic of international market, but their activities and functions raise the questions of national power. Such questions and issues are most raised in the case of developing countries where weak government and societies give the MNC strong bargaining position. But over time the bargaining power of the third world has increased due to various factors. They are now in a position to extract better terms from the multinationals. The relative bargaining power of the host government depends upon different factors and these factors includes the level of host government's expertise, the degree of competition between the

multinationals, the type of foreign direct investment and the degree and extent of prevailing economic uncertainty. (Tarzi: 1991:244).

These third developed countries have weak government structure and inadequate laws for collecting taxes and controlling foreign business. Moreover the third world government lack skilled lawyers, accountants and specialists in business and therefore they are not in a position to negotiate with the multinationals. Also the government becomes dependent upon the revenue collected from the foreign investors for meeting government services and domestic needs such as employment. But over time the government acquires the necessary skills and their bargaining power increases.

Competition among the multinational corporations also increases the bargaining power of a host country. Earlier in 1960s, there was absence of competition among multinationals and usually a single multinational dominated the domestic market. But over time, multinationals from diverse countries such as United States, Germany, Japan etc have resulted in increased competition and therefore the bargaining power of a host country has increased. Earlier local firms were not in a position to compete with these big multinationals but now many firms are good enough to compete and hence the bargaining power of the multinational has increased. The uncertainty about the success of a multinational firm before investing increases its bargaining power and once the multinational establishes itself , then them host country increases its bargaining power. (Tarzi : 1991:245). The bargaining power of a host country has also increased due to emergence of diverse groups such as associations of labor, students, intelligentsia, government technocrats, farmers association etc. these organizations exert pressure on the government for welfare roles.

Therefore, the nature of their interaction with developing countries and the implication of this interaction for economic growth is highly controversial. But there are many spheres from where it is said that MNC have made important contribution to developing countries. This interaction between MNCs and third world economy has led to a strong relationship and the impacts of such interactions are enormous. Multinational corporations have strong impact on host less developed countries multinational corporations are one of the main channels through which investment is directed towards the less developed countries. Their evolution has reflected broader developments (OECD

2003). These impacts are considered from both the positive and negative point of view. There are many indirect gains for the underdeveloped countries but the multinational corporations, being profit oriented, tend to exploit these countries for their gain.

Impact of Multinational Corporations on Developing Countries

Multinational corporations affect the country of investment in many ways. Multinational corporations are profit oriented and for that they bring the best technology and expertise along with them. They try to extract maximum benefit from the country where they are investing and the gains which the host country gets are mostly indirect. Some scholars argue that the decision of a business firm to invest in a foreign country must be a positive sum game for the investment to be a long-term venture. It must include gain for both the multinational corporation and the host country. The multinational and the host country should both have positive benefits.

Multinational corporations are associated with not only bringing in foreign money for their investments, But also with helping in capital formation locally. The presence of multinational corporations in a developing country is helpful in attracting capital both from private sources and international organizations (Shankar: 1980:155-157). This is important because a successful multinational corporation in a country brings in confidence among other investors to favorably consider that country for investment and expansion possibilities. This initiates more investment in that country and thereby generates more foreign capital. Most of the time when a few multinational corporations establish themselves in a country, their banks, and insurance companies, accounting firms and advertising agencies closely follow them (Graham: 1996:45-46).

Therefore with capital inflow, multinational corporations go for more business into a country. Efficiency of capital utilization is also perceived as an important contribution by the host countries. Multinationals from developed countries are also seen as role models and training grounds for local firms of developing countries to create their own businesses, and as sources of skilled staff. When considering the amount of competition they face both at home and abroad, multinational corporations have to be efficient to operate profitably. This success and trait of multinational corporations is duly appreciated

because they set an example for the local firms. Methods of their operations are usually imitated by local firms to compete at their level.

Also, large and substantial benefits are usually seen by the host countries towards their advantage (Lourdes: 2004:78). The main aim of the multinationals is profit making but it results in many other benefits which are obtained by the third world countries in a direct manner as well as in indirect manner. Multinationals increase the level of competition and it invariably helps the third world countries multinationals to increase their level of quality in order to face the competition . It results in better options of products for the people of the third world countries. Multinationals operations in third world countries also benefit the third world in some ways which may be indirect. Multinationals expect annual returns and profits in compensation for funds and finance which they make available for the firm's production and sales activities.

Managers try to get the most efficient workers for the wages they pay. They try to buy materials at the cheapest costs possible and seek to produce in countries which levy the lowest profit taxes. They also try to sell in markets where they can earn the highest revenues after costs. An important positive contribution is the employment they create in the area of operation .There is always the problem of employment in the third world countries. The government is not always in a position to provide for the job .The entry of multinational corporation results in generation of a lot of jobs at all levels. There is requirement of labor along with well educated individuals for the multinational corporation to operate in a country and hence employment is generated at all levels (Shankar:1980:58-60). These multinationals also rent buildings and land, or sometimes buy them, thus generating higher incomes for their owners. Such purchases also release the capital for the government.

These kinds of dealings generate huge capital for the third world countries and it helps it to invest the generated money in other areas which includes education, medical facilities, basic infrastructure such as electricity, drinking water and also the capital is utilized in setting up the factories and in other areas such as Research and development. Also these multinational firms pay higher wages to local employees than they would receive elsewhere and higher rents for land and buildings. Many argue that the wages in third world countries are lower than those paid by multinationals in the more developed

countries, and the working conditions are not of the same standard. These wages, which are considered below the standard of those given in developed world, are still very high when compared to the standard of existing level of the third world country.

Due to the presence of multinationals, there occurs increased competition in the market. People tend to get more choices for the products which they want to buy. Without sufficient demand for the products, multinationals would not make profits from selling them in the third world. It becomes important that the multinationals make entry in those products which are in demand by the people of the third world. Excessive taxation of profits or environmental regulations reduces total investments by both multinational and local firms. Such measures mainly work against the development of local firms. The local firms get affected by such regulations and it results in less efficiency of the local firm also. The solution might be in the loosening of restrictions on businesses so that they may create more wealth and in the process facilitate the development of local enterprise and lessen the incidence of corruption in government.

And it is a fact that people in those third world countries whose governments have been more open to the presence of multinational corporations have experienced significant improvements in their standard of living . This can be said about countries like Bermuda, the Bahamas, Hong Kong, South Korea, Singapore, and Taiwan. There occurred significant improvement in the per capita income, literacy level and other parameters such as per capita availability of electricity, purchasing power etc. And many other countries which are hostile to these firms continue to be in poverty and underdevelopment (Gelan :2009:25-28).

The efficiency of multinational operations, which is reflected by new managerial techniques, and in new processes, and in measures adopted to increase labor productivity and the methods of training, are also widely appreciated by the host countries. In due course of time these benefits go down to local companies which become more efficient and productive. This is a very big advantage for host country's local firms because they get to have better skills and technology which would help them in the long term in competing with other firms. Multinational corporations are also seen as aiding in exports and import substitution. This can be beneficial to the local firms in an indirect manner because through import of the foreign products, the local firms get to know the skills

which would help to grow and expand. This is usually an obligation which the corporation must fulfill in order to import required raw materials, or as a part of their deal to operate in the country. Usually a large number of host countries perceive the multinational corporation as an important contributing agent to their economic progress through revenue generation but are concerned about the income inequities that such enterprises usually cause.

But apart from the benefits from the multinationals, which are indirect in most circumstances , there are some serious drawbacks which affect a developing country in which a multinational is operating. While a lot of views are in reasonable agreement that multinational corporations introduce new products and processes into host countries in a reasonable time after development, but there is also complaint about the lack of actual research and development conducted in host countries. This factor suggests that a developing country will not be able to gain much because of the lack of research activities in their country. This will not incorporate entry of new technical knowledge into those countries (Pape:1984:166).

The multinational corporations bring the technology along with them but they are not keen to give the technological know how to the developing countries because they are focused on profit and are not keen to lose their comparative advantage. The developing countries try to get the technical knowhow but they lack the sufficient infrastructure to indulge in research and development and hence they are not able to get the sufficient expertise to match the big multinationals. It results in their remaining dependent upon the expertise of the multinational operating in their country. There is pressure from the host country to get the knowledge on the products but it is highly difficult to emulate the expertise. The developed countries' multinationals are more than often able to utilize the primary products of the third world into making the secondary products which results in dependence of the third world on the developed world. These multinational corporations tend to get monopolistic in their operations.

It results in further underdevelopment of the third world as , according to the dependency theorists such as Ander G Frank , the third world keeps getting dependent on the developed countries which try to exploit the third world countries to their advantage. The core countries or the developed countries utilize the resources of the periphery countries

or the third world countries, towards their advantage and it results in further underdevelopment of the third world countries as they are not able to get the required expertise to benefit from their own resources by utilizing them by themselves.

Multinational corporations are involved in very diverse kind of activities in third world countries. These activities involves their aim of earning higher incomes. Many of these multinationals originate in the industrialized countries, including the U.S., the U.K., Canada, Germany, France, and Italy and therefore they have been viewed as instruments for the imposition of western cultural values on third world countries, rather than helping in their economic development. The concept of increased competition is more or less superficial because the local companies are no match to these high investing big multinational corporations.

The technical know how of these big multinational corporations are far superior than the local companies and in the absence of gaining direct access to the technical and managerial expertise from these big multinationals, more often the local firms get winded up and require government intervention to save them. There occurs a feeling of domination by these developed countries on developing countries as these multinationals from the developed countries try to influence the third world government towards many policy areas (Pape:1984:182-189). These policy areas include measures such as drastically reduction in the tariff rates and opening as many sectors as possible to the entry of these first world multinational corporations. Therefore, those who follow these views suggest the expulsion of these firms, while others who are less hostile have argued for their close supervision or regulation by third world governments.

Some previous incidents highlight the negative aspects of these multinational corporations. These incidents includes improper use in the third world of baby milk formula manufactured by Nestle, the gas leak from a Union Carbide plant in Bhopal, India, and the alleged involvement of foreign firms in the overthrow of President Allende of Chile (Lourdes : 2004:78) Sometimes the products sold in the third world are of inferior quality because the multinational corporation operating in the region commands monopoly over the market and due to lack of competition they compromise on inferior product . Due to monopolistic nature, these multinationals have high bargaining power with the host governments and most often the third world governments are dependent on

these multinationals which makes them command less influence over them.
Some multinationals have assets which are worth more than the national income of their host countries and this sometimes results in their fearful image. Because of this fact they have the capability to have a greater influence in the government. There are incidences which suggest that some multinationals have paid bribes to government officials to remove obstacles which are against profitable operations of their enterprises. This has a very adverse effect on the overall development of the third world.
Many governments, especially in Latin America and Africa, are having the negative images and have adopted hostile policies towards multinationals which includes stopping the entry of the multinational corporation's entry into selected sectors and having a very high tariff rates for their entry into the markets .The power to influence the host government results in constant problems and it results in the multinationals attempt to change policies of the government to their own advantage(Moran :1978:120).These factors are not conducive to the development of the third world because the vast majority of the population is not having the standard of living comparable to those of the developed world and this results in adverse impact to the vast population of the third world as these first world multinationals are profit oriented rather than welfare oriented.
Multinational corporations buy land in the country of operation. But such activities are not always in favor of the third world because these multinational corporations are only concerned about the profit which they will make and therefore they neglect the welfare concerns of the people at large such as displacement of the people from the area and the environmental concerns associated with it. It will invariably result in adverse effect for the developing country.
Multinationals enrich labor and other resource owners in the third world. If multinationals were not present , then, the people would have had fewer or much lower paying jobs, and the demand for land and other local resources would have been lower. Considering that operations of hotels like the Holiday Inn, the Sheraton, the Hyatt, the Hilton involves paying huge rent for the land which they occupy or getting on lease or buying beach-front properties in several of the popular tourist resorts in the third world, the government might have received much less for their sale(Lourdes : 2004:77).
But multinational corporations are biased towards the wages which they pay to the

workers of the third world and also the conditions of work provided to them. Most often the workers from the third world are paid less compared to those paid to the workers of the first world for the same expertise of the work. This differentiation is associated to the profit making intention of the multinational which is operating in the country which is not that developed. Wages paid by multinationals in the third world is very low compared to standard in home country. The workers find it more profitable to work for multinationals at the wages they offer because they have scarcity of employment opportunities and also the wages offered is good enough when compared to the standards of the third world. Multinational corporations try to exploit the workers of the third world by taking a high workload and paying less. Due to lack of options, the workers are keen to get employment. Multinationals try to make as much profit as they can .The profits are utilized by the multinational corporations towards their expansion in other areas and countries rather than benefitting the host country in welfare functions. Some countries such as Brazil have exerted pressure on the foreign multinationals towards indulging in welfare roles.

Foreign firms, including multinationals, do not necessarily make excessive or higher profits per dollar invested than their local counterparts. It is because of the fact that many third world governments tax the profits of their local firms at a higher rate than they do those of foreign firms. But it results in adverse situation as the multinational which operates has in most cases much higher profits and it might result in closing the local firms. Therefore, the after-tax rates of profit are similar for foreign and private local firms in the third world (Gelan :2009:23). Also the new wealth created by any firm has to cover the wages, interest, equipment, and the rental costs of land and buildings incurred in production before profits are paid. And most of such payments stay within the host third world economy but it is not that significant to have a major impact on development.

Multinational corporations do not seem to be contributing much in the way of promoting political stability, preserving local culture and towards the welfare of the society. These multinational corporations are totally profit oriented and this result in their neglecting the larger issues which the third world is concerned about and also the policies adopted by these firms are totally unconcerned to the problems of the society which results in harmful effects to the society at large.

It is a fact that developing host countries do benefit from the investments of a multinational corporation but, these benefits are associated with some problems. The fundamental problem has to do with the basic orientation of multinational corporations. Because of the fact that they are profit-making institutions, they have to be concerned with their main aim which when put in the context of a third world country results in exploitation in terms of raw materials and primary products. Such issues are long-term vs. short-term profitability. Getting profits and control in developing countries are a matter of policy which a multinational corporation invariably pursues in corporate strategy and management style. The multinational corporation views and adapts its strategy in a world-wide context and for that the specific needs and requirements of a country may not be as adequately met as the country would want them to be, and this becomes an issue of discord.

The policies are undertaken by taking into consideration the global aims of the firms which includes making profit through their sales and for that the local welfare issues are not taken into consideration (Shankar : 1980:58-59). More benefits are obtained to multinational corporations than to the host country which is underdeveloped. They are deprived and try to exert pressure to have more benefits and this leads to emergence of issues between the host country and the multinational. Also there occurs the inevitable fact that multinational corporations do not become active partners in the economic development efforts of a third world country because the primary aim of a multinational corporation is to make profit.

This is argued through two major issues which are constantly raised .The question arises that are multinational corporations really in a position to help a host country in overcoming the major problems such as unemployment, inflation and deficit trade balances. Also should multinational corporations really get involved in these issues, and if they do, then, to what extent? Once a business organization steps out of its immediate area of concern of profit making and running a business, it has huge scope towards its involvement in local affairs.

