The Role of the Multinational Corporations (MNCs) and the North South divide in the 21st century.

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Abstract

Multinational corporations are the global goliaths of modern times. These entities collectively are responsible for large portions of world production, employment, investment, international trade, research, and innovation. Although their economic impact is most pronounced in high-income countries, where their activities have been concentrated historically, their reach increasingly extends to every corner of the world. Decisions made by these firms affect not only those who work for them, buy from them, do business with them, and compete with them, but also communities and countries in which they are located. Multinational corporations conduct business in two or more countries. Some consider a multinational company to be one that generates 25% or more of its revenue outside the home country. An MNC can have a positive economic effect on the countries in which it operates. The essence of this article is to review the background of the MNCS, the role the play in the 21st century (positive and negative) and finding possible solutions to the problems arising. While adopting the descriptive method of historical analysis, the paper recommends that stake holders of MNCs should bridge the gap between the North and South through programmes geared towards self-reliance in addition to proactive measures to be adopted by host countries.

Keywords: MNCs, North-South Divide, International Trade, Investment Development

Introduction

What Is a Multinational Corporation?

A multinational corporation (MNC) is a company that has business operations in at least one country other than its home country. By some definitions, it also generates at least 25% of its revenue outside of its home country.

Generally, a multinational company has offices, factories, or other facilities in different countries around the world as well as a centralized headquarters which coordinates global management. Multinational companies can also be known as international, stateless, or transnational corporate organizations or enterprises. Some may have budgets that exceed those of small countries. A multinational corporation is an enterprise whose business activities occur in at least two countries. Some may consider any company with a foreign branch to be a multinational corporation. Others may limit the definition to only those companies that derive at least a quarter of their revenue outside of their home country.

Multinational companies can make direct investments in foreign countries. Many are based in developed nations. Advocates say they create high-paying jobs and technologically advanced goods in countries that otherwise would not have access to such opportunities or goods (Nigeria- shell petroleum company).

However, critics of these enterprises believe multinational corporations exert undue political influence over governments, exploit developing nations, and create job losses in their own home countries.

The history of the multinational company is linked with the history of colonialism. Many of the first multinational companies were commissioned at the behest of European monarchs to conduct international expeditions.

Some of the colonies not held by Spain or Portugal existed under the administration of some of the world's earliest multinational companies. One of the first was The East India Company, established in 1600. This British multinational enterprise took part in international trade and exploration, and operated trading posts in India.

Other early examples of multinational companies include the Swedish Africa Company, founded in 1649, and the Hudson's Bay Company, founded in 1670.

Historical evolution and Growth of the MNCs

Historically, the roots of modem MNCs date back to Europe's great trading companies. It started prominently with the Dutch East India trading company in 1689. In the 19th century industrial revolution and capitalism in Europe, the exports of capital and productive technology to pre-industrial territories of Africa, Asia and Latin America were championed by the biggest industrial powers, notably Britain, France, Germany and Italy. In the 20th century the United States sort out competition of the European economy in the export of productive technology and foreign direct investments. Such American predators were Singer sewing machine, Otis elevator and general electrics. The growth of the MNCs declined in the first and second world war periods (1914-1918: 1939-1945). Between 1945 and 1970, the MNCs increased foreign direct investment venture by 10% annually. In the 1960s, the United States MNCs dominated the scene, and have continued to preserve the domination. In the middle 1970s the dominance of the U.S MNCs was challenged by the European and Japanese firms. In the 1980s, the corporation of the U.S, Japan and European countries increased fierce crisscrossing foreign direct investment strategies. Japan was after the American market, and really penetrated the American economy with a number of well-to-do firms that shocked America businessmen. Seeking greater access to the growing European market, American increase investments ventures in Western Europe. direct American investments and petroleum and other resources expanded in the Middle East and other oil producing exporting countries including Nigeria.

In a globalized economy, since the 1990s, international production occasioned more by the MNCS, outside the home country of the film, has been dramatic. MCS affiliates are more, buying some estimates, what double the value of world exports.

Ask your results, intra-firms trade across national boundaries has reached considerable proportions relative to countries to tell trade. Jean Louis mucchiellie et Al record that, The share of intra-firms exports by parents frames ranges from 38% in the case of Sweden to 24% in the case of Japan. The equivalent share of intra firm imports to total country imports ranges from 14% in Japan 243% in the United States. Intro film trade is no longer confined to flow between parents frames and affiliates. Inter affiliates flu's within the MNCS now take greater importance. This signals the emergency of strong international corporate system (UNCTAD, 1996, P. 105). Today, MNCS are rationalizing their world and regional networks.

