Unit IV

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MNC

Definition

A multinational corporation is a corporation that manages production or delivers services in more than one country.

Multinational corporations are large companies with operations in several countries across the world.

Example : Apple, Ford, Coca-Cola, Microsoft.

Reasons for Establishment of MNC's

1.To increase market share

2.To secure cheaper premises and labor.

3.Employment and health and safety legislations in other countries may be more relaxed.

4.To avoid or minimise the amount of tax to be paid.

5.To take advantage of government grants available.

6.To save on costs of transporting goods to the market place.

7.To develop an international brand.

Advantages of MNCs to the Host Country

1.Transfer of technology, capital and entrepreneurship.

2.Increase in the investment level and thus, the income and employment in the host country.

3.Greater availability of products for local consumers.

4.Increase in exports and decrease in imports.

Advantages of MNC's to the Home Country

1.Acquisition of raw materials from abroad.

2.Technology and management expertise acquired from competing in global markets.

3.Export of components and finished goods for assembly or distribution in foreign markets.

4.Inflow of income from overseas profits, royalties and management contracts

Disadvantages of MNC's

1.Trade restrictions imposed at the government level.

2.Limited quantities (quotas) of imports.

3.Effective management of a globally dispersed organization.

4.Slow down in the growth of employment in home countries.

5.Destroy competition and acquire monopoly Criticisms of MNC’s

1.Creation of false needs in consumers.

2.Interference and dominance in the internal affairs of sovereign nations.

3.Invasive advertising and corporate lobbying.

4.Creation of monopolies in the market and elimination of local competitors.

5.Depletion of resources due to their continuous use by these corporations.

6.Centralisation of R&D operations in the home country.

7.Low consideration for human rights and welfare.

8.The problem of dumping.

DOMINANCE OF MNC’s

1.The global liberalization has paved the way for fast expansion and growth of MNC’s.

2.The value added by all foreign affiliates of MNC’s as a percentage of world GDP increased from about 5 percent in the beginning of the 1980’s to 7 percent at the end of 1980’s.

3.Peter Drucker remarks that mutltinationalism and expanding world trade are two sides of the same coin.

1.It was pointed out that 50’s and 60’s were the period of rapid growth of multinational trade.

2.In this period the world trade economy grew at a faster annual rate of 15% or so in most years than even the fastest growing domestic economy, that of Japan.

3.There was a very significant increase in the export intensity of foreign affiliates of many MNC’s.

3.Apart from trade in commodities, other transactions also take place extensively between different parts of these enterprises.

Example :

Granting of loans, licensing of technology and provision of services.

MNC’s in India

• MNC’s in developing countries have made substantial contribution to export earnings.

• The performance in case of India has been very dismal.

• This is mostly due to the government policy.

• The policies in India discriminate against export production and is in favour of local market.

• In 1947 foreign companies did not have an anti-export image.

Due to India's growing economy, globalization and its potential in the market, many of the multinational companies are coming to India to extend their business. Below is the list of top 10 MNCs in India.

1. **Microsoft**

Microsoft Corporation India is a subsidiary of Microsoft Corporation which as we all know is an American multinational, started in the year 1975. Microsoft Corporation began its operations in 1990 with its headquarters in Hyderabad, India and ever since has worked closely with Government of India as well as the IT firms. It is indeed one of the most popular in the list of MNCs in India.

2. IBM

IBM (International Business Machines Corporation) is the second MNC in our list of multinational companies in India with its headquarters in Bangalore (IBM India Private Ltd). It started in the year 1992 in India and has its credits with a range of products and services including business consulting, storage solutions, etc.

3. Nestle

3rd on the list of MNCs in India is Nestle. Nestle India which is a food and beverage company from Switzerland is a part of Nestle S.A. Nestle had made its entry into the market in the year 1912 with improved products and is currently one of lead MNCs in India. It is considered as one of the largest food company in India with its best food products. And also comes with the rank 72 on the Fortune Global 500 in the year 2014 according to the revenue.

4. Proctor & Gamble

Procter & Gamble (P&G) is a worldwide developer MNC and was started by William Procter and James Gamble in 1837. P& G Indian is a part of Procter and Gamble. The MNC made its way into India in 1964 and currently has products such as Olay, Gillette, Vicks, Tide etc. It has a wide range of products including beauty, grooming health and household care etc.

5. Coca-Cola

Coca-Cola is yet another widely acclaimed MNC in India that comes in the list of top best MNC in India. Coco-cola, the marketer of non-alcoholic beverage founded in 1886 by Asa Griggs Candler and started operation in India in 1993. The corporate office of Coco-cola is in Atlanta, Georgia and having a revenue US $45.998 billion. The company operated in India as a subsidiary of Coca-Cola India Private Ltd.