Also a major issue is that will a host country tolerate any such interference in its administrative functions and the prevailing societal values and cultures and that too from an organization which is foreign based, in current times. It is in realization of such issues

that multinational corporations keep aloof from over involvement in local affairs even though they have the capability to influence policy in their favor. It is predominantly because of this aloofness of the multinational corporations from the political and economic issues of national character that many claimed that, overall, multinational corporations benefit more from their enterprises than the host country benefitting from them. Their parent organizations also have been charged with monopolizing the control for their affiliates, and frustrating development efforts of the host governments. The focus on profit makes them try to get monopoly at the cost of welfare issues.

For multinationals there is always the intention to gain profit and the intention of the host country is to get as much of benefit as possible and therefore , multinationals try to get profit at any cost and the third world host country tries to get focus towards the social issues of the host country.

Role of Multinational Companies (MNCs)

Multinational corporations play a very varied and dynamic role in the world affairs. The forces creating MNCs are varied and complex. All MNCs have a lot of common dimensions and distinguishing features. There are two claims to multinational corporations. First, multinational corporations are very big. This is expressed through the fact that among the 100 biggest "economies" in the world 51 are corporations and only 49 are countries, which gives the impression that large corporations are now larger than the average nation-state (Wilking:2004:88) .The economies and growth of a country are heavily dependent upon the multinational corporations operating within and outside the country.

The economic progress of a country has a lot to do with foreign direct investment (FDI) which it is getting and it is heavily dependent on multinational corporations operating within and outside the country. FDI helps in creation of wealth for the host country and it results in the availability of infrastructure for the country to utilize it for development goals. Multinational corporations are the primary means through which the host country gets the FDI as these companies invest in the infrastructure of their products and also the government gets capital for their entering into their country.

The other claim is that the size of multinationals is greater than ever. If they are measured in the dollar value of their sales and assets, multinational companies are bigger than ever.

These two factors about multinational corporations are the basis of analyzing its operations in the globalized world. These two views predominate in the contemporary world.

In the last two decades, various policies towards liberalization and opening of the economies have occurred in the developing countries. These countries have taken steps to privatize and allow the foreign ownership of their normally public owned service sectors. Because of these, they have created many opportunities for overseas investments and successfully influenced the location decision of MNCs. Multinational corporations have expanded enormously due to liberalization policies advocated by most of the countries.

According to UNCTAD (2003) the flow of FDI in the service sectors of less developed countries (LDCs) has surpassed all other FDI flows in these countries. Therefore, there are many areas in which the MNCs operate but the services sector is a major attraction for MNCs.

There are many reasons for adopting liberalization policy by countries. It includes getting the latest technology, expertise, knowledge and competition in the domestic market but the main objectives behind the liberalization of policies towards inward MNCs investment by these countries is aimed at attracting foreign private capital investment to their economies. The aim of countries is to attain economic growth of the country and therefore, the policy of liberalization is based on the assumption that the growth in FDI facilitates economic growth by bringing in additional capital stock to the developing countries (Dunning: 1971:56-59).

Most of these countries have full confidence that the liberalization policy would get the much needed economic growth and therefore they have adopted this policy. The experience of many successful countries such as India, Brazil, South Africa, Hong Kong, Singapore, Japan along with many other south east Asian countries which have attained economic growth through liberalization have furthered added to their faith in opening their economies for foreign direct investment.

Spread of MNCs: In the contemporary world, multinational corporations have attained a globalized status because they have spread to almost all parts of the world. Now we find that some countries have affiliates in more than 150 countries. Some of the most

successful multinationals have their spread across almost all regions of the world. For example a company such as coca-cola has a share of market in the beverage sector in almost all the countries of the world which includes some of the most advanced countries like the United States, United Kingdom , European countries like Germany , France and also it includes some of the most underdeveloped countries like Kenya , Uganda. Their reach includes all the continents of the world (Wilking: 2004:65-68).

They have a reach which can be found in most regions of the world. This suggests that these companies are totally global in their reach. The geographical spread of MNCs makes them in a flexible position, because of the wide rang of the multi-options in some decision areas. These areas include sourcing, pricing, financing, cash flow etc. multinationals take the condition of the host country into consideration and most of the successful multinational corporations are able to take the advantage of changes in the economic situation internationally.

The existence of spread and networks of foreign affiliates within MNC gives the possibility of integrated production and marketing on a global basis. The production is controlled from a particular headquarter and the various policy decisions are controlled through their headquarters. Therefore, this results in extensive intra-firm trade. Its operations are factored in such a manner that various stages in the production process are located in different countries or affiliates which specialize in a particular part of the total product line. The intra-transfers of MNC constitute a very significant part of the total volume of international trade (Moore and Lewis: 1999:67-72) .These MNCs have a good source of resources in the host country. They get the raw materials easily and the labor cost is much cheaper when compared to their own country. By getting the raw materials from the host countries, the transportation cost is reduced significantly.

The amount of available resources of MNCs enables it to distribute these resources wherever they want in different countries in the world. MNC can transport investments, money, people, machines, materials, goods, special technical knowledge, and other services. Most of the affiliates of a multinational is managed and controlled by the headquarters of the MNCs, but with a certain degree of the decentralization in some decision making areas. The decentralization occurs in the management and policy making to a certain extent. The labor force including the professionals are recruited from the host

countries and the policy decisions such as determining the price , area of expansion in the host country , introducing some modifications , etc, are decentralized to a large extent. MNC is capable of tapping and manipulating its resources on a worldwide basis, by using them in the locations considered to offer the best opportunities and the lowest risks. By analyzing the markets and conditions prevailing in a particular country, the multinational can decide upon its policy of operation. The factors like determining the price of the product, demand of the consumers and the prevailing conditions of the people in terms of purchasing capacity are determined and accordingly policies are formulated to suit the situation for competing with the already prevailing firms in the area.

The demand of a particular product and the purchasing power of the people are important conditions which results in a multinational to plan its policies. The MNC can generally obtain financing and produce its products at the lowest possible total costs, and also select the most promising available markets in which to sell (Miller: 1982:43-48).The availability of a superior technology helps a multinational corporation to reduce its costs when compared to local firms as the costs on factors like labor, amount of products are significantly reduced. A superior technology requires less labor and also more products can be produced in the same time due to a superior technology. A better quality of product results in more sales and it will further result in more availability of infrastructure for the company. For example, companies like Samsung and Sony took over the Indian television market from the already established Indian companies like Onida and Videocon due to superior availability of technology.

The power attribute of the MNC is a result of its size, geographical spread, scope of operations, and efficiency. It exercises huge influence over the government decision making of a country. A government needs finance and investments from the multinational corporations and also there is the requirement of technology and management know how and hence there are various incentives such as low tariff rates and tax incentives for the multinationals investing in a country. In the present situation, it is normal that the MNC records annual sales greater than GNP in some countries where it operates. General motors, Ford motors, Wal-Mart etc have their annual sales greater than some of the African countries where they operate.

Therefore, the MNC, as a giant among local firms, has the power in the economic sense to dominate and control the local markets. It tends to get monopoly over many of the markets where it doesn't get enough competition from local firms. Having a monopoly over a market ensures profit from that area and therefore a multinational corporation tries to search for those markets where it can get monopoly. The MNC transcends the national boundaries and controls to have the potential to influence the world affairs and course of events in the host countries in very significant ways (Miller : 1979:42-49).

Due to its size and spread, these multinational corporations are highly stable because they are able to compensate the loss occurring from one place by getting profit from another. Therefore, the relatively large resources of the MNC enable it to absorb losses from being in an unprofitable investment, or from other externalities, without threatening its success and continued existence as a whole group. An affiliate of the MNC can also absorb losses resulting from undercutting competitors especially in a new market area.

MNC is very flexible of the economic enterprises because of its size and spread. Since it operates on a worldwide level it has the flexibility to adapt to the local needs. The advanced communication systems of the contemporary world enable the widely decentralized operations to serve the local needs, and also permit the centralized direction to assure the aim of the MNC which is primarily profit making. The headquarters of the MNC can manipulate the mobile resources of the MNC on a global basis, which is based upon the best overall interests for MNC. It can get the information regarding a particular area in details due to the technological advancement; there is always a constant contact with the area of operations. Facilities such as statistics give detailed information regarding the trend of an area and it helps a multinational corporation to change and modify its policies accordingly. It can produce, assemble, and market in the locations offering the best opportunity. These kinds of flexible potions are not available to local firms and therefore these multinationals are at an advantage position when compared to local firms.

Dynamic Nature: Since the multinational corporations always tend to see opportunities to expand to more areas and therefore, they are dynamic in its character .They are always looking for opportunities to expand further. It must grow in order to survive, particularly

where advanced technologies are involved. There are stiff competition between many successful multinationals to gain advantage and this result in a particular multinational to try and attain advantage over its rival. The MNC is considered as a key innovator, which creates markets as well as the products related to them. Innovation is necessary to gain competitive advantage. There is always an attempt to get an edge in terms of technology over its rival firms. Getting a advanced technology would get a MNC get better market share and therefore a MNC is always in a lookout to get innovation. They invest heavily in research and development activities. The MNC can convert the conflicting forces and apparent problems into opportunities, by means of its integrated planning techniques.

The MNC, as an innovator, not only adapts to change but also anticipates or initiates change. There is always an attempt to foresee the future trend of the market depending upon various factors. They tend to strive to get monopoly over the markets. The MNCs often operate in monopolistic market structures, and the speed of commercial introduction of new products and processes is more rapid and it gives them more dynamic character (Fieldhouse: 1986:69-74).

The MNCs are operated from developed countries as well as developing countries. Most of the successful multinationals are from the developed countries because they have the advantage of technology and investment capacity. These companies attempt to spend more on their technology and access to the capital and other resources markets, in order to acquire the vital growth of their existence. Equally to all other conditions, the MNC tends to choose the environment in which the continued growth will be ensured by its ability to regulate the competition through the controlled release of its technology.

There is always a track of its rival firms in terms of technology being used and sometimes when a rival firm adopts a better technology, all other competitors tends to follow. The monopolistic firm requires an environment of relatively free enterprise in order to spend money on the technological and other competitive advantages. It is logical that the MNC would elect to establish its affiliates in countries having little or no technology and therefore little or no competition (Miller:1979:34-35).They tend to find those places more preferable where they have least competition. Sometimes many multinationals don't enter a market where there is already a monopolistic firm. For example, during the 1990s, there was a kind of monopoly of Maruti in the vehicle sector in India and it was only

when more efficient multinationals saw the purchasing power of the people increasing that they entered this market with a better technology and a greater price structure.

Multinationals are playing a major role towards the globalization and integration process of the world. Multinational corporations have emerged through a long process with globalization and integration of the world. A major role in the economy of a country is played by multinational corporations.

There are different opinions about the nature of the main objective of the MNCs. But the main objective of the MNCs is profit maximization of the parent company and of the group as a whole. Also, some people say although various objectives are possible, they assume that the goal of the firm is to maximize the wealth of the firm's present owners (Wilking: 2004:132-134).The profit maximization is a major objective of a MNC but it is not only the objective of the MNCs. But there are also other objectives which the MNCs try to achieve. These objectives includes factors such as obtaining a big share of the world markets, overcoming the customs protection imposed by the host country, minimization of the total costs by using the less cost labor and materials.

Multinationals also have an objective of innovation because getting an advanced technology gives them an edge over their rivals. Also MNCs try to benefit from the available tax advantages in the host countries, and to maximize the returns and revenues from the total transactions and sales, to have a giant economic power, in order to achieve a high rates of economic growth, so that they can invest in profitable areas which have no or less technology and also no or less risks.

The main and most important objective of the MNCs is profit maximization, and the other objectives are subsidiary factors and all of them finally aim to achieve the main objective which is maximization of the profits of the MNC as a whole unit. The role played by multinationals are varied and they affect many aspects of a government's decision making.

Investments by MNCs: Investing power of a multinational corporation depends upon the amount of resources available to it and it basically depends on the level of advancement achieved by the country where the headquarters is available. A multinational of an advanced country has an added advantage of higher capacity of investment. Multinational

corporations try to invest in those areas which are highly profitable and it results in trying to get monopoly over the markets. MNCs have their own interest in the newly privatized service sectors as they hunt for overseas investments. First of all, developing countries have served as lucrative markets for multinational service providers (UNCTAD:1996). Also, the policies of national governments to sustain market-facilitating policies, has not only reduced the uncertainty of investing in those countries which are not developed yet, but has also helped to increase their active participation.

Since the prevailing view is that to attain economic progress, liberalization policies are essential, most of the newly emerging economies are adopting the policies of opening up their economies. Many services are difficult to trade. Hence, it is desirable for foreign firms to be based inside a developing country to serve the local markets. In depth knowledge about the local markets are essential to get the market share of that market. The opening up of local-public-owned service sectors for non-resident private investment fits with their overall strategy which is aimed at optimizing markets, costs and competitions in a globally liberalized trade and investment environment. Thus, the pursuit of free market system by underdeveloped countries can attract increased FDI in the newly privatized service sectors. There is always the opportunity for local people to get employment opportunities.

The increase and growth of FDI alone is not the necessary condition to ensure the inflow of foreign stock of capital to countries. Even if it is assumed that the growth of FDI flows may lead to the influx of foreign capital in developing countries, there is no theoretical or empirical ground to guarantee that it would do so. This is because the reasons for FDI and the international movement of capital are not identical. They are motivated by distinctively independent factors (Hymer :1960:56-59).FDI has other sources and sometimes a country which is investing in a host country tries to take the profit along with it to their own countries and if the tariff rates are low, then it will not help much for the host country to gain foreign exchange. A multinational corporation investing in the host country through having factories , buying land , employing labor and utilizing the local resources such as raw materials and transportation will help in generating foreign exchange for the host country.

Also, the flow of international capital movement is determined by a present value maximization motive of MNCs that operate in a less than perfect international capital markets. The conditions prevailing everywhere are not identical and there is a vast difference in the conditions prevailing in different areas. When these firms undertake financial investments in foreign countries, they face different new risks, which are vastly different from what they face in their own countries.

These risks are prevalent as the conditions also change in short span of time especially for a country which is progressing. As a result, whether or not they transfer their own capital to the host countries depends on the constraints that these new risks would have on maximizing their future wealth (Rugman:1979:88-92). Even when the MNCs face higher net interest payments due to the lower capital-labor ratio of developing countries, these firms tend to stop the flow of capital to these countries to avoid risky economic or political environments. It is in particular, MNCs finance their investment from the local borrowing even if capital rentals are higher than their home countries. Hence, the MNCs' decision to transfer their own capital to developing countries in order to finance their investments depends on more complex considerations of the effects of new risks than what the simple capital-arbitrage hypothesis suggests (Caves :1996:45-47).

Financial behavior of MNCs in advanced countries is different when compared to that of their behavior in developing countries. In advanced countries, economic and political systems and market structures are comparable and therefore they present good financial opportunities for foreign investors. Therefore, MNCs usually transmit capital and technology between advanced countries. They tend to prefer such kind of investments but also the places where they can get monopoly over the markets are also preferred even if they are in an underdeveloped country. But the differences between the advanced home countries of MNCs and host developing countries are major sources of barriers to the influx of MNCs capital to these countries (Bosworth and Collins :1999:28-30).

