Status of Indian Domestic Industries Vis-A-Vis Mncs in India: A Comparative Analysis

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Abstract: A multinational corporation can be defined as one having a subsidiary or branch or place of business in two or more countries or operates in two or more countries or territories. Therefore, a multinational can be called by virtue of its physical presences or by virtue of geographical scope of its operations in two or more countries. Multinationals are sometimes also referred to “transnational corporations”. The term “multinational” is more of an American term whereas the term “transnational” is European. In order to understand the complicated interrelation between domestic industries and multinational corporations (MNCs), it is imperative to establish the meaning and present status of the both. This research entails to explain the basic terms in lucid terms so as to lay foundation for a comprehensive research on multinational corporations with Indian domestic industry.

Keywords: India, domestic industry, multinational corporations, development

1. Introduction

Domestic industry refers to manufacturers that produce goods within their country of residence. Domestic-industry products are sold in the country in which they are manufactured. But also can be exported, according to The World Trade Organization. Domestic industries usually consist of energy-related businesses, plastic or metal manufacturers, and agriculture or textiles. These goods contribute to the overall gross domestic product of a country.

Industrialisation has a major role to play in the economic development of the underdeveloped of the underdeveloped countries. The gap in per capita incomes between the developed and the underdeveloped countries is largely reflected in the disparity in the structure of their economies. The developed are largely industrial economy whereas the underdeveloped are predominantly confined to agriculture and allied activities. An example of such can be the contribution of Industries and agriculture in the Gross Domestic Product or the GDP of countries like United States and United Kingdom in comparison to India.1

Dramatic improvements over the last few years in the Indian industrial and economic scenario, has set the platform for most Indian firms to go global. India, with an average GDP growth rate of 8% for the last four years is one of the fastest growing economies in the Asia Pacific region making it a highly attractive

1 World Development Indicators, World Bank (2010).
business proposition. Increasing shareholder value and transparency required to win confidence over not just Indian, but global stakeholders has remained the key to such success. This has driven most firms to achieve state of efficiencies and global standards. Hence the need to streamline processes/outsource activities has become an imperative.\(^2\)

2. Multinational corporations

A multinational corporation can be defined as one having a subsidiary or a branch or a place of business in two or more countries or operates in two or more countries or territories.\(^3\) Therefore, a multinational can be called so by virtue of its physical presence in two or more countries or by virtue of geographical scope of its operations in two or more countries. Multinationals are sometimes also referred to as ‘transnational corporations’. The term ‘multinational’ is more of an American term whereas the term ‘transnational’ is European.

The term "multinational corporation" is used in the broad sense to cover all enterprises which control assets - factories, mines, sales offices and the like - in two or more countries. Generally the study of multinational corporations is associated with the concept of foreign direct investment. Nevertheless, a study of multinational corporations must be distinguished from the study of foreign direct investment, chiefly because the most important questions to be asked in connection with the multinational corporations are not limited to and in some cases are even independent of financial flows. They concern a host of other activities also, such as the transfer of technology as well as goods, the provision of managerial services and entrepreneurship and related business practices, including cooperative arrangements, marketing restrictions and transfer pricing.\(^4\)

Among the Fortune 500, all major multinational corporations are American, Japanese or European, such as Nike, Coca-Cola, Wal-Mart, AOL, Toshiba, Honda and BMW. On one side, they create jobs and wealth and improve technology in countries that are in need of such development and on the other hand, they may have undue political influence over governments, exploit developing nations and create a loss of jobs in their own home countries. Very large multinationals have budgets that exceed those of many countries. They can be seen as a power in global politics. Multinationals often make use of outsourcing as a strategy to produce certain goods for them. Wal-Mart is bigger than Norway, Royal Dutch/Shell Group is bigger than South Africa and General Motors is over twice as big as Nigeria. Of the largest 100 economic factors in the World today, 51 are corporations and 49 are countries.\(^5\)

According to the IMF and OECD definitions, direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The “lasting interest” implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter. Direct investment involves both the initial transaction establishing the relationship between the investor and the enterprise and all subsequent capital transactions between them and among affiliated enterprises.