In terms of a step by step process, firms first beginning with exporting and then flow with the first FDI. With several locations of firms and affiliates, operation are integrated with more. Modern MNCS are full stream global strategies and policies through multiple

markets thinking. Information technologies are beginning to change the way in which service oriented MNCS can carry out their operations. The internationalization process and the manufacturing sector in Eastern Europe is getting more advanced G.Balcey and A. Enrietts case study "global and regional strategies in the European car industry; the case study of Italian direct investment in Poland focuses on the link between the domestic, regional and global strategies, developed by MNCS in the automobile industry in the 1990s.

Modern MNCS invested much in science and technology for industrial competitiveness, particularly in semiconductors, electronic communication and standardized manufacturing and packaging. High tech is vital to prevent markets failures. The concept of reciprocity in r&d - permitting firms from other countries to join domestic subsidized research programs in exchange for reciprocal access by home firms into the foreign countries r&d projects - would seem an important step in that direction.

The prevalent trend among the MNCS is industrial targeting and strategic trade policy. Increasingly, MNCS are not left alone as economic Goliaths. Governments of the MNCS are working actively in collaborating to be relevant in the competitive world markets. More than the global strategy, but governments and their firms are similarly involved in the penetration and operation and foreign governments. Governments are throwing their weight to protect their MNCS and their affiliates against adverse policies of the whose countries. Industrial targeting refers to a course of conduct involving elements of governments/industrial co-operation

The purpose is clear. It is to assist an industry to become more dominant in one or more exports markets. Government are increasingly perceiving their MNCS as facilitators of both domestic and foreign interests. In principle, every government wants its domestic film to have access to markets, technology, investment opportunities and transition concessions in partner economies. That control or protection which may come by way of government restriction as in North Korea, or as in Japan, by shop limits on the ability of foreign investors to buy into existing groups or exploits markets opportunity This system sends more to exclude foreign companies from much of Japanese business by denying them acquisition of any Japanese company That's could save us a market entry point or by controlling the distribution system after years of conflictual relations on trade issues, do United States have tried recently to compel Japan to open its markets by negotiating by lateral agreements and sharing markets assess and competitive behavior.

As governments in the US major competitor, Nations appear to support their firms at the expense of the US MNCS, there was an increase in demand for protection of the US markets by Mature US industries as well as for US governments aid to level the playing field. By 1993, the pieces of US strategic trade policy has been put in place along with the political will to promulgate a national exports strategy, targeting the infrastructural sector in 12 developing countries. US governments is the time to provide more supports and promotions so it's MCS asses to targets markets overseas.

Statement of the problem

multinational corporations operate by seeking the opportunity for environment that has least cost of production of goods for world market. Those goals may be achieved through the most efficient location for product facilities or obtaining taxation concession for host government. This has been looked upon by many as counterproductive to the host country. Though multinational cooperation have contributed in terms of job creation but many of the employees of most multinational corporations are poor remunerated. However, in this paper I seek to evaluate the role of multinational corporation towards economic growth of nations.

Scope of the study

This study, the role of the multinational corporation and the North South divide in the 21st century will cover the positive and negative effect of the multinational corporation in the developed and developing countries of the world and will be limited within the 21st century.

Conceptual framework

The economy of the country depends on the business, its operations, and its growth. Different forms of integration of indigenous and international businesses bring lots of impacts on the economy, business, and other areas. According to Abubakar Sadiq (2014), MNC represents the organization that has facilities and assets in different countries other than its home country. MNC has various arms that deal with operations, productions, or factories in different countries, and it has an impact on the home and host country (Campbell and Strikwerda, 2013). This is where globalization influences countries.

Research methodology

The type of research methodology used in this research to gather data and relevant information is the historical research and the study will adopt descriptive method of data collection. This will involve the collection of materials from secondary sources, such as

books, journal articles, magazines, internet sources, international and national conference proceedings, published and unpublished articles.

Role of Multinational Corporations in the India Economy:
Prior to 1991, multinational companies did not play much role in the Indian economy. In the pre-reform period the Indian economy was dominated by public enterprises. To prevent concentration of economic power the Industrial Policy 1956 did not allow the private firms to grow in size beyond a point. By definition multinational companies are quite big and operate in several countries. While multinational companies played a significant role in the promotion of growth and trade in South- East Asian countries they did not play much role in the Indian economy where import-substitution development strategy was followed.

Since 1991 with the adoption of industrial policy of liberalisation and privatisation role of private foreign capital has been recognised as important for rapid growth of the Indian economy. Since source of bulk of foreign capital and investment are multinational corporations, they have been allowed to operate in the Indian economy subject to some regulations.

Roles of Multinational corporation in the 21st century
Multinational corporations are seen as engines of economic developments. They are also seen as the link of technology transfer and it could be also be said that they are avenues of deepening globalization. As stated earlier and the work multinational corporations organizations that's owns or control production in one or more country. They are engaged in mining, Tea, rubber, banking etc. Countries that do minutes the MNCs are USA, UK, Japan, Denmark etc.