Multinationals prefer to finance their investment on the products from the funds which are generated from local markets or the markets of the host country. The local markets or the markets of the host country help generate finance for the multinationals as these markets are the places where the multinational corporations sell their products. There are many differences that exist between the MNCs' home countries and the host

underdeveloped country. And this explains why these firms choose to finance their FDI from funds generated in the local capital market rather than exporting their own capital. They also tend to take the opportunity of existing market credit imperfections, which is facilitated by host governments' eagerness to get foreign investment. MNCs usually borrow money at interest rates which are lower than those available for the indigenous firms. Multinationals also face different kinds of risks in the country where they operate. They may face political risks such as political instability or political corruption. Political instability is discouraging for a multinational to invest because the policies may change in a short span of time and it may result in loss of investment which a multinational has undertaken.

The primary aim of a multinational corporation is profit making and therefore it results in multinational ignoring other aspects of the country such as the prevailing societal problems. Political risks discourage the transmission of foreign capital to underdeveloped country because they affect the level of expected return and the level of earnings. MNCs tend to avoid risks associated with 'economic vulnerabilities' such as severe droughts and floods which are causes for economic-growth retardation. These conditions may affect adversely towards the future prospect of a multinational.

Most of the successful MNCs tend to utilize the local capital market to finance their investments. Even when MNCs generate the inflow of foreign capital, it constitutes only a negligible magnitude in comparison to the enormous amount of local capital they secure inside host countries (Lall and Streeten: 1977:35-39). But with the widespread economic liberalization policy that removed restrictions on foreign direct investment and free enterprise, MNCs become viable sources for private capital inflows for many countries. MNCs tend to get entry into the market with ease and the profits are mostly utilized by the country of MNC rather than the host country.

Usually, multinationals have choices of financing their FDI in developing host countries. They can bring their capital along with their technology to these countries. Also they can secure much of the capital they need inside host countries. If they bring their capital along with their technology then developing countries benefit from the more advanced technology and from the inflow of capital. It is more preferable for a developing country because it gets the advantage of investment. When the new capital is used to generate the

production of additional goods and services, their investment is growth-enhancing and hence the growth-FDI nexus is established. There tends to be a faster growth since the capital is invested towards further improving the investment. The benefit of FDI to host developing countries depends on these factors. Also when they secure the capital inside the host country then whether their investment supports economic growth or inflicts economic harm depends on many other factors, including on the type of technology that is transmitted and on the type of capital market that exists in the host countries.

Multinationals have risen due to many factors and they play a very important role in the present world. They are the facilitators of an integrated world. Their rise historically depended on various factors and they have attained a very important position in the contemporary world. Historically multinationals were state controlled such as East India company from England, the Dutch East India company, the French East India Company etc and the state derived benefit through the operations of these multinationals .it resulted in total control over the working of these trading firms and therefore these trading firms were a part of the state towards increasing its influence.

The increase in technology especially in communication technology vastly resulted in increasing the role of these trading firms and these firms started taking the status of multinationals. It helped in migration of people also which resulted in cultural integration of the world as a whole. Also there was a kind of monopoly initially for selected firms from a particular country which resulted in the exploitation of the undeveloped countries. Multinationals are now a key facilitators of an interconnected world. Due to advancement in technology there is practically little difficulty in controlling the operations of a country from another country. Multinationals are now playing a very important role in world.

Chapter 3

The Nature and Pattern of MNCs' Expansion and Growth from Developing Countries

Some countries of the world are industrialized and well developed with all the available infrastructures where as some others are still in the process of development and lack the modern infrastructures. These developing countries or the underdeveloped countries are called the third world countries. The world economic system is divided into two spheres. These two spheres are a relatively affluent and industrialized North and relatively poor and non industrialized South which are also called the third world countries and their economies. The developed countries are having better parameters such as per capita income , human development index , literacy rate and the standard of living in terms of ability to spend .The term third world was coined by Alfred Sauvy in French - *Tiers Monde* - in 1952 and it refer to the underdeveloped and exploited countries of Asia, Africa, Latin America and Oceania.

Third world countries were under the colonial occupation of the developed countries. These countries are not developed economically and they tend to have low level of infrastructure in most of the spheres. Their technological advancement is also below the level to compete globally .These third world countries face many problems which includes the basic problems of population , unemployment , low per capita income , low GDP (Gross Domestic Product) growth, poverty , instable governments , corruption etc. Poverty is the basic problem of these developing countries and escaping from the problem of poverty is their overriding economic and political challenge. Also the underdeveloped countries are producers of primary commodity and the developed countries utilize the primary commodities in producing the secondary products., etc (Counihan:2009:34-38).

When a comparison is made with the industrialized economies, most developing countries are poor in factors of production essential to modern industry. The lack of these factors of production leads to low level of per capita income and this often prevents

developing countries from improving their economies to scale on which many rich countries operate. Political instability, insecure property right and non guided economic policies have discouraged investment in capital and skills thus reducing economic efficiency.

Some of these countries' GDP are relatively smaller compared to the world's largest multinational corporations which are owned by nationals of developing countries. Multinational Corporations from some of the developed countries such as General Electronics (GE), Coca Cola, Microsoft etc have revenue generated which is greater than some of the poorest countries such as Uganda, Kenya etc. Also in some cases important shares of capital of the multinational corporations are held by public governments. These governments try to expand the corporations through mergers and acquisitions and take global approaches to their operations through subsidiaries, outsourcing and the integration in Global Value Chains (GVCs) or in Global Production Networks (GPNs) (UNIDO, 2006).

Multinational corporations from the developed countries such as United States and United Kingdom have dominated the globe with their operations. These multinationals had the advantage of technology and the ability to invest. Due to superior technology , these corporations had outmatched many local firms of the underdeveloped countries and it had resulted in winding up of many small firms which could not match these large multinationals. The state control in most of these countries attempted to save the local entrepreneurs and earlier it was difficult for many multinational corporations from developed countries to invest in some selected sectors. In the decade after the world war II , the multinational corporations emerged as powerful entities and they were in a position to prevent any challenge to their domination from the host government. This powerful position was prevalent because they were the only source of capital , technology and managerial expertise in the third world and therefore commanded a very strong bargaining power from these underdeveloped countries. The third world could not match the skills of these large multinationals and when they tried to do without them, the lack of expertise and efficiency cost them very heavily.

But the third world was consistently increasing its pressure towards their own development and by 1960s, there was sustained pressure on the multinational

corporations by the host governments to make a long term contribution towards the economic development of the third world. The position of the third world kept improving and they started to exert some influence in their bargaining power with respect to the multinational corporations. In the later decades , although the multinational corporations from the developed countries kept dominating but due to increase in various factors such as capital , knowledge etc, the position of the third world improved.(Tarzi:1991:240)

But due to liberalization and globalization, there was pressure from the developed countries to these underdeveloped countries to open their economy and it resulted in reduction in tariff rates and the big multinationals could enter in many of the sectors which were earlier closed to them. In due process due to influx of capital and technical know how , the multinational corporations started emerging from the developing countries. The multinational corporations (MNCs) from industrialized countries by operation in these underdeveloped countries provided these countries with inflow of capital, technology, marketing connections, and managerial expertise. Over the period of time the economic transformation and growth in many less developed and newly industrialized countries all over the world particularly in the past two decades led to some corporations from emerging economies and developing countries get the status of emerging multinationals (EMNCs).

The Rise of Third World MNCs

Over the years the multinational corporations from the developing countries have increased. It can be attributed to the fact that, these countries have acquired the necessary knowledge about the technical know-how and the management techniques. Some of these developing countries have invested in Research and development to keep pace with the latest technology and there has been support of the governments of these countries towards their multinationals expansion through adopting liberalizing policies.

It has facilitated the emergence of multinational corporations from the developing countries in a big way and now they are competing with some of the best multinational corporations from the developed world. The number of Fortune 500 companies headquartered outside the Triad region, which is the North Atlantic, Japan and Oceania, rose from 26 in 1988 to 61 in 2005. Samsung from Republic of Korea became one of the

top 20 most valuable brand names in the world. This trend is seen in many areas and in many countries. One of the indicator to measure the progress is the ratio of foreign assets held by the largest Emerging MNC to those of the world's largest MNC and it has risen from 5.7 per cent in 1999 to 6.9 per cent in 2003 (UNCTAD, 2005). Gazprom, a multinational from Russia, overtook Microsoft and became the world's third most valuable company in 2006. Also China Mobile's market capitalization overtook the United Kingdom's telecom company Vodafone.

MNCs from developing countries first appeared as a focus of interest about 25 years ago, with the advent of some overseas expansion by companies from a few countries such as Brazil, Hong Kong, Singapore etc. (Lall: 1983:619). But after late 1980s, a lot of developing countries MNCs and transition economies from countries such as Chile, China, Egypt, Malaysia, Mexico, Russian Federation, South Africa and Thailand became significant sources of FDI. The growth rate of outward FDI from emerging markets and developing countries has overtaken the growth from industrialized countries (UNCTAD, 2005). Outward FDI from the BRIC countries which includes Brazil, Russian Federation, India and China has got more attention (Gelan: 2009:23).But also other developing countries are expanding new important global businesses. For example, Cemex, which is a Mexican cement multinational, used acquisitions to become the largest cement producer in the United States. Also Argentina's Tenaris is the world's largest producer of seamless tubes due to its technological edge. And CP Group from Thailand is the largest single investor in China.

Some of the mega-deals which has received considerable attention include the purchase of Wind of Italy by Orascom of Egypt. Some MNCs from new FDI source countries such as Lebanon, Peru, and Uganda are now emerging. And also Sri Lankan firms are now very important players in the export-oriented clothing industry in many countries especially in Bangladesh, India, and Madagascar(Athukorala :2006:122-126).There has emerged a large number of big multinational corporations from developing countries and this phenomena is witnessing an expansion in the contemporary world.

Table 1:

Third World corporations in *Fortune* lists as a percentage of all global corporations: 1957–2000		
Year	*Number of Third World corporations*	*Percentage of all* Fortune *global corporations based in the Third World*
1957	**2**	**2**
1960	**2**	**1**
1965	**6**	**3**
1970	**8**	**4**
1975	**13**	**5**
1980	**39**	**8**
1985	**55**	**11**
1990	**35**	**7**
1995	**22**	**4**
2000	**30**	**6**
2001	**32**	**6**

Source: Sklair & Robbins: 2002:86

In 2006, outflows of foreign direct investment from developing and transition economies have reached to a record level of 17.8% of the world total, then decreasing to 15.2% in 2007 (UNCTAD ,2008). Taking regions into consideration, Asia is the most important origin of FDI outflows, although the trend is growing in all the regions. Considering stocks, developing countries now account for more than 15% of the global stock. Considering only developing countries, Asia accounts for 54% of the total stock of FDI from developing and transition economies, and then it is followed by Latin America which is 25.6%, and then by the transition economies at 11% and then by Africa which is 9% of total stocks by developing countries. When regions are taken into consideration then a few countries play a leading role in those regions such as South Africa in Africa, Mexico and Brazil in Latin America, China, India and the ASEAN countries in Asia and Russia among transition economies. When taking sectors, there is a high concentration of investments in services and in natural resources which includes petroleum, natural gas, coal etc. (UNCTAD, 2008). The type of investments also varies across countries and sectors. Emerging country's multinational corporations usually invest through mergers

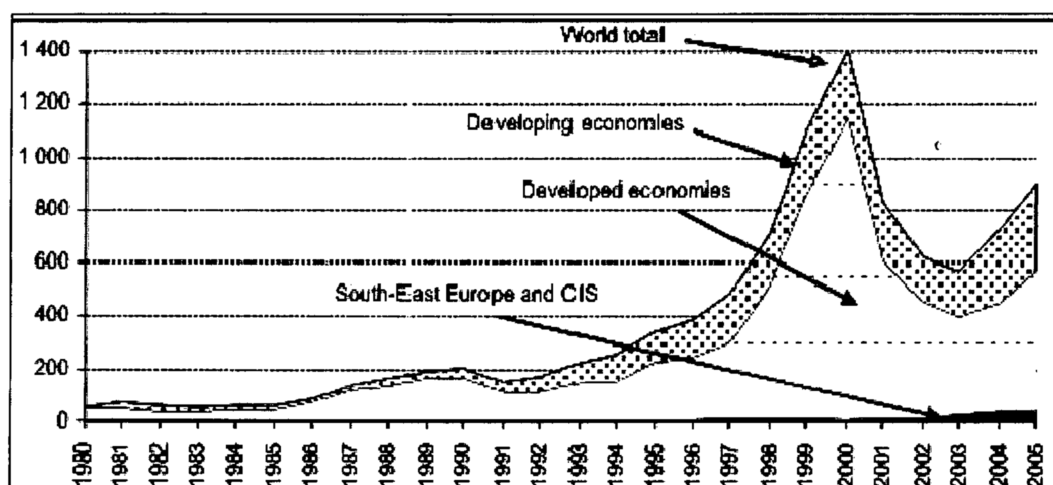
and acquisitions in industrialized countries in order to get access to technologies, know-how, globally recognized brands, skilled human capital and also market opportunities (UNCTAD, 2007).The fast rise of these multinational corporations has attracted a lot of attention among international organizations as well as in the business and economic literature with a rapidly increasing number of contributions from them. For example, the 2006 edition of the UNCTAD World Investment Report was focused on the rise of foreign direct investment by multinational corporations from developing and transitional economies.

Multinational Corporations from Developing Countries

Multinational corporations from transition economies is an emerging phenomena because it helps in earning funds for the country in different forms. Emergence of multinationals from developing countries is entirely to be expected in the future. This has been predicted since the late 1970s by the first world countries and the world organizations such as United Nations that there will occur a rise in the multinationals from third world and emerging economies. After having documented the existence of many overseas subsidiaries of multinational corporations from developing countries, one early assessment concluded that "the fact that so many have appeared in such a short time suggests that the overall numbers are likely to be considerably more impressive in the next few years". (Counihan: 2009:33). There has emerged many multinationals from the emerging countries and these are expanding very fast.

The multinationals from the developing countries have started emerging with competitive capability as over the years the developing countries have invested in R & D and this has resulted in the multinational corporations from the developing countries with equal footing on technological knowledge. Earlier the developing countries did not have the capability to utilize the resources which they had and the multinational corporations from the developing countries could easily overtake these third world multinational corporations on the technological front. The third world governments have also started to adopt liberalizing policies which facilitates foreign FDI into their country and it results in their acquiring the necessary finance to invest in various sectors. The investment in R&D is crucial as it helps a country to get the latest technology and also innovators of technology and knowledge which can give them competitive edge.

Chart 1: Pattern of FDI Inflows, 1980 – 2005 (in billion dollars)



Source: UNCTAD, 2006.

