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# RESEARCH ARTICLE

# WHO IS AFRAID OF MULTI NATIONAL CORPORATION?

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**ABSTRACT**

The Article highlights the consequence of entry of Multi-National Corporations on the host nation. It hlights how the consequences on development condition of the economy is essentially determined by the type of FDI that multinational corporations bring into the host nation rather than a generic description of it.



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## INTRODUCTION

One of the policy decisions of Government of Indian that had created controversy and had spawned passionate debate was allowing Multi-National Corporations (MNCs) to enter in themulti-brand retail sector. The common concern (or fear) is once these MNCs enter; they will putlocal small enterprises out of business, monopolize the sector and eventually aggravate the problems of unemployment and exploitation of local producers. This kind of paranoia about MNCs is not new and neither it is specific to India. Wherever they go, MNCs facelocal hostility and political resistance, which is based on a perception that MNCs are not good for the progress of its host country's (country where they set up their business) economy. However, there are a handful economists and policy makers, who believe in just the opposite. For them, MNCs are the only vehicle that can uplift a nation's economy from low level of development. The question is, however, whether there are enough empirical evidences, data, facts and figures to prove the correctness of either of the two conflicting perceptions. The existing research on impact of MNC operation show diametrically opposites results in different nations. In some cases (for example, in Singapore, China), MNCs have made positive contribution to its host nation's income, employment, export performance. Where as, in some countries the results are negative (in Gambia, Nigeria). The results keep the debate and discussion inconclusive, with both sides (pro and anti MNC) providing evidences to prove their points. So, what is the truth about MNCs and their operation?

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The answer is 'it is contextual'! There is no universal or general answer to the question of whether MNC activities are good or bad for its host country's economy. It depends on the purpose of entry of MNC in a country. All MNCs do not look for the same factor in choosing its host country. Broadly, MNCs enter a country with four different intentions. First, for exploitation of natural resources (most of the African and Latin American nations attract MNCs because they are rich in natural resource reserve).Second, to benefit from a growing domestic market which is fueled by rising income and demographic dividend (India falls in this category).Third, to take advantage of easier standards (mostly labour and environment) of doing business (China and otherless developed nations will be in this category) and finally,to strategically respond to its business rivals; that is, it enters an economy where another rival MNC has set up its shop(developed nations like the USA or Japan falls in this category). Depending on the 'intention' with which the MNCs enter, the consequences vary substantially. Labour exploitation, damages to the environment, evasion of taxes and creation of social unrest are often associated with MNC operations that is mainly for exploiting natural resources. On the other hand, improvement in quality of product or services offered to consumers, steady decline in prices due to greater competition, are seen as consequences of MNC operation when their intention is to benefit from the growing domestic market. Higher GDP growth, creation of employment and increase in export could be associated with MNC operation when they enter an economy with the intention of either the third or the fourth types. It is not difficult to understand why the consequences differ.

When a nation has nothing but natural resource to offer to the MNCs, the Govt. would be at a weak position in bargaining the terms and conditions of doing business. MNCs take advantage of its weakness by offering low wages to workers, evade taxes, and show no concern for the damages to environment. On the other hand, if an economy has strong infrastructure, effective governance and skilled workforce, it becomes an attractive destination to set up plants and do business for a lot of MNCs. Its Government then chooses which of the MNCs will be allowed to do business on the basis of which one offers the highest benefit for the nation. In the final analysis, it could be suggested that there is no universal way of knowing whether MNCs are good or bad for the host country's economy. Asweeping generalization about MNCs (whether good or bad) is mainly a result of either prejudice or lack of understanding of nuances of their operations.

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