Chapter 24
Multinational Corporations: A Boon or Bane for a Developing Economy – A Study in Indian Context

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ABSTRACT

Foreign Investors are looking forward to enter organized retail sector, which has a mere 8 percent presence in India, but the present government in India which endorses liberal economic framework proscribe 100 percent FDI in multi-brand retail sector on the grounds of safeguarding small indigenous retailers known as 'kirana stores'. The objective of the chapter is to explore the importance of Multi National Corporations (MNCs) not only in multi-brand retail sector but otherwise as a potent source of technology, efficiency and equality for farmers and poor, poverty alleviation and growth for a developing economy as a whole.

INTRODUCTION

FDI is an integral part of every country's economic development but it deserves further contemplation for a developing country like India where economic growth and poverty elevation are both equally crucial elements for nation's progress. Government of India endorses liberal economic framework but proscribe 100 percent FDI in multi brand retail sector on the grounds of safeguarding small indigenous retailers known as 'kirana stores' and poor farmers who supply goods to them. The government is of the view that permitting FDI in organized retail sector will increase competition for the small indigenous retailers and might push them out of business which in turn will impact the poor farmers, leading to more unemployment and poverty. MNCs competitive pricing strategy is also a point of concern posing business losses for indigenous retailers. But the question arises here is, "Is this the best possible way to help poor farmers and corner shops or there is any other possible approach?"

The beauty lies in strengthening the weaker sections of the economy, uplifting their living standards and empowering them to join the growing middle income group. How long can a country protect them from facing the growing competition in the world by imposing trade restrictions, are we waiting for the

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day like in 1991 when things went out of our hands with extremely severe balance of payment crisis and then India embraced liberalization and globalization policy as there was no other alternative in store. According to Ahluwalia (2002) the need for policy shift became evident way back in 1980's when many East Asian countries managed high growth and poverty decline by encouraging private sector and export oriented policies and but the Indian government signaled systematic shift to further open economy with greater reliance on market forces, larger role for private sector with foreign investment and restructured the role of government only in 1991 after the crisis.

FDI inflows in developing countries have gained attention due to the widely acknowledged FDI's potential to improve productivity of host countries and promote economic growth and development (Alfaro et al., 2010). Solow (1957) argues that the sustained economic growth occurs only in the presence of technological progress, an exogenous source, but will consequently result in diminishing returns to capital in the long run. On the contrary, the new growth theory argues that growth can be endogenous by emphasizing the idea of human capital pioneered by Schultz (1961) that promotes the investment in human beings. Solow model could not explain the reasons for different growth rates across countries except by appealing to technological progress (Chamberlin, 2006) however the addition of human capital to the model increases the ability to explain cross- human capital country differences in income levels (Mankiw et al., 1992). Several studies highlight the significance of human capital to the nation's growth. A study by Aghion & Howitt (2009) proposes human capital and technological progress as two main inputs of endogenous growth models. Barro (1991) conducted a study on a number of Sub-Saharan countries with very low level of human capital and recommended the model with human capital as exogenous factor to significantly predict the growth rate. Neo classical economist propose that foreign investment provides required capital, managerial skills, advanced technologies, export capabilities (Soyasa & Orneal,1999) and increases the rate of investment from domestic resources (Lall, 1974; Dunning & Humdani, 1997). According to Alfaro et al. (2004) FDI inflow through efficient technologies and management practices promotes domestic production and consequently economic growth.

According to Prahalad (2008) more than 4 billon people of the world constitute the bottom of the pyramid (BOP) and out of them 3 million i.e., approximately 70 percent represent developing countries, like BRICS, Thailand, Indonesia, Turkey and Mexico. India has second highest population after China and has 21.9 percent people below poverty line (Planning Commission, 2012). A developing country hence has a fair chance to grow and even tackle the most fundamental problem like poverty, unemployment and illiteracy with the FDI inflow that along with technology also invest in human capital. The study by Qadri (2014) suggests investment in human capital as one of the key macro variables for economic growth of Pakistan (Qadri 2014). Nelson and Pack (1999) argues that the rapid growth in a number of Asian economies like Korea, Taiwan, Singapore and Hong Kong was the result of capital accumulation but its productive assimilation or absorption was the key to success.

Government should proactively be involved in opening up of different sectors for FDI with a vision to alleviate poverty, strengthen the poor to face the growing completion across the globe and to gear up the economic growth. MNCs like PepsiCo and HUL are genuinely contributing to address these fundamental problems along with their profit making. The objective of the paper is to study the contributions of these MNCs alongside their routine profit making and evaluate if they are in real sense a boon for developing economy and make a substantial case to propose liberal FDI norms in various sectors including multi brand retail in India.