The data suggests that the FDI inflows in the developing economies are larger than the developed economies and it suggests how various multinationals are investing in these developing countries. Developing countries are making policies to attract investments and it is done through the multinational corporations. A total of five multinationals which originated from developing countries entered into the group of the world's 100 largest multinational corporations (MNCs) in the year 2002. This suggests that the multinationals emerging from developing countries are making a strong presence in world . These multinationals include Hutchison Whampoa of Hong Kong, Cemex of Mexico, LG Electronics of South Korea, Petroleos de Venezuela of Venezuela and Petronas of Malaysia(UNCTAD , 2004).

Before this only one multinational, Petroleos de Venezuela, figured in the list of 100 very occasionally. In India also, a lot of mergers and acquisitions (M and A) that domestic firms have engaged in abroad, has raised the number of companies which are going global. Multinational corporations like ONGC Videsh Limited (OVL), BPL, and Reliance etc have a global presence now. These events represent the growing importance of developing country multinationals around the world. The data in UNCTAD's World Investment Report 2002 on the world's 100 largest non-financial multinationals, and the 50 largest multinationals from developing countries, ranked according to foreign assets

gives the indication that multinationals from developing countries are making their presence felt at a very fast rate.

Table 2

Corporations from East Asian NICs (Taiwan, Singapore, Hong Kong, South Korea), Latin American NICs (Brazil, Mexico, Argentina) and other Third World countries

Year	*East Asian NICs*		*Latin American NICs*		*Other Third World*	
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*
1957	0	0	0	0	2	100
1960	0	0	0	0	1	100
1965	0	0	2	33	4	67
1970	0	0	3	38	5	63
1975	0	0	4	31	9	69
1980	11	28	9	23	19	49
1985	13	24	11	20	31	56
1990	12	34	4	11	19	54
1995	11	50	4	18	7	32
2000	13	43	5	17	12	40
2001	12	38	5	16	15	47

Source: Sklair & Robbins: 2002:90.

The fact is that the growth of the foreign assets of multinationals from both developed and developing countries grew at almost the same rate from 1999 to 2000 which was at 20 per cent, but the developing country multinationals overtook the developed country's multinational growth in foreign sales which came to be 56 per cent as compared to 14 per cent. It suggests that the multinational corporations from the developing countries are far more successful in terms of expansion in sales (Counihan: 2009:36).These multinationals are expanding fast and matching the already established multinational corporations in terms of sales.

But if the top five multinationals are excluded from the list then the growth and performance of developing country multinationals declines. Therefore a few multinationals are making a very strong presence. But over time it is expected that more multinationals will emerge from developing countries which would compete with the largest ones from developed world. This suggests that there is greater dynamism in developing country multinationals.

When comparing the relative sizes of the first and the last firm on each of the list , then it is found that in developing countries, the top firm, Hutchison Whampoa, is over 70 times

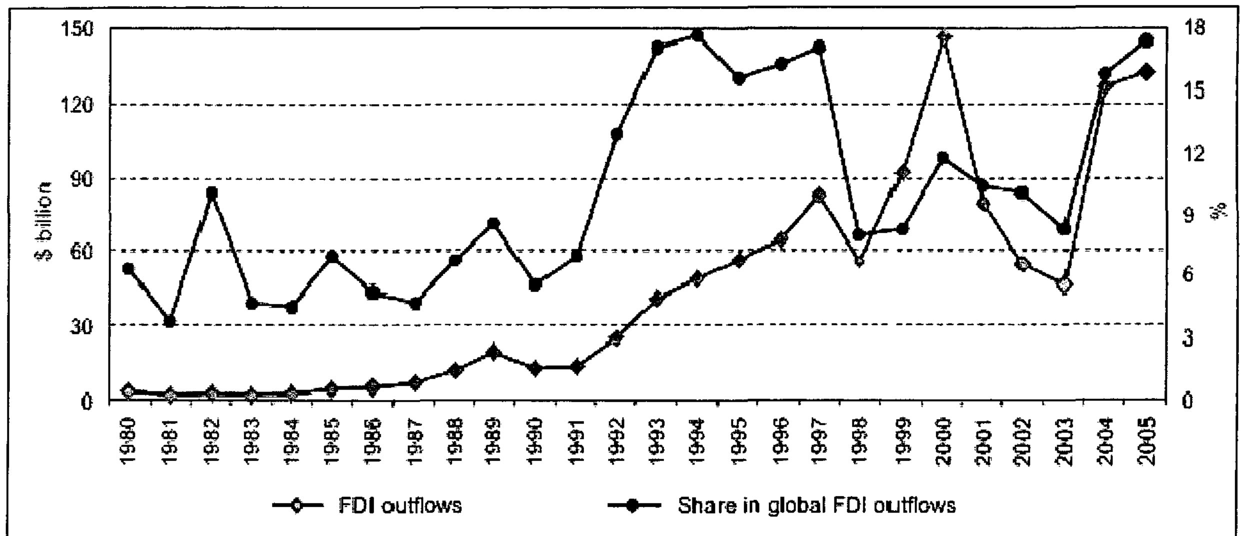
larger than the smallest, whereas Vodafone, the largest multinational in the world, is only 29 times larger than the 100th largest multinational from the developed world (EPW: 2004:2658). It suggests that the top multinationals from the developing countries are comparable to the best of the developed world but other firms from developing countries are still in the process of catching up. The fast pace of emergence of multinationals from the developing countries are encouraging.

Multinational corporations in some sectors like steel or cement have now global leaders which are no longer corporations from developed countries. Taking an example, in 2006, the Indian-owned company Mittal took control of its European rival Arcelor and became the leader in the steel sector and an Mexican company Cemex is in the same league as Lafarge of French and Holcim of Swiss. CVRD, the Brazilian producer of minerals, is now topping international rankings along with the Anglo-Australians BHP Billiton and Rio Tinto after the takeover of Canada-based Company Inco. The list of emerging multinationals which are competing with their OECD counterparts is increasing fast and it includes Chile-based ENAP, and PDVSA from Venezuela and Petrobras from Brazil. Samsung, LG or Posco are worldwide competitors from South Korea, while Russian giants like Gazprom are increasingly willing to invest outside their home countries, following the examples of Chinese companies like Lenovo or Indian conglomerates like Tata (UNCTAD, 2006, 45).

Emerging multinationals have some elements which are in common and these elements explain their rise. All these companies have been able to support large domestic companies. All these multinationals have access to low-cost resources such as labor force or primary products. All of these have been able to flourish in a difficult local environment which is often characterized by shortages of skilled management, strict legal and financial frameworks, and deficient logistical and infrastructure systems. All these obstacles helped these companies to transform the survivors into highly capable firms. These companies are able to innovate and make quick decisions in order to capture new opportunities (Francesca: 2003:23). They emerge as highly competitive and they compete at the global level along with the big multinationals of the developed countries. The factors of accessibility to raw materials, manpower and labor helps a multinational to grow but the factor of access to the latest technology is very important for a multinational

to perform along with the multinationals of the developed world as they invariably have the latest technology due to heavy investment in the R&D sector.

Chart 2: FDI Outflows from Developing and Transition Economies, 1980- 2005



UNCTAD , 2006

FDI from developing and transition economies has grown considerably and now accounts for about 17% of world outward flows. Outflows grew particularly fast in the late 1990s and again in more recent years, reaching $133 billion in 2005. (UNCTAD , 2006).

In 2005, cross-border mergers and acquisition purchases by multinationals based in developing countries (excluding offshore financial centres) and transition economies of target companies in the North and in the South, respectively, were almost equally large in value terms. Since 2000, South-North transactions have shown particularly fast growth (UNCTAD, 2006). It indicates that there is a growing need among the companies in the South to acquire strategic assets in developed economies and speed up their expansion in these markets. The value of South-North developing and transition economies now account for an estimated one fourth of the total number of multinationals in the world (UNCTAD, 2008).

This suggests how the third world multinationals have made a mark in the world in terms of their investments in foreign countries especially in the form of multinationals. Statistics from respective governments on the number of parent companies indicate fast growth in recent years. For example, the number of parent companies in Brazil, China,

Hong Kong (China), India and the Republic of Korea increased over the past decade by 450% from 2,700 to more than 14,800(UNCTAD, 2006).This is a phenomenal rise . It suggests how the economy of country is dependent on the number of multinationals which operate worldwide. Since these countries are considered as emerging fast in economic terms, the fast rise of multinationals seems to suggest that the economic growth of a country is enhanced by the multinationals which operate from it. Economic prosperity generates more infrastructure for increasing the output of the production. Multinationals try to generate profit and by gaining a foothold on foreign market, they can generate huge amount of revenue for their home country.

Regional Dimension to Growth of MNCs from Developing Countries

Multinationals have evolved from different regions of the world. Asia countries have witnessed maximum evolution compared to developing countries from other regions of the world. The evolution of multinationals from Latin America and the Caribbean has been heavily influenced by changing institutions and policies in the region over the past few decades. The policies adopted include liberalizing and opening many sectors to foreign multinationals to acquire technology and knowledge and also these countries adopted the policy of state backing the multinationals. Many state owned multinationals from these regions have performed good globally. Such policies are evident in India also where State owned multinationals such as OVL , ONGC , BPCL etc are making a global presence.

Latin America and Caribbean regions have not been as fast in liberalizing their economies as compared to those of other regions. Government policies have been towards more state control. The region was the leading source of FDI from the South until the mid-1980s but multinational corporations from this region have recently not internationalized at the same pace as their Asian counterparts. The reason has been the apprehension regarding the effect of these multinational corporations on the domestic welfare issues such as income inequality, generation and encouragement of local firms etc. Today, the main multinational players from Latin America are based in Brazil and Mexico. The multinationals from this region have concentrated in certain primary industries, some mass consumption manufacturing and a few services industries (

Lourdes : 2004:122). Apart from a few exceptions, most multinationals have a strong regional focus in their internationalization strategies, and the share of their international sales in total sales tends to be low.

Taking some major multinationals from the Latin American region, some multinationals are very active in this region. Gerdau, a Brazilian multinational ,acquired Ameristeel, a former Japanese- owned affiliate in the United States, in 1999. Presently it is the fourteenth largest steel manufacturer in the world. Techint , from brazil , acquired the Mexican steel producer Hylsamex in 2005. It also led a consortium that eventually won the bid in the privatization of Sidor, a Venezuelan steel producer. Grupo Macri, a multinational from Argentina, participated in the privatization of transport and infrastructure in Brazil, Telmex expanded its activities throughout Latin America when markets were liberalized, América Móvil applied an aggressive strategy to take control of the mobile telecoms business in other parts of Latin America when several multinationals were decided to withdraw from the region in the early 2000 (UNCTAD, 2006).

Similarly, due to the withdraw of major multinationals from the retail trade due to governments policies of restrictions for encouraging domestic enterprises , several Chilean companies decided to expand into new markets in the region. For example, as a result of a series of acquisitions, the department store Falabella is now the second largest company in retail sector in Latin America, surpassed only by WalMart (ECLAC: 2004). These examples suggest that there is occurring a fast paced rise of multinationals from Latin American region. It has led to their rise economically in world especially countries such as Brazil which is one of the fastest emerging economies and is also a part of important organizations such as BRIC.

The multinationals which are emerging from these developing countries have many strategies such as acquisition and mergers and alliances which are common with those of developed countries. Locally-owned firms try to compete with the foreign multinationals by selling products that are cheaper than multinational firms and comparable to their quality. In recent times a number of well-established as successful multinationals, such as Lenovo and Huawei in China, Cemex and Grupo Bimbo in Mexico, or Arcor in Argentina have come up (Counihan:2009:33-34).

Underdeveloped regions like Africa has also seen fast emergence of investments. The FDI inflows into Africa was $88 billion in 2008 (UNCTAD, 2009). It is a substantial increase and the multinational corporations from the developed world are responsible for it. Multinational corporations from fast developing countries such as India and China are investing heavily in many sectors such as energy. Indian companies like ONGC Videsh Ltd is competing with companies from China such as to get a hold in the region but China , due to an early start and collaboration in other sectors such as infrastructure development such as road , highways etc, is getting an advantage over Indian multinationals .It is a substantial amount considering the ongoing global financial crisis.

There were cross-border M&As contributed to a large part of the increased inflows, in spite of global liquidity constraints. Most of the FDI recipients included many natural-resource producers such as rice, wheat, grain etc and minerals like coal, natural gas, aluminum etc that have been attracting large shares of the region's inflows in the past few years .The liberalization policies of Africa has resulted in the multinationals investing there. Most of the African countries adopted those policy measures which made the business environment in the region more conducive to FDI. For example, some African governments established free economic zones and new investment codes to attract FDI, and privatized utilities. But also, some countries adopted less favorable regulations, such as tax increases.

In 2008, FDI inflows increased in almost all sub regions of Africa and the Southern Africa attracted almost one third of the inflows. The West African countries recorded the largest percentage increase (63%). Developed countries were the leading sources of FDI in Africa, although their share in the region's FDI stock has fallen over time (UNCTAD, 2009). The share of FDI from developing countries has increased consistently.

FDI outflows have seen a growth from Africa. There has been emergence of multinational corporations from Africa. Multinational corporations have increased from countries of Africa such as from Egypt in services sector. And multinational corporations have increased in Mauritius in sugar, textiles and tourism, and in Nigeria multinationals from petroleum sector and South Africa saw various sectors, particularly banking and energy large part of the outflows is in the intra-African region (UNCTAD, 2006).

Considering the region of Latin America and the Caribbean, the FDI in the region reached to $144 billion.(UNCTAD,2009). It was mainly due to the investments made by multinational corporations in the region. But the growth was uneven the sub regions. In the region of South America, it was up by 29% – where 49% of the $92 billion worth of inflows was in Brazil from the multinational corporations. In South America, natural-resource-related activities continued to be the main attraction for FDI and they are increasingly becoming a significant FDI target in Central America and the Caribbean. Multinationals have been investing in these regions. In this region, FDI outflows were at $63 billion and it was because of soaring outflows from South America. There was a significant increase in Brazil and here the outflows reached $20 billion.

In the South, East and South-East Asia there was growth in FDI inflows in 2008 and it reached a new high of $300 billion (UNCTAD, 2009). There was significant increase in China, India and the Republic of Korea. Investments from the multinational corporations also increased in Hong Kong (China). India, with inflows of $42 billion, ranked the 13th largest FDI recipient (UNCTAD, 2009). There were a surge of multinational corporations from the South Asian region and it amounted to increase to $186 billion in 2008 and it was mainly because of large outflows from China. And India is also becoming an important investor.

Therefore, there has been a phenomenal rise of multinational corporations from the developing countries. The fastest growing economies such as the China, India, Brazil etc has witnessed a very fast rate of growth of multinational corporations and these multinational corporations are competitive enough to face the top multinationals from the developed world. Multinational corporations from developing countries are expanding very fast. These multinationals are now acquiring the big multinationals of the developed world and their rise is also making them have a strong foothold in world.