MMCs are those large films which are incorporated in one country but which own, control or manage production and distribution facilities in several countries.

1. Promotion of foreign investments
In recent years, external assistance to developing countries have been declining. This is because they donor develop countries have not been willing to part s with a larger proportion of their GDP as assistance to developing countries. MNCS can bridge the gap between the requirements of foreign capital for increasing foreign investments.

Foreign Direct investments is generally an integral parts of the global corporate strategy for MCS operating in olligopolistic markets. For indirect investments creates economic

relations of integrative nature and involves the corporation in the internal affairs of a country. This process is, however, two controversial in terms of socio-economic impacts on the host countries. The point is that foreign production has become a vital component in the integration global strategies of the MMCS that's now dominates international economy.

2. Filling the management gap

MNCs not only provide financial resources but they also supply a package of needed resources including management experience, entrepreneurial abilities and technological skills which makes it more desirable to the recipient country.

3. Technology transfer

Another important role of the MMCs is that they transfer high sophisticated technology to developing countries which are essential for raising productivity of working class and enable them to start new productive ventures requiring high technology.

In the era of Globalization Technology Transfer is one of the solutions to the issue of dispersed resources, such as capital, human, or material which are spread out globally in search of highest worth. Transfer of technology across borders has been defined by Fransman (1986) as "a process whereby knowledge relating to the transfer of inputs into outputs is acquired by entities within a country from sources outside that country". This process of technology transfer between organizations depends on the way technology is defined. The intangible quality of technology often makes technology transfer management very complex (Chen, 1996). The technology transfer process may be as simple as shifting codified information from one organization to another or may be complex because of the fact that the ability to understand and use information varies. Transfer of technology may take place directly, when the receiver licenses the technology from the MNC, or indirectly, when the affiliate imports intermediate goods with embodied technology. Technology transfer is a vital factor that affects long-term cross-country income, economic growth and convergence of countries (Nune, 2012). They not only set up and import new equipment and machinery embodying new technology but they also teach skills as how to operate them. Hence they help in upgradation of technology.

4. Promotion of exports

With extensive links all over the world and producing products efficiently and therefore with lower costs multinationals can play a significant role in promoting exports of a country in which they invest. For example, the rapid expansion in China's exports in recent years is due to the large investment made by multinationals in various fields of Chinese

industry. Historically in India, multinationals made large investment in plantations whose products they exported. In recent years, Japanese automobile company Suzuki made a large investment in Maruti Udyog with a joint collaboration with Government of India. Maruti cars are not only being sold in the Indian domestic market but are exported in a large number to the foreign countries.

As a matter of fact, until recently, when giving permission to a multinational firm for investment in India, government granted the permission subject to the condition that the concerned multinational company would export the product so as-to earn foreign exchange for India. However, in case of Pepsi, a famous cold drink multinational company, while for getting a product license in 1961 to produce Pepsi Cola in India it agreed to export a certain proportion of its product, but later it expressed its inability to do so. Instead, it ultimately agreed to export things other than what it produced such as tea.

5. Investments in infrastructure

With a large command over financial resources and their superior ability to raise resources globally it is said that multinational corporations could invest in infrastructure such as power projects, modernisation of airports and ports, telecommunication. The investment in infrastructure will give a boost to industrial growth and help in creating income and employment in the economy. The external economies generated by investment in infrastructure by MNCs will therefore crowd in investment by the indigenous private sector and will therefore stimulate economic growth.

With a large command over financial resources and their superior ability to raise resources both globally and domestically, they invest in infrastructure telecommunication etc. This investment gives a boost to industrial growth and help and creating income and employment.

6. Other roles include

I. Non-debt creating capital inflow:

In pre-reform period when foreign direct investment by MNCs was discouraged in countries like India, they relied heavily on external commercial borrowing (ECB) which was of debt-creating capital inflows. This raised the burden of external debt and debt service payments reached the alarming figure of 35 per cent of our current account receipts. This created doubts about our ability to fulfill our debt obligations and there was a flight of capital from India and this resulted in balance of payments crisis in 1991.

As direct foreign investment by multinational corporations represents non-debt creating capital inflows we can avoid the liability of debt-servicing payments. Moreover, the advantage of investment by MNCs lies in the fact that servicing of non-debt capital begins only when the MNC firm reaches the stage of making profits to repatriate. Thus, MNCs plays an important role in reducing stress and strains on India's balance of payments (BOP).

II. The help host countries in maintaining better relations not just with their home countries but also with the countries they have trade relations.

III. The expenditures of MNCS and research and developments is also bound to help the host countries.

Arguments Against MNCs(The negative role):
There are several arguments against MNCs which are discuss below.

1. Although MNCs provide capital, they may lower domestic savings and investment rates by stifling competition through exclusive production agreements with the host governments. MNCs often fail to reinvest much of their profits and also they may inhibit the expansion of indigenous firms.