\(^2\) *India Domestic Market: Validating the Opportunity*, Tholons (August, 2009).
\(^4\) *The Reputations of Switzerland Largest Companies*, Reputation Institute (April 5, 2006).
The OECD Benchmark Definition serves three objectives. Firstly, it provides clear orientation for individual countries as they develop or change their statistical system for recording FDI. Secondly, it improves the basis for economic analysis of FDI, especially in international comparisons, to the extent that progress is made in reducing national deviations from the standard. Thirdly, it offers an objective standard for measuring remaining methodological differences between national FDI data that need to be taken into account for cross-country analysis of FDI.6

India presents a vast potential for foreign investment and is actively encouraging the entrance of foreign players into the market. Foreign investors cannot ignore India, which has become one of the top three emerging economies, which has taken great efforts overtime and much of the development has taken place after the year 1991.7

3. Multinational corporations

As mentioned earlier, a multinational corporation can be defined as one having a subsidiary or a branch or a place of business in two or more countries or operates in two or more countries or territories.8 The term "multinational" signifies that the activities of the corporation or enterprise involve more than one nation. Certain minimum qualifying criteria are often used in respect to the type of activity or the importance of the foreign component in the total activity. The activity in question may refer to assets, sales, production, employment, or profits of foreign branches and affiliates.9 While the terms "corporation", "firm" and "company" are generally used interchangeably, the term "enterprise" is sometimes preferred as clearly including a network of corporate and non-corporate entities in different countries joined together by ties of ownership. In the present context, "corporation" is not used as a legal term but rather in accordance with common usage as reflected in the wording of the Economic and Social Council resolution 1721.

On the basis of their orientation, corporations are distinguished into "ethnocentric" (home-country oriented), "polycentric" (host-country oriented) or "geocentric" (world-oriented). When internationalism is taken to the limit, the corporation maybe considered "a-national" and hence be referred to as "denationalized", "supranational" or a "cosmocorp".

The term "multinational corporation" is used in the broad sense to cover all enterprises which control assets - factories, mines, sales offices and the like - in two or more countries. It is thus explained that no important aspect of the phenomenon (e.g. finance or services) or of the problem (e.g. questions associated with nationally-oriented enterprises or small firms) is arbitrarily excluded. Generally the study of multinational corporations is associated with the concept of foreign direct investment. Nevertheless, a study of multinational corporations must be distinguished from the study of foreign direct investment, chiefly because the most important questions to be asked in connection with the multinational corporations are not limited to and in some cases are even independent of financial flows. They concern a host of other activities also, such as the transfer of technology as well as goods, the provision of

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7 Manual on Investing in India-Foreign Direct Investment-Policy and Procedures, Ministry of Commerce and Industry, Department of Industrial Policy and Promotion.
8 Supra Note at 3.
managerial services and entrepreneurship and related business practices, including cooperative arrangements, marketing restrictions and transfer pricing.

It has been estimated that the World’s 500 largest companies controlled at least 70% of World trade, 80% of foreign investment, and 30% of global GDP. The 100 largest had assets of $28,813 billion, of which 40% were located outside their home countries.¹⁰

3.1. Examples of MNCs

Among the Fortune 500, all major multinational corporations are American, Japanese or European, such as Nike, Coca-Cola, Wal-Mart, AOL, Toshiba, Honda and BMW. On one side, they create jobs and wealth and improve technology in countries that are in need of such development and on the other hand, they may have undue political influence over governments, exploit developing nations and create a loss of jobs in their own home countries. Very large multinationals have budgets that exceed those of many countries. They can be seen as a power in global politics. Multinationals often make use of outsourcing as a strategy to produce certain goods for them.

Wal-Mart is bigger than Norway, Royal Dutch/Shell Group is bigger than South Africa and General Motors is over twice as big as Nigeria. Of the largest 100 economic factors in the World today, 51 are corporations and 49 are countries. Vedanta Resources, the holding company of the Sterlite group raised a record $1 billion last year in its maiden public offering on the London Stock Exchange (LSE). This was the largest sum garnered by an Indian company in overseas markets and the second largest IPO in Europe in 2003. Essel Propack is the World’s largest manufacturers of lamitubes; tubes used to package toothpaste. It has 17 plants spread across 11 countries and a turnover of Rs. 609.2 crore for the year ended December 2003. The company commands a staggering 30 percent of the 12.8 billion-units global tubes market. Ranbaxy is the ninth largest generics company in the World. An impressive 76 percent of its revenues come from overseas. Tata Motors sells its passenger-car Indica in the UK through a marketing alliance with Rover and has acquired a Daewoo Commercial Vehicles unit giving it access to markets in Korea and China. Dr Reddy’s Laboratories became the first Asia-Pacific pharmaceutical company outside Japan to list on the New York Stock Exchange in 2001.