Chapter 4
The Rise and Growth of Indian Multinational Corporations

Evolution of Indian MNCs

The starting of Indian investments overseas can be traced back to the beginning of the 20th century when the cotton-spinning started in Uganda by an Indian investor ,Mafatlal, in 1920 (Kohli:2006:23). And after that in the 1950s, there were further investments in Africa by the Birla group. The situation changed in the 1990s. After foreign exchange payment crisis in the early 1990s, there occurred deregulation and liberalization of the Indian economy. It was a major policy change which started Indian multinationals going global on a large scale. In 2002, the symbolic one billion dollar mark in Foreign direct investment outflows was reached. Relaxed regulations made it easier for Indian companies to start and expand operations overseas.

It was realized by the Indian government in the early 1990s that there was a need to ease foreign exchange constraint. To ease the constraint, the government went for outward foreign investment by Indian companies. It started through exports of Indian capital goods, technology and consultancy services. An Inter-Ministerial Committee on Joint Ventures Abroad was set up within the Ministry of Commerce by the Government of India in 1974. It was set up to watch the proposals made by Indian companies for overseas investment. This Inter-Ministerial Committee made detailed guidelines for approving the proposals of Indian companies for overseas investment. The guidelines were prepared to make Indian participation in accordance with the host country regulations. These guidelines attempted to encourage formation of joint ventures with the host economy enterprises and Indian enterprise. It was suggested that equity participation should be made in terms of exporting indigenous plant and machinery and also technical know how from the existing Indian joint ventures. There were also some measures which were taken earlier to initiate the expansion of Indian multinationals. Hence even in late 1970s, there was a substantial increase in Indian investment flowing abroad. By 1980, India emerged as the third largest exporter of industrial overseas foreign direct investment among the developing countries (Lall: 1983:644). Indian companies adapted to the latest technologies through the multinationals which invested in India and also

through the investment in research and development. This provided the needed advantages to Indian companies to make their business abroad, and also created assets. This factor boosted Indian outward foreign direct investment. Indian overseas investment mostly remained concentrated in the developing countries such as Bangladesh, Sri Lanka, Nepal, and some of the African countries which included Uganda, Nigeria etc. in the seventies and the eighties. But some change occurred since the mid-eighties, which had witnessed some rise of investment in the advanced industrial countries such as U.K and the United States (Kumar,:1995:45-47).

The time from 1977 to 1992 can be considered as the first phase of India's outward foreign direct investment. It was quite restrictive because outward foreign investment was possible only in the form of minority owned joint ventures. The second phase of Indian outward investment started in the year 1992. In that year, an automatic route for Indian investment abroad was adopted. The government allowed an overseas investment up to US $ 2 million. There was the removal of restrictions on cash remittances and minority-ownership. In 1995, the limit on overseas investment through automatic route was increased to US $ 4 million (RBI, 2005). There was an important change with regard to the approval of proposals of overseas investment. Now onwards, it was shifted from the Ministry of Finance to the Reserve Bank of India (RBI). For approval up to US $15 million, the authority was given to RBI. The approvals beyond US $ 15 million remained under the supervision of the Ministry of Finance (Kohli: 2006:56-58. In 2000, the upper limit for automatic overseas investment approval was raised to US$ 50 million and in 2002, it was further raised to US$ 100 million. (RBI,2006).

The second phase of India's overseas investment coincided with worldwide liberalization of rules and regulations related to foreign direct investment. From 1992 to 2007, there was a vast increase in the number of countries introducing changes in regulatory mechanism. It increased from 43 in 1992 to 92 in 2005. There was also an increase in the number of regulatory changes during the same period. There was increase in the number of countries introducing regulatory mechanism changes towards more liberalization from 77 to 203 during the time. India also kept pace with the world changes which were towards more liberalization and India also framed regulations, which permitted Indian companies to compete in the international markets. These relaxed regulations in the

global economy were also accompanied with much greater access to financial markets. The policy changes with regard to Indian overseas investment since 2004 , are considered as liberal (Kochhar:2006:134).

The prior approval from RBI was no longer required to get the remittances and now it was possible to get it from any authorized foreign exchange dealer. Banks were permitted to lend money to Indian companies for acquisitions of equity in overseas joint ventures, wholly owned subsidiaries or other overseas companies as strategic investment in the year 2005. In the year 2007, the limit of overseas investment of Indian companies was increased to 300 per cent of net worth .Indian government has eased most of the difficulty which may come on the way of Indian companies undertaking overseas foreign direct investment. A series of policy shifts were made which are discussed below.

Major Changes in Policies by Government

After independence, India focused on self sufficiency in order to avoid dependence on imports and excessive external influence on its domestic affairs. The early emphasis was given to import substitution with strict trade restrictions. The independent India always allowed the development of private sector activity but tight regulations kept it under strict government control. These controls included investment licensing, import licensing, controls on the use of foreign exchange, etc. The economic reforms began with minor deregulation steps in the mid-1980s and these gathered speed in the 1990s.

The repeal of the 1970 Foreign Exchange Regulation Act which was an act aimed to control capital outflows, has reduced a number of obstacles which Indian companies have to face when they plan to invest overseas.(Panagariya:2008:49). After the foreign exchange crisis in early 1990s, liberalization policies were initiated. The earlier import licenses were removed and trade barriers were lessened and also hurdle to foreign direct investment and portfolio investments were relaxed. Considering India's economic growth in 1994, the Indian government chose not to accept further "structural adjustment type" IMF loans as had been the case in 1990 (Kohli:2006:78). Indian companies are now allowed to undertake overseas investments by market purchases of foreign exchange without prior approval of RBI up to 100 % of their net worth. It was earlier limited upto 50 %.

Any Indian company which had a satisfactory track record was allowed investment up to 100 % of its net worth within the overall limit of US$ 100.0 million through market purchases for investment in a foreign entity engaged in any bona fide business activity from 2004. Listed Indian companies, residents and mutual funds are now permitted to invest abroad in companies which are listed on a recognized stock exchange. This provision is also allowed in a company which has a shareholding of at least 10% in an Indian company which is listed on a recognized stock exchange in India (RBI, 2009).

Indian companies which are in special economic zones are permitted to undertake overseas investment up to any amount without the restriction of the US$ 100.0 million ceiling under the automatic route. But it is only allowed if the funding was done out of the Exchange Earners Foreign Currency Account balances. The condition of three years profitability requirement which required only those companies which had attained profit for three years were allowed to invest abroad was removed for Indian companies and it made overseas investments under the automatic route.

Overseas investments are now allowed to be funded up to 100% by ADR/GDR proceeds which were earlier limited till 50.0%. Also an Indian multinational which had exhausted the limit of US$ 100 million in a year could apply to the RBI for a block allocation of foreign exchange which is subject to some terms and conditions.

In the year 2004, Indian multinationals were allowed to undertake agricultural activities either directly or through an overseas branch. It was earlier restricted and are now permitted under the automatic route. In 2004, the RBI relaxed more the monetary ceiling on Indian companies which invested abroad. Indian companies can now invest up to 100.0% of their net worth without any separate ceiling. Also Indian companies can now invest and make acquisitions abroad even in those areas which are unrelated to their business at home. In the year 2005, banks were allowed to lend money to Indian companies for acquisition of equity in overseas joint ventures, wholly owned subsidiaries or in other overseas companies as strategic investment. In 2006, there was more liberalization of the automatic route of disinvestments. Indian companies can now disinvest without prior approval of the RBI in select categories. To encourage large and important exporters, also unregistered partnership firms are allowed to set up a joint

venture outside Indian with the prior approval of RBI. It is done to encourage large and important exporters.

In the year 2007, the ceiling for investment by Indian multinationals was revised from 100 per cent of the net worth to 200 per cent of the net worth of the investing company under the automatic route of overseas investment. It meant that the company could invest upto an amount which could be double the actual net worth of the company which is investing abroad. The risk was allowed to a greater limit. This limit of 200 per cent of the net worth of the Indian multinational was increased further to 300 per cent of the net worth in June 2007 under automatic route . In September 2007, this was again increased to 400 per cent of the net worth of the Indian multinational.

The limit of portfolio investment by listed Indian companies which are in the equity of listed foreign companies was increased in 2007 from 35 per cent to 50 per cent of the net worth of the investment. In 2008, the aggregate ceiling for overseas investment by mutual funds, which are registered with SEBI, was increased from US$ 4 billion to US$ 7 billion. In 2008, Registered Trusts and Societies which are engaged in manufacturing or educational sector are allowed to make investment in the same sector in a Joint Venture or Wholly Owned Subsidiary outside India but with the prior approval of the Reserve Bank (RBI,2009).

India has also focused on research and development which is of good advantage for the Indian multinational corporations. This will result in Indian multinationals coming up with innovation and hence an improvement in its products. It will give an edge in the performance of Indian multinational corporations. It is done to keep pace with the technological innovations which are happening throughout the world. R&D expenditure as percentage of GNP in 2002-03 was 0.80 per cent.

The share of various sectors in the total R&D expenditure for the year 2002-03 was to the tune of – central government (62.6 per cent), public sector industry (4.5 per cent), private sector (20.3 per cent), state governments (8.5 per cent), and the higher education (4.1 per cent). Twelve major scientific agencies accounted for 84.1 per cent of the R&D expenditure incurred by Central Government in 2002-03.(Gupta: 2005:85). The total investment on R&D by the industrial sector has increased from Rs 4,505.6 million in 1985-86 to Rs 44,571.9 million in 2002-03 (0.47 per cent of their sales turnover). The

number of R&D units involved were 1,477 in the private sector and 93 in the public/joint sector besides 248 Scientific and Industrial Research Organizations (SIROs). India started investing in R & D and it resulted in emergence of high quality products which could be matched with some of the leading products. The situation changed and Indian multinationals are associated with quality.

The Nature, Character and Scope of Indian MNCs

Indian multinationals are making a mark in the world. They are expanding throughout the world through acquisitions and mergers. Some of the Indian multinationals, such as Ranbaxy Laboratories, Infosys etc are now among the largest in the world. Even though Indian multinationals have been investing abroad for many years, it is only from 2000, that Indian outward direct investment flows have taken off to reach substantial amounts on an annual basis. Birlas, Tatas and Ambanis are now common household names in the world. Mr Lakshmi Mittal acquired Arcelor, and the company Arcelor-Mittal is now one of the largest steel producers in the world. Tata Steel acquired the Corus group of the UK and it is also now one of the largest steel producers of the world. Currently it is the world's fifth largest producer. Tata Group companies along with many in the information technology, pharmaceutical and banking sectors have made a lot of other acquisitions. These have made Indian multinationals as one of the fastest growing multinationals. India is emerging at the top in many other areas also. India was given the third most attractive research and development center in the world by UNCTAD in its World Investment Report (WIR), 2005 in information technology. It implied that India was the third most conducive place for research and development. India is also now the biggest foreign investor in the UK and it has overtaken even the US.

India was at 29th position among the leading merchandise exporters in 2005. As per the World Trade Organization (WTO) statistics, the country's total merchandise exports were $95.1 billion, which was a 25.8 per cent rise from the previous year's $75.6 billion. Germany was ranked number one in the same list with $970 billion, which was closely followed by the US with $904 billion. China came third with $762 billion (*The Financial Express,* 14 November 2006).

The decision of a multinational to invest overseas is based on the competitive advantage of that firm. In India, this advantage is dependent on the national economy and its environment. Indian has given priority to higher education more than primary education. This is true even in the present situation. India spent 86 percent of per capita GDP on each student in tertiary education in 2000 but only 14 percent in primary education (Kochhar: 2006:68). Because of this, national manufacturing base is to an extent different from that of other developing countries. The Indian industrial base is more capital-intensive. Therefore, the importance of software and IT services, and drugs in India's FDI flows to developed economies is due to India's past and present economic environment. (Kochhar: 2006:72).

Indian engineers are doing exceedingly well all over the world because India has some of the best professional institutions such as the Indian Institutes of Technology (IIT) and the Indian Institute of Management (IIM). This is possible because of heavy investment by the Indian government in the higher educations. The share of Indian FDI to GDP was 1 percent in 2004 when compared to 2.4 percent for China. (UNCTAD, WIR 2005). Developing countries were getting the major share of Indian FDI whereas developed countries received less than 30 percent of the total cumulative outflows for fiscal years 1995-2005 (RBI 2006).

Between developed countries, cross-border mergers and acquisitions (M&As) are the usual route for direct investment and it represents most of these operations on a worldwide basis. Companies from developing countries are also on mergers and acquisitions although they had usually gone for collaborations. This is because initially the multinational corporations from the developing countries were not large enough to acquire other multinationals and such acquisitions were rare.

The multinational corporations were more comfortable in collaborations to gain the technological expertise and other factors like the management skills and policies. But later on the companies expanded and became large enough to acquire other multinationals through acquisitions. Indian firms across Europe and the United States are going for mergers and acquisitions and it is a part of these companies' international strategies. For the time period between 1999 and 2005, Europe and the United States are on an equal footing for the number of M&A deals.

Tatas, Ranbaxy, Infosys, ONGC, etc. all are Indian multinational corporations which are making their international presence felt globally. The main industrialists like Mukesh Ambani, Kumar Manglam Birla, and many others are making Indian multinationals an important entity in the world. This expansion is in diverse sectors like services, manufacturing, culture and knowledge.

Taking the Japanese multinational's rise , most important factor in the success of Japanese companies was their ability to think global and create entities and brands that could match up to the world standards. The companies like Sony , Samsung , Honda along with many others are comparable to the best technologies of the world.(Srivastava:2004:143) But earlier , the 'made in India' brand was not comparable to the best standards because the Indian multinationals didn't had the infrastructure to invest heavily and come up with the best standards .

Some countries have made a strategic use of the products that originate in their country. For example, brands out of Italy are immediately associated with art and design which makes a Bulgari or Armani to gain global acceptance as international style czars. Similarly, we find that China's low cost and low quality image has made it difficult for Chinese brands and multinationals to gain global acceptance as being high quality, high technology brands. Their quality is not very high and therefore they are not considered as comparable with the best quality. Chinese products are assigned the status of being cheap and low in quality. Also the image of the Indian pharmaceutical industry abroad was not very good at the time when it started the expansion. India was not in a position to invest heavily due to poor infrastructure and therefore due to non existence of high quality products the image of Indian companies was not very high (Jayaram: 2004:76-77). But it gained confidence over time.

Indian brands like Hero Honda, Bajaj and Tata have started gaining acceptance in international markets for their quality products. Tata has made a distinction in the world by making the 'nano' which is arguably the cheapest car made yet. Indian service sector has also improved.

Indian government can do more to promote Indian multinationals as an important brand globally. Taking the Japanese example, a definite strategy from the Japanese government was also an important factor in the success of Japanese brands. Japanese government

followed a policy of encouraging high-tech industries with products like auto and consumer electronics. It is, therefore, seen that multinationals out of Japan are brands like Toyota,. Sony, Canon etc, are all hi-tech brands which have gained a worldwide acceptance (Upadhya:2004:45)The vision of the Japanese government to think global made them invest heavily in these sectors which has resulted in the emergence of world standard products from Japan.