6. Pepsico

PepsiCo too makes its way into the list of MNC India as a well-known manufacturer of snacks and beverages. An American Company found in 1965, PepsiCo operates in India through its subsidiary, Pepsico India Holding Private Limited and is a leading manufacturer of popular brands such as Lays, Pepsi, Slice, etc.

7. CITI Group

Next one on the list of MNCs in India is the CITI Group, founded in 1998, an American Banking services Corp. It operates in India through the subsidiary, Citibank, which presently has more than 40 branches in over 30 cities in India. Corporate office in Manhattan, New York City and revenue US$ 76.88 billion and in India it’s headquartered is in Mumbai. Citibank has 42 branches across 30 cities and more than 700 ATMs in India. Interestingly, Citibank was formed by one of the largest mergers in the history and now owns the world’s largest financial services.

8. SONY Corporation

Sony is yet another well-known Japanese multinational company which came into existence in the year 1946. Sony Corporation began its operations in the year 1994 and is well acclaimed for its products in various categories: electronics, media and entertainment. Televisions, mobile phones, cameras, PlayStations, headphones, memory card, etc. are the major products of the Sony Corporation. It’s headquarter is situated in Delhi, India with the total revenue of US$ 153.683 billion.

9. Hewlett Packard

HP has also made its way into the list of MNCs in India with its products ranging from laptops, monitors, desktops and other electronic items. HP was started off in the year 1939 and has it’s headquartered in Palo Alto, California and having the biggest revenue US$ 111.454 billion. HP, an American Electronics and Information Technology Company has its headquarters in Banglore, India. HP produces line of printers, digital cameras, scanners, PDAs, calculators, servers, workstation computers, and computers for home and small-business use. Many of the computers came from the 2002 merger with Compaq.

10. Apple Inc

Apple Inc which was a foot bed in 1976 and currently sells laptops, phones, software and various online services. Apple Inc., an American Multinational Company was founded in the year 1976. The company is well-renowned for electronic consumers and some of their best selling products such as iPhone, iPod, iPad, and Mac. This is one of the largest MNC’s companies in India which develops and sells computer, laptops, software and online services.

BALANCE OF PAYMENTS

According to **Kindle Berger**

Balance of Payments of a country is a systematic record of all economic transactions between the residents of a reporting country and residents of foreign countries during a given period of time.

• It is a double entry system of record of all economic transactions between the residents of the country and the rest of the world carried out in a specific period of time.

• It presents a classified record of all receipts on account of goods exported, services rendered and capital received by residents and payments made by them on account of goods imported and services received from the capital transferred to non-residents or foreigners.

Features

1.It is a systematic record of all economic transactions between one country and rest of the world.

2.It includes all transactions visible as well as invisible.

3.It relates to a period of time.

4.It adopts a double entry book keeping system.

Balance of Trade

1.The difference between a country's imports and exports.

2.Balance of trade is the largest component of a country's balance of payments.

3.Debit includes imports, foreign aid, domestic spending abroad and domestic investments abroad.

4.Credit includes exports, foreign spending in the domestic economy and foreign investments in the domestic economy.

When exports are greater than imports BOT is favourable and imports are greater than exports it is unfavourable

Difference between BOT and BOP

BOP takes into account all the transactions with the rest of the world.

BOT takes into account all the trade transaction with the rest of the world.

BOP VS BOT

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BOP

1. It is a broad term.

2. It includes all transactions related to visible and invisible items.

3. It always balances itself.

4. It includes factors like conditons of foreign lenders,economic policy of govt.

BOT

1.It is a narrow term.

2. it includes only visible items.

3.it can be favourable or unfavourable.

4.it includes facors like cost of production,,availability of raw materials, exchange rate, price of goods manufactured at home.

Importance of BOP

• BOP records all transactions that create demand for and supply of a currency.

• It judges economic status of a country in a short term.

• BOP may confirm trend in economy's international trade and exchange rate of the currency.

A balance of payment is an essential document in the finance department or transaction as it gives the status of a country and it's economy. The importance of the balance of payment can be calculated from the below points:

• It examines the transaction of all the export and import of goods and services for a given period

• It helps the government to analyse the potential of a particular industry export growth and formulate policy to support that growth.

• It gives the government a broad perspective on a different range of import and export tariff. The government then takes measure to increase and decrease the tax to discourage import and encourage export respectively and be self-sufficient

• If the economy urges support in the mode of import, the government plan according to the BOP and divert the cash flow and technology to the unfavourable sector of the economy, and seek future growth

• The Balance of Payment also indicates the government to detect the state of the economy, and plan expansion, monetary, and fiscal policy .

The Contents in this E-Material has been taken from the text and reference book as given in the syllabus.