3.2. Historical development of MNCs

The first multinational appeared in 1602 and was the Dutch East India Company. These corporations originated early in the 20th century and proliferated after World War II. Typically, a multinational corporation develops new products in its native country and manufactures them abroad, often in third World nations, thus gaining trade advantages and economies of scale. India was an appendage of Great Britain and the imperial preference policy of Great Britain converted India into an agricultural hinterland. The East India Company used to import raw materials from India at throw away prices and export the finished goods at high price leaving their colony impoverished as a debtor country. During the last two

decades of the 20th century many smaller corporations also became multinational, some of them in
developing nations.\textsuperscript{11}

Multinational corporations’ activities in the post-war international economy have evolved over time. It is
common to divide this evolution into two distinct periods, the immediate post-war period spanning the
years 1945 to 1960 and a second period since 1960. Two features characterized the immediate post-war
period. First, American firms dominated foreign direct investment. Concerned with post-war
reconstruction and unwilling to risk the balance of payments consequences of capital outflows, European
and Japanese governments had little interest in encouraging outward direct investment. As a consequence,
American firms dominated MNC activity, accounting for about two-thirds of the new affiliates created in
this period. Second, the bulk of MNC investment during this period was oriented toward Europe for the
purpose of manufacturing. The push to invest in Europe was given additional impetus at the end of the
1950s by the creation of the European Economic Community, and thus the early 1960s saw a rapid
increase in the amount of market-oriented investment by American firms in the Common Market
countries. Other direct investments flowed to developing countries, Canada, and Australia for natural
resource extraction. In short, American MNCs engaged primarily in market- and natural resource-oriented
foreign direct investment dominated the immediate post-war period.

Both of these characteristics of MNC activity have changed dramatically since 1960. The early dominance
of American firms has been increasingly diminished as European and Japanese firms began to engage in
foreign direct investment. The increased role of other industrialized nations has more recently been
accompanied by the emergence of foreign direct investment by MNCs based in the Asian NICs and in
Latin America.\textsuperscript{12} Thus, while American firms continue to play a large role, they are not nearly as dominant
today as they were in the early post-war years. At the same time, the relative importance of market- and
natural resource-oriented direct investment has fallen and that of efficiency-oriented investment has risen.
As Dunning (1996) notes, MNCs increasingly view “each of their foreign affiliates and, frequently, their
associated suppliers and industrial customers, not as self-contained entities, but as part of a regional or
global network of activities. New investments are increasingly undertaken as part of an integrated
international production system.” The shift to efficiency-oriented investments and integrated international
production systems has been made possible in large part by developments in communications technology.

In summary, during the last fifty years multinational corporations have grown to play a centrally important
role in the international economy. MNCs are, in many respects, the driving force behind the deepening
integration of the global economy. Importance of MNCs in the contemporary international economy raises
a large number of issues that we explore in the pages that follow. Most of these issues can be subsumed
under a single question: What are the economic and political consequences of MNC activity? To answer
this question we look first at the economics of multinational corporations, examining why firms engage in
foreign direct investment and how FDI affects economic activity in the countries that host it. We then turn
our attention to the political economy of MNCs, examining the nature of the bargaining relationship
between MNCs and host-country governments and governments’ efforts, unsuccessful to date, to craft an
international investment regime.

\textsuperscript{11} David Pearce, Edward Barbier, Anil Markandya; \textit{Sustainable Development: Economics and Environment of the Third World}
78-80 (2000).

3.3. Structure of MNCs

As companies evolve beyond initial participation strategies of exporting and licensing, they need more sophisticated organisational structures to implement more complex multinational strategies.

Worldwide geographic structure: In the Worldwide geographic structure, regions or large market countries become the geographical divisions of the multinational company. A multinational company has geographical units representing regions of the World. Since a company with a multi domestic or regional strategy needs to differentiate its product or services by country or by region, it needs an organisational design with maximum geographical flexibility. The semiautonomous regional or country-based subunits of the World wide geographic structure provide that flexibility to tailor or develop products that meet the particular needs of the local or geographical market. Large differences in an area’s product or service needs or in channels of distribution enhance the need for a geographic structure.