In India, India Brand Equity Foundation (IBEF) is one such joint effort by the government and the industry body, CII. IBEF's main aim is to build positive economic perception of India globally. Although India has managed to create a name internationally, there is a lot more which can be done. Other parameters for creating global brands are distinction and differentiation. Indian multinationals are trying for mass labor advantage more over its distinct knowledge advantage. India has a big base for human manpower which can be utilized to its advantage. The labor force in India is not considered costly and it has resulted in an attempt to gain advantage. The government should focus more on innovation and knowledge because. India is perceived to be better on the innovation curve than China. India must utilize this factor more to its advantage. (Jayaram: 2004:56-57) Japanese global multinationals take advantage in creating technologies, solutions and products that help to make the technology a better one. The main focus is on better quality, and not on cheaper products. Japanese multinationals use scientific skill and imagination to build and create products. These products have revolutionized product categories and also have made a distinct identity throughout the world. (Jayaram: 2004:58)

Indian companies are also making a mark in innovative technology. It is not important to first get a foothold in domestic market and then go globally. For example, Samsung has started its brand building exercises in foreign markets. In Korea, it remains a conservative brand with not much status associated with it as it is in its foreign markets.

The success of a multinational corporation depends on its adaptability to the situation in which it is operating. For example, LG and Samsung have adapted to the needs of the Indian customer and market situation to emerge as market leaders. They have beaten the domestic Indian companies like Onida and Videocon .These were once market leaders

but are beaten in their own markets. Indian multinational companies are also adaptable to the circumstances in which it is operating.

Fair and Lovely, for example, markets itself as Dark and Lovely in African countries according to the sensibilities of its target audience in Africa. Indian companies are emerging as associated with quality (*India Daily*, 24 August, 2004). For example, Ozone Ayurvedic, whose Nomarks brand is sold in 30 countries, is making its presence felt in western countries because of its status in terms of quality. Indian multinational corporations such as Tata Tea have made a mark world over and they are performing very competitively all over the world. Also another successful Indian multinational company, Tata Tea was the first Indian company to use a leveraged buyout in 2000 to take over the British Tetley company. This takeover has made the company a worldwide success. Praj Industries got contract from Missouri Valley Energy for its Meckling plant. This company also bagged the first order from the sugarcane belt of the US. Meckling plant will produce 110 mgpy (400 million litres per annum) ethanol from this facility. It also gave entry into corn farmer's cooperative sector in the US mid-west (*The Hindu Business Line*, 3 January 2007). Indian banks are also making their presence felt in banking sector in different parts of the world.

International markets need quality and a multinational company cannot compete by providing substandard products. Indian multinationals are progressing internationally but still its internal environment in terms of infrastructure, regulations and ethical practices are also a kind of hindrance to making our multinationals going globally competitive.

Infrastructure is still an issue. Taking example of Bangalore, India's IT brand or travel brand, Incredible India - both are struggling due to poor quality of infrastructure in India. (Times *of India*, October 19, 2004) Poor roads network, lack of power facilities etc all dilute the brand India experience in which the developed countries gets an edge.

India ranks around 85 on the most corrupt countries in the world index. This internal environment can be a problem to India's global ambitions. But in spite of all the limitations, Indian multinationals are performing brilliantly and they are making a strong presence in foreign markets. It is evident through various Indian multinationals doing good in international markets.

There are different multinationals from India which operate worldwide. Some of these are large companies with a very high investment whereas some are medium sized with a comparatively small investment in the country of operation. Bharat Forge, Tata or Reliance is the large Indian multinationals which operate throughout the world. Mid-sized Indian multinationals includes Avesthagen and very specialized multinationals are Ranbaxy or Suzlon Energy.

When global expansion is concerned, there are various stages at which different multinationals are operating. For example, early in their stage of expansion includes Tata Consulting Services or United Breweries companies which are making rapid progress in their expansion. Multinationals at their early stage are Jubilant Organosys or Subex. For Indian multinationals, the new investments are mostly service-oriented and it is more than 80 percent of the total investments. The manufacturing sector is larger for takeover deals and equity acquisitions.

India has been expanding throughout the world through collaborations along with acquisitions and mergers. There are many opportunities to the Indian multinationals which are willing to enter the world markets. Also apart from the software, drug and automotive industries there are also many operations in other sectors like chemicals, metal products, and food. Some operations are part of strategies aiming to make already large Indian companies into more competitive.

Indian multinational's operations in the world are composed of diverse forms of entry which includes direct investment, M&As, and increasingly strategic alliances with large foreign multinational companies. There is a crucial role played by alliances in knowledge-intensive industries. There is transfer of knowledge and technology when alliances between two multinationals are undertaken (Das: 2007:134). Indian multinationals are partners in different settings because of their strong competitive advantage particularly in software and IT services, and the drug industry.

There is also prevalence of family controlled companies such as Birla's and Ambanis. Tata and Birla and other multinationals which are controlled by families like Bharat Forge by the Kalyani family, and the Reliance group by the Ambanis. There are also non-family controlled multinationals which are particularly in the software development and

IT services industries such as Infosys and HCL. These companies are generally managed by professionals.

During 2005-2006, India's merchandize exports had touched US$102 billion (UNCTAD, 2006). India's share in world merchandise exports inched up to 0.9 per cent in 2005, during which India recorded US$90 billion out of total global exports of US$10,121 billion. (WTO Report, 2006). The export of technology intensive sector constitutes around 25 per cent of the merchandize exports. India contributes to 0.9 per cent of world merchandize exports and in terms of high, medium and low technology exports, its contributions are merely 0.15 per cent, 0.3 per cent and 1.9 per cent respectively. (UNCTAD, 2006).The export in Services sector was at a level of around US$67 billion during 2005-06. The technology intensive exports are growing at an average growth rate of around 25 per cent over the last three years compared to the growth rate of around 20 per cent of merchandize exports.

The motivation for current Indian foreign investments is economic efficiency. They want to get foothold globally. World over the focus is on setting up facilities for competitive and high value added production and services to get innovation. It has resulted in organizations in various countries to undertake technology up gradation and modernization in their production processes and services to develop latest technological capabilities for survival and growth, in both, domestic and the export markets. India is also keeping this aspect and has the latest technology for different areas of production and export. With the emergence of rapid globalization, multinationals are relying more and more on technology acquisition, adaptation and absorption, besides indigenous technology development. The countries must explore foreign markets for exports as well as technology acquisitions. Through high quality standards, Indian multinationals are spreading the world over and making a mark in the world markets.

Some of the Indian multinational corporations such as Torrent , Tata Motors Bajaj Hindustan , OVL, Bharat Petroleum Corporation Limited (BPCL), Essar etc are investing in different countries such as Brazil. Other multinationals such as OVL is investing in different countries of Africa. OVL is operating in different parts of the world and it has a global presence. It has entered into various parts and it is spreading further through

mergers and acquisitions. In different countries of Africa, OVL has a strong presence and it is making its presence on a global scale.

Through these takeovers and mergers the Indian multinational corporations have acquired the necessary knowledge and technical know how to perform in a foreign country.

Indian multinationals main destination for overseas investment is United States. It is followed by the Russian Federation, Mauritius and Sudan. There are many sectors in which the Indian multinationals expand but some sectors are doing exceedingly well. Sectors like Information Technology, software and pharmaceuticals and drugs are making a mark world over.

Software and IT Sector: The software industry started in 1968 with the establishment of Tata Consultancy Services (TCS), which was a wholly-owned subsidiary of Tata Group. The development of the Indian software and IT services industry growth was given momentum by direct and indirect public incentives. In the late 1950s and 1960s, the Indian government invested in elite technical institutions which included institutions like the Indian Institutes of Technology and Indian Institutes of Management and also a large number of other engineering colleges. These institutions produced lot of talent, which was an input for the software services industry. Also, the government took steps by setting up technological parks with fiscal exemption since 1992. Since India has invested heavily upon the education especially the higher education, it has resulted in emergence of a very good manpower in the professional sector such as the software and IT. It is evident from the high demand of Indian engineers and business professionals abroad especially in the US software sector

The government also provided Indian software companies with direct telecommunication access to customers in the United States and Europe. Also the increasing international demand for competitive and skilled manpower especially from North American companies was a big boost for Indian software industry. Indian software firms now possess strong capabilities in process maturity and management skills, which positively impacts on their international competitiveness (Panagariya: 2008:76-77). Indian software multinationals are now attempting to establish their presence in important countries around the world. In 1970, the Indian Patents Act was passed and it gave Indian

pharmaceutical industry and indigenous firms' opportunity to develop alternate processes and expand.

In the United States, there is a concentrated distribution for packaged software and IT services with drugs and chemicals taking the remaining part and India has a big share in the software and IT sector. (Thompson: 2006:122-123). It implies that there is predominance of software and IT services in the US. This kind of concentration is due to the mainly services-oriented nature of the US economy. During 2004, more than two thirds of India's software services were exported to the United States. There are a large number of M&A deals by Indian companies across the globe. Software and IT services are predominant

Infosys Technologies is an Indian company which has become a worldwide success. Infosys is an Indian multinational company which has a strong global presence. It was created in 1981 in Bangalore. It has over 54,000 employees worldwide, and it is now providing consulting and IT services to clients globally. This company has pursued an international strategy to strengthen its competitive position and become a global player. Infosys has over 30 foreign affiliates worldwide, and it covers all countries and territories where its major customers are located. Infosys Technologies' global expansion began with the opening of its first subsidiary in the United States in 1987. Its first European subsidiary was created in the United Kingdom in 1996. Then other affiliates were created in Belgium, Germany and Sweden in 1997, France in 2000, the Netherlands in2001 and Switzerland in 2002. In 2005, Infosys set up its first overseas operations centre in the Czech Republic and bought RASInfo, a company from France. *(Hindu Businessline,* December26, 2008).

Another of an Indian multinational corporation which is a success worldwide, TCS, set up its regional headquarters in London in 1994 after first starting business there in 1975.

India is performing in the IT enabled sectors. India's IT and IT-enabled services (ITES) exports registered a growth of 33 per cent to touch revenues of $23.6 billion in 2006-07. The IT and BPO exports are, however, projected to grow at relatively lower rate of 27-30 per cent in 2007-08 to garner $29-31 billion in revenues. In 2006-07, of the total IT and ITES exports, IT software and services grew by over 32 per cent registering revenues of $17.3 billion on the back of a strong demand for traditional applications development and

maintenance services as well as new service areas such as package implementation, while ITES/BPO sector grossed revenues of $6.3 billion recording a growth of 37 per cent. Indian information technology has grown very fast and Indian investment has increased through investments abroad. (*The Hindu Business Line*, 3 June 2007).

Pharmaceutical Sector: The importance of drugs is due to the competitive advantage of Indian companies in generics drugs. Indian drugs are renowned world over and India has always been known for different medicinal facilities such as *ayurveda* and homeopathy and therefore Indian brands have an competitive capability. Indian multinationals such as Ranbaxy have carved a name for them world over and therefore this sector is very successful for the Indian multinationals. Also, in the European context of national deregulation, these multinationals are capable of taking market share, and the M&A route is one of the best strategies to advance rapidly. Indian companies have tried to use their competitive advantage to secure fast market share growth in different sectors which includes sectors such as electronics and computers, transport, chemicals or metal products along with pharmaceuticals and software, IT.

Indian multinationals were able to keep their prices low and could introduce new drugs in the Indian market. There was encouragement by the government in them R&D in the pharmaceutical sector and the new drugs were not priced high due to the government policy of keeping the prices within the reach of the people. During 1990s, they started exporting to developed countries' markets. For the development of drug and pharmaceutical industry, it was important to have a strong chemical industrial base. (Das:2007:68). Due to this, the indigenous generic companies gained strong competitiveness at home and in foreign markets by successfully exporting their products.

NICHE pharma products company Troikaa Pharmaceuticals went global with the world's only painless diclofenac injection in 2006. After creating a Rs 12-crore brand for this product in India, Troikaa went global and started competing with global players to market it in France, Malaysia and China. In a couple of years, Troikaa made this product a Rs 8-crore brand through its own "Dynapar AQ". A further Rs 4 crore is contributed by the sales of Nicholas Piramal's "Zobid" brand, for which the technology has been

outlicensed by Troikaa. This has resulted in making this company competing in global market successfully with other firms. (*The Economic Times*, 21 December 2006).

Energy Sector: In this sector, there are many major Indian multinational corporations which are performing internationally .Multinationals like Reliance has made a mark in this sector. Some of the Indian companies like BPCL, OVL etc. are especially focusing in African region along with other parts of the world. Some of the important State owned Indian multinational corporations such as ONGC, Bharat Petroleum, OIL, and GAIL etc are having their presence in different parts of the world. They are further in the process of expansion.

Oil and Natural Gas Corporation (ONGC), a company from India features in UNCTAD's list of top 100 developing-country multinationals. India dominates the list of leading multinationals from this South Asian region. In the energy sector, India's State-owned groups, such as ONGC Videsh Limited, Indian Oil Corporation and Oil India, have acquired equities in exploration, refining and retailing. These companies are performing brilliantly throughout the world (Panagariya: 2008:69).

Larsen & Toubro Ltd. (L&T) bagged an order valued at Rs 418 crore from the Abu Dhabi Water & Electricity Authority to construct six major electrical substations in the Al Ain sector of Abu Dhabi. L&T supplied and installed 33/11KV primary substations to the specifications of the international consultant Mott MacDonald. The project included design and construction of civil building and over 120 km of 33 KV cabling The substations are at at Al Mutaredh, Al Mezyad South, Al Dhaher South, New Al Qua'a, Al Qattara and Civic Centre to reinforce the region's power distribution network and help meet the increased demand for power in the region. This deal provided the company a foothold in the middle east area.(*The Hindu Business Line*, 4 January 2007). Also, Larsen & Toubro Ltd. (L&T) won two major contracts of an aggregate value of $86 million from Chinese petrochemical company Sinopec. L&T has been contracted to design, manufacture and supply of three ethylene oxide reactors. (*The Financial Express*, 15 December 2006).

NTPC, of India, expanded into Sri Lanka by signing a memorandum of agreement with the Lankan Government and Ceylon Electricity Board to develop a coal based power

project in 2006. Built at Trincomalee in Lanka, the 2X250 MW power project was developed through a joint venture company between National Thermal Power Corporation and Ceylon Electricity Board. This joint venture was an important step for this state owned company from India to make expansion plans in power sector globally. (*The Hindu Business Line*, 29 December 2006).

Table 3: Country-wise Presence of Oil Companies from India

S.No.	Country	Name of the Indian Companies
1	Australia	HPCL, BPCL, GSPC
2	Brazil	OVL
3	Colombia	OVL
4	Cuba	OVL
5	Egypt	OVL
6	Gabon	OIL, IOC
7	Iran	OVL, OIL
8	Iraq	OVL
9	Libya	OVL, OIL, IOC
10	Myanmar	OVL, GAIL
11	Nigeria Sao Tome Principe JDA	OVL
12	Nigeria	OVL, OIL, IOC
13	Oman	GAIL, BPCL, HPCL
14	Qatar	OVL
15	Russia	OVL
16	Sudan	OVL
17	Syria	OVL
18	Timor & Australia	BPCL & GSPC
19	Vietnam	OVL
20	Yemen	OIL, IOC

Source: *Infraline Research and Information Service*, http://www.infraline.com/ong

Manufacturing Sector: Large Indian multinationals in industries especially in steel and chemicals have also begun to perform globally by acquiring companies, for example in Australia and Canada.