2. Although the initial impact of MNC investment is to improve the foreign exchange position of the recipient nation, its long-run impact may reduce foreign exchange earnings on both current and capital accounts. The current account may deteriorate as a result of substantial importation of intermediate and capital goods while the capital account may worsen because of the overseas repatriation of profits, interest, royalties, etc.

3. While MNCs do contribute to public revenue in the form of corporate taxes, their contribution is considerably less than it should be as a result of liberal tax concessions, excessive investment allowances, subsidies and tariff protection provided by the host government.

4. The management, entrepreneurial skills, technology, and overseas contacts provided by the MNCs may have little impact on developing local skills and resources. In fact, the development of these local skills may be inhibited by the

MNCs by stifling the growth of indigenous entrepreneurship as a result of the MNCs dominance of local markets.

5. MNCs' impact on development is very uneven. In many situations MNC activities reinforce dualistic economic structures and widens income inequalities. They tend to promote the interests of some few modern-sector workers only. They also divert resources away from the production of consumer goods by producing luxurious goods demanded by the local elites.

6. MNCs typically produce inappropriate products and stimulate inappropriate consumption patterns through advertising and their monopolistic market power. Production is done with capital-intensive technique which is not useful for labour surplus economies. This would aggravate the unemployment problem in the host country.

7. The behaviour pattern of MNCs reveals that they do not engage in R & D activities in underdeveloped countries. However, these LDCs have to bear the bulk of their costs.

8. MNCs often use their economic power to influence government policies in directions unfavorable to development. The host government has to provide them special economic and political concessions in the form of excessive protection, lower tax, subsidized inputs, cheap provision of factory sites. As a result, the private profits of MNCs may exceed social benefits.

9. Multinationals may damage the host countries by suppressing domestic entrepreneurship through their superior knowledge, worldwide contacts, and advertising skills. They drive out local competitors and inhibit the emergence of small-scale enterprises.

The North-South divide

Globalisation is supposed to remove barriers in the international trade and is projected as a win-win situation where everybody can benefit from the free flow of goods and services across the globe. For the industrialists and exporters from the South, this would mean greater access to foreign markets and the removal of tariffs and other barriers against the goods and services where they have a competitive advantage. This argument is usually followed by a development agenda for the South in terms of investment, employment and growth. Strengthening the development of lesser economies automatically strengthens

trade and trade liberalisation. This logic leads to conclude that developed countries also benefit from the strengthening of developing economies and that freer trade leads to greater growth prosperity and better quality of life for all (Mahindra, 2003).

A recent study has brought out the salient features of the current globalisation process and argued that increased trade is not an automatic guarantee for the development and amelioration of poverty. On the contrary, the developing countries' experiences expose the gap between the potential benefits of trade and the disappointing outcomes of such global integration. Exports now account for more than one-quarter of the combined GDP of developing countries, a proportion which is higher than for rich countries. Although the exports from the South largely remain dependent on primary commodities, the share of manufactured goods has also been growing. With high-technology exports, some of the Southern countries are emerging as major suppliers of cutting-edge technologies and labour-intensive goods. According to Novib (2002), a one percent increase in the world-export share for each developing region could reduce world poverty by 12 percent. The decline would be greatest in the sub-Saharan Africa and South Asia, the two regions with the highest concentrations of poverty.

Improved market access is only one of the requirements for strengthening the links between trade and poverty reduction. To understand this point, let us consider the example of the South Asian countries. Many of these poorest countries lack the infrastructure to take advantage of the potential market openings. Within these countries, large sections of the population lack access to productive assets such as land and to health care and education. The South Asian countries and the developing countries in general still remain heavily dependent on primary commodities. Fifty developing countries depend on three or fewer such commodities for more than half of their export earnings. The national economies of these countries and the household economies of millions of poor people have been affected by a decline in the prices of these commodities. Although in the recent past, India has increased its share of manufactured goods in exports quite significantly.

The increasing gap between North and South has a parallel process of widening of the gap between the rich and the poor within these countries. Robinson (2001) suggests that the process of globalisation thus unfolds with a social and not a national logic. There is an increasing social polarisation with the fragmentation of national economies. Such selective integration of social groups into trans-national networks forces us to rethink development not as a national process in which what "develops' is a nation, but in terms of developed,

underdeveloped and intermediate population groups occupying contradictory or unstable locations in a trans-national environment.

This also means that globalisation has increasingly eroded the national boundaries with the emergence of a trans-national or global society. The major actors in triggering this process are the powerful TNCs and MNCs. TNCs thus

Conclusion

The discussion clarifies that in spite of the limited opportunities offered by globalisation with increased international trade, Southern countries may not benefit from the process since there are structural constraints posed by the internal and external environment in these countries.

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