Worldwide matrix structure: To balance the benefits produced by geographic and product structures and coordinate a mixture of product and geographic subunits, some multinationals create a worldwide matrix structure. The Worldwide matrix structure enables a firm to pursue global and local strategies at the same time. Geographical divisions focus on national responsiveness while product divisions focus on finding global efficiencies. The matrix structure works well only when there are equal demands from the environment for local adaptation and for product standardization with its associated economies of scale. Without these near or equal demands the matrix structure turns out to be a geographic or product structure, based on which side is more important for competitive advantage. The Royal Dutch/Shell Group recently phased out the Worldwide matrix structure due to the bureaucracy it created to adopt the product structure.

Transnational network structure: The transnational network structure represents the newest solution to the complex demand of being locally responsive while taking advantage of global economies of scale and seeking location advantages such as local sources of knowledge. Like the matrix the transnational network tries to get advantage of the various structural options. It combines functional, product and geographic subunits. However, unlike the symmetrical product structure the transnational has no basic form. It has no symmetry or balance between the geographic and product sides of the organisation. Nodes, the units at the centre of the network, coordinate product, functional and geographical information. Different product-group units and geographical-area units have different structures and often no two subunits are alike. Rather, transnational units evolve to take advantage of resources, talent and market opportunities wherever they exist in the World. The Dutch multinational Phillips Electronics N. V. is one example of a transnational network.

3.4. Why do MNCs enter into a foreign market?

Firstly, MNCs engage in cross-border investment to gain secure access to supplies of natural resources. For example, the American copper mining firm Anaconda made large direct investments in mining operations in Chile in order to secure copper supplies for production done in the United States. Indeed, as

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table 5.4 illustrates, petroleum and mining is the third most important industry represented in the top 100 MNCs, with 11 of the largest firms engaged in either oil production or mining.

Secondly, MNCs invest across borders to gain access to foreign markets. Much of the cross-border investment in auto production undertaken within the advanced industrialized world fits into this category. During the 1980s and early 1990s, Japanese and German automotive MNCs such as Toyota, Nissan, Honda, BMW, and Mercedes built production facilities in the United States in response to concerns that barriers to market access would limit the number of cars they would be allowed to export into the American economy from Japanese and German plants. During the 1960s, many American MNCs made direct investments in the European Union to gain access to the common market being created there. As table 5.4 indicates, the auto industry is the second most heavily represented industry among the largest MNCs, accounting for 14 of the top 100 MNCs.\(^{15}\)

Thirdly, MNCs make cross-border investments to improve the efficiency of their operations, by rationalizing production and trying to exploit economies of specialization and scope. An increasingly large share of cross-border investment in manufacturing fits into this category. In electronics and computers as well as in the auto industry, firms allocate different elements of the production process to different parts of the world. In computers, electronics, and electrical equipment, for example, which account for seventeen of the largest 100 MNCs, the human and physical capital-intensive stages of production such as design and chip fabrication, are performed in the advanced industrialized countries, while the more labour-intensive assembly stages of production are performed in developing countries. In the auto industry, the capital-intensive design and production of individual parts such as body panels, engines, and transmissions is performed in developed countries, and the more labour-intensive assembly of the individual components into automobiles is performed in developing countries.\(^{16}\)

3.5. Impacts of MNCs in broad spectrum

A multinational Corporation is a firm that has productive capacity in a number of countries. The profit and income flows that they generate are part of the foreign capital flows moving between countries. As countries adopt more open outward oriented approaches to economic growth and development the role of multinational enterprises (MNC) or transnational corporations become more important. As local markets throughout the world are being deregulated and liberalized foreign firms are looking to locate part of the production process in other countries where there are cost advantages. These might be cheaper sources of labour, raw materials and components or have preferential government regulation. Although LDCs may present high levels of risk they also present the potential for higher levels of profit. Many LDCs with growing economies and increasing incomes may provide future growth markets.

Many development economists are concerned with the role of the MNCs in low income countries and identify a number of problems associated with foreign direct investment. Equally other economists and politicians argue that MNC activity can drive growth and development. The true answer is that probably the arguments put by both sides are applicable in certain countries with certain MNEs at certain times.