Also Ashok Leyland, the Hinduja Group companyentered into an agreement with the Ras Al Khaimah Investment Authority (Rakia) to set up a bus assembly unit at Ras Al Khaimah, the UAE. It was set up with an initial investment of $5 million (Rs 23 crore) with a capacity to build 1,000 buses of international styling, manufacture and quality. The bus assembly unit is expected eventually to be upgraded to a vehicle assembly plant for trucks and buses in the second phase.

The unit used Ashok Leyland chassis and bus body CKD units from India, including Irizar TVS. The facility included a modern paint shop for bus bodies and employed 450 workers. The unit had duty-free import of vehicle kits and duty-free export of finished vehicles to the GCC and the West Asia. Ashok Leyland had a 60 per cent share in Dubai's standard bus market with exports to the region expected to be in excess of 1,500 vehicles a year. *(The Hindu Business line, 6 oct 2006)*. This unit is performing as one of the main centres of bus building.

Bharat Heavy Electricals Limited (BHEL) bagged a $457 million contract to set up a 500 MW steam power plant in Sudan in 2006. The plant was commissioned for the National Electricity Corporation (NEC) of Sudan and was completed in 2009. This is the single largest export order secured by BHEL. The contract involved installing four units each of 125 MW of crude oil fired boilers, steam turbines, generators, control systems and 220 KV switchyard and auxiliaries for the Kosti power plant. The plant was later expanded to 3,000 MW. On completion, this became the single largest power project in Sudan. The Government has given a concessional line of credit of $350 million through the Exim Bank for the plant (*Business Standard*, 15 February 2007).

Acquisitions of mid-sized companies by large Indian enterprises like Tata Motors or Mahindra & Mahindra and more specialised ones such as Amtek Auto, Bharat Forge, EL Forge and Sundaram Fasteners are making this industry also come into prominence. In such dealings, Indian multinationals are getting immediate access to technologies or manufacturing bases the world over.

Mahindra &Mahindra (M&M) entered into a contract with the Government of Gambia to supply tractors along with matching implements. The company set up a satellite plant that assembled these tractors and to offer sales and after-sales service. It was the first commercial venture that the tractor company signed with an African country. The company also expanded its tractor business in China where it acquired 80 per cent stake in Jiangling Motors to set up Mahindra China Tractor. It also set up a branch office in Australia. Along with that, it also launched its European operations starting with Serbia and Montenegro. Expanding their automobile business on the global front, the M&M has introduced the Scorpio range in Sri Lanka. Also, after the Scorpio range, the company has plans to introduce the Bolero pick-up double cab and the Bolero Load Carrier in

neighbouring countries and also in other global areas. (*The Hindu Business Line*, 22 August 2008).

Tata Motors entered into a joint venture with Thailand's Thonburi Automotive Assembly Plant Co. to build, assemble and sell pick-up trucks in that country. This joint venture gave Tata access in Thailand . The Indian company holds 70 per cent of the equity and Thonburi 30 per cent. This venture helped Tata Motors tap Thailand, the second largest market for pick-up trucks in the world after the US. It was a great opportunity to the company. In the agreement, both partners jointly managed the operation for production and marketing of the product to be sold in Thailand and also exported to other potential markets in that region.The company is aiming for a stronger presence internationally. (*The Hindustan Times*, 19 December 2006). It made the South Asian region also within the target for the Indian company.

Indian Multinationals in Europe: There are different characteristics of Indian FDI in Europe and these are largely ingrained in the institutional and economic context of the home country. Indian FDI in Europe is a new phenomenon. (Pradhan: 2007:56-57)Indian FDI to developed countries has not occurred recently. The presence of Indian investors dates back to the 1970s when Tata Consultancy Services set up its first office in London in 1975. After that acquisition deals were conducted by different enterprises such as Burmah Oil in oil refinery. Then large Indian companies acquired state-owned enterprises from Central and Eastern Europe through tenders in those countries' privatization programmes. Indian multinationals like ONGC took over some Russian state-owned enterprises during the Russian privatization programmes.

Indian multinationals such as Orkay, Usha Rectifier or Dalmia acquired footholds in Europe in the textile, electronic and chemical sectors.(Das:2007:24). Mahindra & Mahindra, India's largest tractor manufacturer, which also makes multi-purpose vehicles, made a bid to acquire a Romanian state-owned tractor maker in early 2006 but could not do so. The attempt to acquire suggests the progress of the firm.

Britain is the main destination for Indian multinationals investment in the European context. Then Netherlands ranks second for FDI flows and Germany holding the second place for the number of setting up operations and M&A deals. Then France ranks as the

third most-favoured destination, and Germany is the first target for the acquisition of drug companies by Indian counterparts because the Indian companies could manage a foothold in the country through alliances.

The 2004 European Union enlargement to Hungary, Poland and the Czech Republic is a new opportunity for the Indian multinationals to enter European markets and expand their presence. An important factor is the low wage levels of workers with the appropriate skills in the software development and IT services. Indian software engineers' wages have increased over the past few years despite the fact that India produces over 300,000 new postgraduates every year The United Kingdom's greater London and Germany's Munich and Ruhr areas receive many more Indian inflows than other areas. (Pradhan: 2007:78-79).

In Europe, most of the Indian multinationals focused on highly skilled activities in two prominent sectors. These sectors are software development and IT-enabled services along with the pharmaceutical industry, more particularly the production and distribution of generics. These two specialization concerns greenfield investments which are very sizeable. Greenfield investments is a form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new facilities from start and initial set up. Europe attracts the top five Indian multinationals which are the TCS, Infosys, Wipro, Satyam and HCL along with mid-sized companies. This presence is characterized by a scattering of representative or commercial offices. This kind of setting is considered as necessary by Indian multinationals so that they can enlarge their European market share. Alliances with other multinationals in Europe will put Indian multinationals in direct competition in the home markets of big European companies such as Cap Gemini Ernst & Young or SAP.

Other patterns of Indian multinationals in Europe are concerned with acquiring the important multinationals. In 2005, India's i-Flex Solutions acquired Login SA, a French company which specializes in treasury management. The Indian pharmaceutical industry is performing well with the Ranbaxy Laboratories doing good in foreign markets. Also mid-sized multinationals like Wockhardt and Arcolab are making a hold in European markets.(*Financial Times*, November 24,2005).

India multinationals have acquired many European multinational corporations especially after 2000. Bayer-Generics Pharmaceutical of Germany was acquired by Ranbaxy Labs in 2000. German Remedies Germany was taken over by Zydus Cadila of India in 2001. CP Pharmaceuticals of UK was acquired by Wockhardt and RPG Aventis of France was acquired by Ranbaxy Labs in 2003 . Also in 2003 , Alpharma of France was taken by Zydus Cadila of India . Wockhardt took over Esparma of Germany and Jubilant Organosys took over Pharmaceutical Services of Belgium and also Wockhardt took Temmler Pharma of Germany in 2004. Docpharma from Belgium was taken over by Matrix Labs of India. Heumann Pharma of Germany was taken by Torrent Pharmaceuticals of India and Strides Arcolab of India acquired Beltapharm of Italy in 2005. Polish Sterile of Poland was acquired by Strides Arcolaband also Efarmes of Spain was taken by Ranbaxy Labs of India in 2005 (Thomson Financial: 2007). These acquisitions made the Indian multinationals a strong player in the European markets. ICN (Valeant Drugs Pharmaceuticals) of Hungary was taken by Sun Pharmaceuticals in 2006. Explora Labs of Switzerland was acquired by Matrix Labs of India .

Betapharm from Germany was taken over by Dr Reddys Labs of India in 2006. Terapia of Romania was acquired by Ranbaxy Labs of India. Ethimed from Belgium was acquired by Ranbaxy Labs in 2006 and Ranbaxy Labs also acquired Allen GlaxoSmithKline of Italy in 2007. (Thomson Financial:2007). These major acquisitions in the drug industry suggest how the Indian multinationals are successfully performing globally and especially in Europe.

The largest operation by Indian multinational corporations in Europe concerns the pharmaceutical industry with the acquisition of Germany's fourth-largest generic drugmaker Betapharm Arzneimittel by Dr Reddys Laboratories for 410 million euros in 2006. It was in continuation with European companies and foreign affiliates' acquisitions that started in 2003 . The end of patents on important drugs by German government was a factor that helped Indian multinationals to perform well.

In 2004, Reliance Industries Ltd acquired a German polyester producer and consequently became the world's largest polyester producer. Other Indian companies target more specific assets as suggested by Jindal Polyester's 2003 acquisition of the French Rexor.

There is repetition of operations by some large Indian multinationals in successive holdings acquisitions to secure a majority interest or new acquisitions.

Indian Multinationals in Africa: Indian companies are investing in Africa and the continent has become a major attraction for Indian companies. There are a number of factors which are are responsible for India's interest in African oil. The oil in Africa is of high quality and it is low in sulphur. Most of the new discoveries are offshore and are away from potential conflict zones onshore. Also Africa's oil markets are open to foreign participation and it is unlike those of Saudi Arabia and some other countries in the Gulf. The fact that only Nigeria is a member of OPEC and the members of OPEC sets limits on member-countries' output levels. Also India has centuries-old ties with Africa as both India and African countries fought together against colonialism and apartheid and have been partners in peace and development.

The Indian multinationals are making a strong hold in these countries. Some of the contracts which Indian multinationals have got in African countries are because of good bilateral relations and reciprocity since India has also given some contracts to African countries. Indian multinationals such as ONGC has got a foothold in Africa and it is performing well.

In Africa some countries such as Nigeria, Sudan, Ivory Coast, and Ghana etc has seen large investments from Indian companies. In 2000, a contract was signed between Indian Oil Corporation (IOC) and the Nigerian National Petroleum Company for the import of crude oil from Africa and thereafter the then Nigerian President Obasanjo invited Indian companies to explore oil production in his country *(The Tribune*, November 4, 2004).

In Sudan, OVL, the overseas investment arm of ONGC acquired 25 per cent equity held by the Talisman group in GNOP in 2003 by investing $750 million. (India *Daily*, 24 august, 2004) Also in 2004, it entered into deal for $200-million pipeline project to lay a pipeline from Khartoum to Port Sudan on the Red Sea. (Jayaram, 2004) Exxon Mobil and BP are the major Indian companies which have invested in Angola. India has been trying to acquire oil equity in some Angolan oilfields. India has offered to this country an economic package which includes economic assistance of $200 million and it is spread

over two years, and it includes manpower training and a railway rehabilitation project.(*Financial Express,* august 30, 2005).

Ivory Coast is a significant oil producer in Africa. OVL has a deal with with Vanco Energy Company to acquire 30 per cent participating interest in an exploratory block offshore Ivory Coast.(*Hindustan Businessline*, 4 september, 2005) This was the first acquisition of OVL in the West African region. OVL has a memorandum of understanding with Ghana National Petroleum Corporation (GNPC) to study prospects of oil exploration in the West African nation.(www.ghanaweb.com). The agreement benefitted both the countries because India gained exposure in oil exploration in the country and Ghana learned from OVL's significant competence and know-how in exploration and production activities.

ONGC Videsh Ltd (OVL) is focusing on Sudan, Congo, Nigeria, Libya, Ghana, Angola, Egypt and Uganda, which are African countries, for acquisitions of oil and gas assets. The countries in Africa where OVL is focusing its interest for future acquisitions of oil and gas projects are Sudan, Congo, Nigeria, Libya, Ghana, Angola, Egypt, Uganda etc. The estimated total investment in Africa for the current financial year (2009-10) up to January 2010 is Rs 715 crore. (*Businessline*, March 5, 2010,)

Indian Multinationals in Latin America: Multinational corporations from India are also investing in Latin America countries such as Brazil. Some major Indian companies are present there and it includes companies like like Ranbaxy Laboratories, Dr Reddy's Laboratories, Cadila Healthcare, Wockhardt Ltd, Orchid Chemicals & Pharmaceuticals, Torrent Pharma, Glenmark Pharmaceuticals, Unichem Laboratories, IPCA, etc. Ranbaxy Laboratories is in the top 5 generic companies in Brazil and it is also the largest foreign generics pharmaceutical MNC in Brazil.

This company has two subsidiaries in Brazil. These are Ranbaxy Farmaceutica Ltd and Ranbaxy Do Brazil Ltd. The subsidiaries' are performing well in the region and their sales are increasing. Ranbaxy has set up a new manufacturing plant near Rio de Janeiro in order to meet the growing demand.

An Indian multinational ,Torrent Pharma, which is a Gujarat based pharmaceutical giant, has set up Torrent do Brasil Ltda in Brazil and it has introduced 14 products in the

market, so far. Another Indian multinational, Dr Reddy's Laboratories, has set up a subsidiary Dr Reddy's Farmaceutica Do Brasil Ltda in Brazil with an investment of Rs 9.71 crore in the equity capital. Cadila Healthcare, which is also an Indian Multinational, received the approval from ANVISA , which is the drug regulatory body of Brazil, for its Moraiya formulations factoryin 2005. The company is now performing well in the country. Glenmark Pharmaeutical, has acquired Klinger Labs, a ANVISA approved Brazilin company and it is planning to increase its share of revenue from developing markets . Therefore ,the Indian Pharma companies are entering Brazilian market and these companies will establish there R&D based cost effective products in this market.

Tata Motors , a multinational from India, has a joint venture with Brazil-based Marcopolo and it manufactures buses and coaches for overseas markets. Tata Motors has share in the joint venture with 51 per cent and that of Marcopolo is 49 per cent. The joint venture manufacture fully built buses. The joint venture is also exploring the opportunities in Bus Rapid Transit System. Also, Tata Motors has acquired a 21 per cent stake in Hispano Carrocera, which is a Spanish bus and coach manufacturer. (*Hindu Businessline*, 6 May, 2009) Bajaj Hindustan (BHL), another Indian multinational is investing in the sugar industry in Brazil. BHL is also actively scouting for a sugar plant in Brazil, through its new subsidiary. The operations in Brazil will be funded by $380m raised through the GDR and FCCB route. (*Economic Times*, 6 June 2006) ONGC Videsh Ltd. (OVL), which has huge investments in Brazil ,has also investments in Sakhalin-1 project in Russia and the Greater Nile project in Sudan. OVL has 20 per cent stake in Sakhalin -1and is producing about 1.60 lakh bpd In Sudan,OVL has consistently increased its production throughout the years.