\(^{15}\) Stuart R. Lynn, Economic Development: Theory and Practice for a Divided World 56-57 (2002).
A MNC investing in an area may result in a significant injection into the local economy. This may provide jobs directly or through the growth of local ancillary businesses such as banks and insurance. It might initiate a multiplier process generating more income as newly employed workers spend their wages on consumption. MNCs may provide training and education for employees thus creating a higher skilled labor force. These skills may be transferred to other areas of the host country. Often management and entrepreneurial skills learned from MNEs are an important source of human capital. MNCs also in general will contribute tax revenue to the government and other revenues if they purchase existing national assets through the privatization process.

MNCs also have negative impact. An MNC may employ largely expatriate managers ensuring that incomes generated are maintained within a relatively small group of people. The attraction for the MNC may be the large supply of cheap manual labour who they can employ at low wages. This may contribute to a widening of the income distribution. It will also not lead to the transfer of management skills. MNC investment in LDCs often involves the use of capital intensive production methods. Given that many LDCs are often endowed with potentially large low wage labour forces and have high level of unemployment this might be considered inappropriate technology. More labour intensive production methods might be a more appropriate option for alleviating poverty and aiding development. Any resulting growth might be considered anti-developmental. MNCs engage in transfer pricing where they shift production between countries so as to benefit from lower tax arrangements in certain countries. By doing this they can minimize their tax burden and the tax revenue of national governments.

4. FDI in the Indian Scenario

Foreign Direct Investment (FDI) simply includes any long-term investments by an entity of that country which is not a local entity of the host country and it is also a measure of growing economic globalization. Developing countries, like India, increasingly see FDI as a source of economic development, modernization and employment generation, and have liberalized their FDI regimes to attract investment. The investment is made for a long period of time and an initial investment is made which is followed by subsequent investments over a period of time. FDI influences growth by increasing total factor productivity and, more generally, the efficiency of resource use in the recipient economy. Technology transfers through FDI generate positive externalities in the host country. FDI is investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stock markets.

During the period of Colonial rule, the English had the total control over the resources and they plundered and exploited those resources to the hilt. India is originally an agrarian economy. India’s cottage industries and trade were abused and exploited as means to pave the way for European manufactured goods. Under the British rule the economy stagnated and on the eve of independence India was left with a poor economy.

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and the textile industry as the only life support of the industrial economy. Pre-independence, India was the supplier of foodstuff and raw materials to the industrialized economies of the world and was the exporter of finished products- the economy lacked the skill and means to convert raw materials to finished products.\textsuperscript{21}

After gaining independence in 1947, India followed the system as there in the USSR i.e., the government of India envisioned a socialist approach to developing the country’s economy. Until 1991, India was primarily a closed economy Due to which the economic growth was slow and country was facing many financial problems. Under the Industries Development and Regulations act (1951) starting and operating any industry required approval - in the form of a license - from the government.\textsuperscript{22}

Another such harsh measure was the introduction of Foreign Exchange Regulation act (FERA) of 1973 which curtailed foreign investment to 40\% in Indian companies. The result of this act was visible when many big companies like coco cola and IBM exited the country. The reason behind enactment of such policies was that they focused a great deal on achieving overall economic self-reliance in each state and at the same time exploit its natural resource which resulted in adverse results.\textsuperscript{23} Although, initially these policies were extremely successful as the economy did have a steady economic growth and development, they weren’t sustained. In the early 1970’s, India had achieved self-sufficiency in food production. During the 1970’s, the government still continued to retain and wield a significant spectra of control over key industries such as power, mining, transportation and communications.\textsuperscript{24}

A recent survey by global consultancy AT Kearney rated India as the third most favoured FDI destination\textsuperscript{25}, next only to China and United States. Government of India undertook negotiations with a number of countries to enter into Bilateral Investment Promotion & Protection Agreement (BIPAs) in order to promote investment of the investors. The Securities and Exchange Board of India (SEBI) has recently formulated guidelines to facilitate the operations of foreign brokers in India on behalf of registered Foreign Institutional Investors (FII's).\textsuperscript{26} Keeping in mind the growing concern over intellectual property rights, India has been prompt to enact numerous rules and regulations e.g. The Patents Act, The Trademarks Act, The Geographical Indicators of Goods Act and The Designs Act.

FDI limit in private sector banks was raised to 74\% from the existing 49\% and the insurance sector to be hiked from 26\% to 49\%, but there was a caveat of only having 10\% voting rights irrespective of the shareholding, which was seen as a major constraint. In 2005, a new regulation namely the Banking Regulation (Amendment) Bill 2005 has been proposed which will give private investors voting rights

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which will be in line with their current shareholding. Once this regulation is given the nod, it is likely to increase foreign investment significantly.\(^{27}\)

Also, to ensure adequate and up-to-date information on current policies and procedures is available at all time to investors various points of call have been set up which can be easily accessed e.g. the Secretariat for Industrial Assistance (SIA) has been set up for this particular purpose.

5. Comparative study and conclusion

Industrialization in India, like in all other countries, started with small scale industries based on arts, crafts, handlooms, metal works, leather processing, oil expelling etc. Large scale industries in India evolved only after Industrial revolution in Europe. A significant feature of the Indian economy since independence is the rapid growth of the small-scale industrial sector. Over the past five decades, successive governments have framed policies to protect the interests of the small-scale industrial sector and facilitate its rapid development. In pursuance of their policies, Governments have initiated various support measures from time to time, which include reservation, revision of investment ceilings, modernization of technology, marketing assistance, fiscal incentives etc.

The small-scale sector owes its definition to the Industries (Development and Regulation) Act, 1951. The sector is defined in terms of value of investment in plant and machinery.

Small-scale industries account for 95% of industrial units in the country, 39.92% of value added in the manufacturing sector, 34.29% of national exports, 6.86% of Gross Domestic Product and employment to 193 lakh persons. Over 7500 items are produced in the small-scale industrial sector, 749 items have been reserved for exclusive manufacture in the small-scale industrial sector and 358 Items have been reserved for exclusive purchase from the small-scale.\(^{28}\)

Industrialization has been a striking feature of Indian economic development since 1951. Industrial production has gone up by about five times, making India the tenth most industrialized country in the world. Small-scale industries play a vital role in the development of the national economy. India is facing the problems of unemployment and paucity of capital resources. “The built in characteristics of small scale industries, such as relatively small size of initial capital requirement, entrepreneurship and employment generation potential, etc., render them the ideal for balanced and decentralized development.” The employment generated in small-scale factory units is nine times that of large establishments for an investment of Rs.1 lakh in fixed assets. The small-scale industries assume great importance in mitigating the problem of unemployment, in facilitating the growth of the industrial sector and in ensuring all round development of the economy.

“Cottage and small scale industries are of very special importance in India. If we lack capital, we do not lack manpower, and we must use this manpower both to add to the wealth of the country and to reduce unemployment”, Jawaharlal Nehru said. Besides, small-scale industries avoid regional imbalances and facilitate decentralized development in various parts of the country, including the remote areas, by

\(^{27}\) World Development Indicators database, World Bank (April 2005).

\(^{28}\) 2. Annual Report, 2002-2003, Ministry of small scale industries in India, P. No.8
effectively utilizing the locally available raw materials and other resources, including work force. Small scale industries have emerged as a vibrant and dynamic sector of the Indian economy that contributes around 40 per cent of the total industrial production and over 34 per cent of the national exports. At present the Small Scale Industrial sector is providing employment to over 250 lakh persons. The captains of our economy are more than aware of the importance of the small scale industries in terms of employment potential, productivity, utilization of indigenous resources, balanced regional development etc. In the words of Manmohan Singh, it is “the key to our success of manufacturing in the small scale sector”. The small scale sector is important not only for its contribution to GDP but also for its stellar performance in exports and in generating employment.

The “small sector”, as the name implies, consists of small-scale industries. We can divide the small-scale industries into the following three categories, viz. cottage industry; agro-based industries and small industries. In India, since the inception of planning, industrialization has been given priority and the Second Five Year Plan (1955-60) laid a firm foundation for industrialization. In the subsequent five-year plans, with the aim of achieving self-reliance and sustained economic growth, diversification of industries, both in the private and public sector was envisaged.

Large scale industries are instrumental in supporting the economic backbone of the country. In India, large scale industries are those that have over Rs. 100 million as fixed asset. Usually industries involved with fertilizers, power, oil and gas, heavy engineering, agricultural products, infrastructure, food processing, banking, information technology, manufacturing, tourism etc. Large scale industries refers to those industries which require huge infrastructure, man power and a have influx of capital assets. The term ‘large-scale industry’ is a generic one including various types of industries in its purview. All the heavy industries of India like the Iron and steel industry, textile industry, automobile manufacturing industry fall under the large scale industrial arena. However in recent years due to the IT boom and the huge amount of revenue generated by it the IT industry can also be included within the jurisdiction of the large scale industrial sector. Last but not the least the telecoms industry also forms an indispensable component of the large scale industrial sector of India. Indian economy is heavily dependent on these large industries for its economic growth, generation of foreign currency and for providing opportunities to millions of Indians.