Shell and Petrobras of Brazil started production with OVL at its multi-field Parque das Conchas project, also known as BC-10, 120 km off Brazil's Southeast Coast. The output will be quickly ramped up to one lakh bpd or five million tonnes a year. OVL has 15 per cent stake in the project(*Economic Times*, 25 September, 2009) Bharat Petroleum Corporation, which is an Indian multinational, has overseas exploration and production business and has investments in a substantial discoveries of oil in Brazil. The discovery was made during drilling of the Wahoo-2 (also called Wahoo North) appraisal-cum-exploration well in the offshore Campos Basin. IBV Brazil Petroleo, a joint venture

between Bharat PetroResources (BPCL's overseas arm) and Videocon Industries, holds 25 per cent in the project. Bharat PetroResources and Videocon, along with Anadarko, have been working jointly on exploration blocks in Brazil for a while now. They have announced their intent to work in Indonesia too. (*Economic Times*, Nov 24, 2009).

India's Rise in Global Political Economy

India has emerged as a global power due to its economic growth. In 2007, India's economy expanded at 9.2% which was its fastest growth rate in 18 years and it was driven largely by services and manufacturing.(World Bank:2009:145) It is predicted by various institutions such as IMF , World Bank etc that India will reach the European Union's gross domestic product (GDP) in purchasing power parity terms by no later than 2012 and will have clearly overtaken it by 2015.It is shown in World Bank data that at the end of 2005 only nine economies had a GDP of more than US$1 trillion. These economies include Brazil, South Korea and India were the next closest, with GDPs of almost US$800 billion. This Growth is due to a number of factors, including higher savings rate, spending on roads, ports and other infrastructure and more foreign direct investment (FDI), according to global investment firm Morgan Stanley(*http://www.morganstanley.com/views/archive/2007).*

India tested its nuclear capability first in 1974 and then again in 1998 and it resulted in international attention and condemnation but it resulted in India becoming a strong military force in its region. It gave the country the status of a great power. India found a global platform and India is proclaiming its new strategic significance by increasingly favoring 'hard power' geopolitics (Gangly: 2006:56).

With the rise of India's economic growth and expansion of its multinational corporations since 1991, when the liberalization policies came into being, India found a new platform in the world and it got a big boost through India's relationship with USA. President Bill Clinton visited India in 2001 and Indian Prime Minister attended the summit in Washington in 2005 for the famous Indom – US nuclear deal. With this deal, India will get access to US civilian nuclear technology and in return it has to open its nuclear power production under international supervision and separating its nuclear facilities into

civilian and military. More than the energy deal, it symbolizes a new found collaboration in the geo-political arena.

India emerged as the new Asian partner of the United States and the nuclear cooperation with India forms the basis of a wider set of strategic interactions for the USA and it aimed at harnessing Indian strategic capabilities.

India's economy has more than doubled its size since 1991 and it is one of the fastest-growing markets for American exports.(*Times of India*, 8 november , 2008) The US is already India's leading commercial partner and its principal customer for goods and services (more than 17% of the total in 2005.More than 1,000 US firms are now based in India which includes multinationals like Microsoft, Oracle and General Electric Company (GEC). *(http://commerce.nic.in/PressRelease/pressrelease)*. India has also increased its bilateral relations with China and it has grown because of the growing Indian interest in developing economic relations with the countries of the Association of Southeast Asian Nations (ASEAN). Although India found itself on a different footing against China at the United Nations, at the International Atomic Energy Agency over Iran's nuclear programme, and at the East Asia Summit and the Nuclear Suppliers Group (NSG) over the issue of India's membership, but still the emergence of India has made collaborations between the two countries with the bilateral trade crossing the $40 billion marl in 2009. Pakistan, Nepal and Bangladesh are the members of SAARC and India needs cordial relations with Bangladesh because will allow the transit of gas from Myanmar to northeast India along with other transactions.

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is a regional initiative encouraged by India to improve trade between South and Southeast Asia. India has emerged as an important player in these regional organization. India has made efforts to fully utilize the advantages of regional economic mechanisms such as SAFTA and SAARC. India's requirement for energy and trade due to its enormous economic rise has made India improve its relations with Central Asia and West Africa.

Multilateral bodies such as SAARC and ASEAN have seen India as an important partner in their. After the end of the Cold war period, India's relations with Russia became less important and India's foreign relations target towards global friendships and the United

States emerged as India's most important extra-regional partner. India is increasingly integrating with the world economy. India has substantial influence in global governance. India's continued economic growth is the essential foundation for accomplishing its larger goals of having a strong influence in the global politics.

India has become one of the most important entities of the various regional engagements such as G-8, G-20, Asia-Pacific Economic Cooperation (APEC), etc. India had an important role in the ongoing economic crisis in which G-8 and G-20 summits held at various places had India as an important dialogue partner. In regional organizations such as the SCO also has India as an observer. The outcome of the meetings of WTO rounds of talks depends to a very large extent on India's view on the concerned issue.

India has also adopted the look east policy in 1990s and it resulted in India's improved relations with the South-East countries and their regional organizations.

India's Defense budget rose by 13 to 25 per cent per year and also the Indian military has made acquisitions of new equipment and technology from countries such as USA, Russia and Israel. These were intended for broad-based modernization, including enhanced power projection capability. India's economic interests have assumed a higher priority in defining India's security goals and the rise and expansion of Indian multinational corporations have played a very important part in it.

India is now a formal dialogue partner of ASEAN, and intends to expand its participation in Southeast Asian and Asia-wide institutions. The South Asian Association for Regional Cooperation (SAARC) is moving towards a South Asian Free Trade Area, and it started with a bilateral trade agreement between India and Sri Lanka.

India is now intending to get a permanent seat on the UN Security Council. India is a forefront runner for that along with three more aspirants which includes Germany, Japan and Brazil. India is a prime initiator and an important player of UN reforms. It shows the rise of India after the liberalization policies the corresponding rise and spread of Indian multinational corporations.

There has been a corresponding growth in India's economic growth and Indian multinational corporations' expansion in various parts of the world. After liberalization, there occurred sudden growth in Indian multinational corporations' investment abroad due to the policies initiated by the government and correspondingly India's economic

growth has also seen a consistent growth. Presently, Indian multinational corporations are performing in all regions of the world and are participating in some of the largest take-overs and simultaneously, the growth of India economy is one of the fastest in the world.

Chapter 5
Conclusion

After the beginning of industrialization in the west, private enterprises have been investing in other countries and transferring their technology to other parts. Multinational Corporations are those firms which are engaged in productive activities in several countries. An MNC is essentially a corporation that invests in other countries for a variety of reasons and it includes to have access to a foreign market, to secure raw materials, or to have the benefit of lower cost production or lower taxes They try to get as much of profit as possible. Multinational corporations also own and control huge amounts of valuable commercial and technical resources. It results in multinationals affecting decision–making of the governments. States are attracted by MNCs because they need financial, technical, and commercial resources and to improve their economy. Due to this fact, several countries especially developing countries have liberalized their foreign investment laws to get Foreign Direct Investments (FDI) through multinationals. In the contemporary times, multinational corporations have grown in power and influence.

Multinational corporations have flexibility to move between different countries which give them power base. Multinationals can force a host government to give them advantageous investment conditions by the threat of withdrawal from that country. There is a threat that by moving out of a country, the country concerned would be deprived of important technological advantage and knowledge gain. Multinational corporations command power in home countries and they also exert influence in the country where they operate. Multinationals have greater power over developing countries than over industrialized countries. This is because developing countries have inadequate political and economic institutions and lack various resources when compared to rich countries. They are also often more dependent upon one single multinational corporation. These multinationals also tend to get monopoly over the markets of the developing country. Multinational corporations have huge power in economic issue areas. Multinational corporations lack the territorial sovereignty and the military base of nation states but the

power that they command is based on economic resources and informal links with state machinery.

Multinational corporations have existed for a long time. The operations of companies such as East India Company and Dutch East India Company are considered as modern day precursor to MNCs. But Over these years technological, institutional, and political innovations have promoted integration within and across regions, national economies, and continents. These innovations have resulted in integration of the world as a whole because these innovations resulted in easier way to connect with the other countries. As the process of connectivity became faster, it resulted in the integration of the world at a much faster rate. It facilitated the expansion of multinational corporations because better connectivity made it easier for the firms to reach the other parts of the world and make investments.

The improvements in the capacity of transportation systems to carry more goods also resulted in the expansion of the multinational corporations. These improvements continued to lower value for freight for prices of an increasingly diversified range of products and raw materials sold on national and foreign markets. Different modes of transportation such as the transfer of goods from routes over land to routes over water reduced costs for transportation. In all the places, the contribution of cheaper and speedier forms of communication and transportation to the widening of markets, to efficient allocation of resources, and above all to the realization of the economic potential inherent in the evolving technologies of the industrial revolution was important. Therefore these inventions in communication were important reasons for the rise of multinational corporations. These multinationals could reach other parts of the world easily and therefore, it resulted in the expansion of multinational corporations.

Initially most of the multinational corporations emerged from the developed countries because they had the resources to make investments and also because they had the technology to make proper utilization of the resources. Some of the underdeveloped countries were totally dependent on these multinational corporations for many of the products because they just didn't know how to make them. Multinational corporations are totally profit oriented and therefore they are not keen to transfer technology to these underdeveloped countries. They are oblivious to the social factors and are more

concerned about the cost of their operations and hence the third world is dependent on these multinational corporations.

In the contemporary world, multinational corporations have attained a globalized status because they have spread to almost all parts of the world. Now we find that some multinationals have affiliates in a large number of countries. Some of the most successful multinationals have their spread across almost all regions of the world. A multinational such as coca-cola has a share of market in the beverage sector in almost all the countries of the world which includes some of the most advanced countries like the United States , United Kingdom , European countries like Germany , France and also it includes some of the most underdeveloped countries like Kenya , Uganda. Their reach includes all the continents of the world. Since it operates on a worldwide level it has the flexibility to adapt to the local needs. The advanced communication systems of the contemporary world enable the widely decentralized operations to adopt to the local needs, and also permit the centralized direction to assure the aim of the MNC which is primarily profit making.

Multinational corporations from the developed countries such as United States and United Kingdom have dominated the globe with their operations. These multinationals had the advantage of technology and the ability to invest. Due to superior technology, these corporations had outmatched many local firms of the underdeveloped countries and it had resulted in closing of many small firms which could not match these large multinationals. The state control in most of these countries attempted to save the local entrepreneurs.

The multinational corporations bring the technology along with them but they are not keen to give the technological know how to the developing countries because they are focused on profit and are not keen to lose their advantage. The developing countries try to get the technical knowhow but they lack the sufficient infrastructure to indulge in research and development and hence they are not able to get the sufficient expertise to match the big multinationals. It results in their remaining dependent on the multinationals operating in their country. There is pressure from the host country to get the knowledge on the products but it is highly difficult to emulate the expertise. The developed countries' multinationals are more than often able to utilize the primary products of the

third world into making the secondary products which results in dependence of the third world on the developed world.

There occurs huge inequality in terms of the standard of living of the people of the country concerned because these multinational corporations, although they pay less when compared to their standards, results in the working population of the country to have a better standard of living and a high purchasing capacity and the rest of the populations is severely affected because a large number of local firms get closed due to the entry of big multinationals. There occurs the inevitable fact that multinational corporations do not become active partners in the economic development efforts of a third world country because the primary aim of a multinational corporation is to make profit.

Emergence of multinational corporations from transition economies is a significant trend in international political economy. Multinationals from developing have evolved from different regions of the world. Asia countries have witnessed maximum evolution compared to developing countries from other regions of the world. The evolution of multinationals from Latin America and the Caribbean has been heavily influenced by changing institutions and policies in the region over the past few decades. The policies adopted include liberalizing and opening many sectors to foreign multinationals to acquire technology and knowledge and also these countries adopted the policy of state backing the multinationals.

Indian multinational corporations have also witnessed their expansion over the years and it gained pace with the liberalization policies which were adopted in 1991. It was realized by the Indian government in the early 1990s that there was a need to ease foreign exchange constraint. To ease the constraint, the government went for outward foreign investment by Indian companies. These controls included investment licensing, import licensing, controls on the use of foreign exchange, etc. The economic reforms began with minor deregulation steps in the mid-1980s and these gathered speed in the 1990s. The Indian government has invested in elite technical institutions which included institutions like the Indian Institute of Technology and Indian Institute of Management. These institutions produced lot of talent and manpower which has resulted in India as being capable of having competitive multinationals with competent employees.

Indian multinationals are making a mark in the world. They are expanding throughout the world through acquisitions and mergers .Some of the Indian multinationals are now among the largest in the world. Even though Indian multinationals have been investing abroad for many years, it is only from 2000, that Indian outward direct investment flows have taken off to reach substantial amounts on an annual basis. There are many sectors in which the Indian multinationals expand but some sectors are doing exceedingly well. Sectors like Information Technology, software and pharmaceuticals and drugs are making a mark world over. The software industry started in 1968 with the establishment of Tata Consultancy Services (TCS), which was a wholly-owned subsidiary of Tata Group. The development of the Indian software and IT services industry growth was given momentum by direct and indirect public incentives.

The main industrialists like Mukesh Ambani, Kumar Manglam Birla, and many others are making Indian multinationals an important entity in the world. Oil and Natural Gas Corporation (ONGC), a company from India features in UNCTAD's list of top 100 developing-country multinationals. India dominates the list of leading multinationals from this South Asian region in that list. Large Indian multinationals in industries especially in steel and chemicals have also begun to perform globally by acquiring companies, for example in Australia and Canada. In the energy sector, India's state-owned groups, such as ONGC Videsh Limited, Indian Oil Corporation and Oil India, have acquired equities in exploration, refining and retailing. These companies are performing brilliantly throughout the world. Indian multinationals such as Orkay, Usha Rectifier or Dalmia acquired manufacturing footholds in Europe in the textile, electronic and chemical sectors .Some of the Indian multinational corporations such as Torrent, Tata Motors Bajaj Hindustan, OVL, BPCL, Essar etc are investing in different countries such as Brazil. Other multinationals such as OVL (ONGC Videsh Limited) is investing in different countries of Africa. OVL is operating in different parts of the world and it has a global presence. It has entered into various parts and it is spreading further through mergers and acquisitions. In different countries of Africa, OVL has a strong presence and it is making its presence on a global scale.

India has emerged as a global power due to its economic growth. It is a strong player in the regional organizations such as ASEAN, BIMSTEC, SAARC, SAFTA etc. India has

seen its emergence as a global power along with its strong economic growth which was facilitated by expansion of multinationals. India has strategic partnership and collaborations in areas with United States. It is also having important role to play in various important international forums such as G-8 summits, SCO summits, G-20 summits where India is always invited as an observer. India is also a strong contender for a permanent seat in UN Security council. India along with China, Brazil has emerged as a very strong force in global governance decision makings. India has witnessed a simultaneous growth in its multinational corporations and its strong presence in global politics.

India has witnessed a simultaneous increase in its economic growth with its multinational corporations and its power in global politics. After the liberalization policies in early 1990s, Indian multinational corporations started to expand to all parts of the world and also became highly successful. Indian economy also witnessed a sharp rise and became one of the fastest growing economies of the world. India also witnessed its emerging strength in world political arena with becoming a very important entity in international institutions and world forums. There has been a simultaneous increase in India's economic growth and its emergence as a strong player in world politics.

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