Industrial development in India has been part of the very broad movement which had its origins in Western Europe. Before the more productive technology of the industrializing West could become something other than a casual and accidental feature of the Indian landscape, a larger scale of market demand had to emerge and new ways of organizing economic activity had to be created. Entrepreneurs had to concern themselves with a larger range of calculations, novel forms of enterprise had to be created and labour had to be mobilized to a different discipline. This chapter will describe the growth of India's modern industries, the forms within which they developed and the character of the labour force that emerged.

The new steam-powered technology was introduced fairly early into south Asia and the pace of its extension within specific sectors was reasonably brisk. Between the 1850s, when the first major industries started, and 1914, India had created the world's largest jute manufacturing industry, the fourth- or fifth-
largest cotton textile industry (depending on what is being measured), and the third-largest railway network. Karl Marx, writing at the beginning of this process, expected that the introduction of railways and modern factories into India would rapidly transform the sub-continent. He was excessively optimistic. Modern industrial processes did not spread easily from sector to sector and the total effect was not cumulative. At the time of Independence, India was still largely non-industrial and one of the world's poorest areas.

It may be concluded that developing countries has make their presence felt in the economics of developed nations by receiving a descent amount of FDI in the last three decades. Although India is not the most preferred destination of global FDI, but there has been a generous flow of FDI in India since 1991. It has become the 2nd fastest growing economy of the world. India has substantially increased its list of source countries in the post – liberalization era. India has signed a number of bilateral and multilateral trade agreements with developed and developing nations. India as the founding member of GATT, WTO, a signatory member of SAFTA and a member of MIGA is making its presence felt in the economic landscape of globalised economies. The economic reform process started in 1991 helps in creating a conducive and healthy atmosphere for foreign investors and thus, resulting in substantial amount of FDI inflows in the country. No doubt, FDI plays a crucial role in enhancing the economic growth and development of the country. Moreover, FDI as a strategic component of investment is needed by India for achieving the objectives of its second generation of economic reforms and maintaining this pace of growth and development of the economy. 31 In principle, governments should not prevent anybody, Indian or foreign, from setting up any business unless there are very good reasons to do so. Hence, unless it can be shown that FDI in retail will do more harm than good for the economy, it should be allowed. 32 A major argument given by opponents of FDI in retail is that there will be major job losses. Frankly, the jury is out on whether this is the case or not, with different studies claiming different findings. Big retail chains are actually going to hire a lot of people. So, in the short run, there will be a spurt in jobs. Eventually, there's likely to be a redistribution of jobs with some drying up (like that of middlemen) and some new ones sprouting up.33

Fears of small shopkeepers getting displaced are vastly exaggerated. When domestic majors were allowed to invest in retail, both supermarket chains and neighbourhood pop-and-mom stores coexisted. It's not going to be any different when FDI in retail is allowed. Mega retail chains need to keep price points low and attractive - that's the USP of their business. This is done by smart procurement and inventory management: Good practices from which Indian retail can also learn.34 The argument that farmers will suffer once global retail has developed a virtual monopoly is also weak. To begin with, it's very unlikely that global retail will ever become monopolies. Stores like Wal-Mart or Tesco are by definition few, on the outskirts of cities (to keep real estate costs low. The fact is that farmers barely subsist while middlemen take the cream. Let's not get dreamy about this unequal relationship. As far as the employment effect of FDI is concerned, this debate involves three key issues: the extent to which FDI substitutes the domestic investment, the extent to which FDI stimulates increase of exports of intermediate goods and

capital goods, and whether FDI involves the construction of new plants or simply the acquisition of existing facilities. With the current speculations, the employment effect may generally be summarized. FDI is capable of increasing employment directly by setting up new facilities or indirectly by stimulating employment in distribution. It can also preserve employment by acquiring and restructuring ailing firms. But at the same time risk runs that it may reduce employment divestment and the closure of production facilities.

Therefore, the recommendations that need to be kept in mind right now are to restrict the number of stores that can be operated in a city, allow access to the small retailers to the stores through special windows. Investment should be made in supply chain infrastructure. Retailers should be provided with easy access to finance. Foreign companies should first be brought in less sensitive sector and the whole FDI regime should be gradual.

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