

confidence level and social seclusion, then people will have a greater incentive to stay fit and the trade-off will align in favour of healthy food items.

#### *References:*

1. *The World Health Organisation report, 2008*

## Small Scale Industries Vs Multinational Corporations

**Debasmita Padhi (II Year) and Falak Arora (I Year)**

The main motive of the Indian policymakers in the wake of the recent financial crisis in India has been to attract FDI (Foreign Direct Investment). This move is expected to put the Indian economy back on track. No recent debate on Indian development is ever complete without the mention of multinationals and foreign investment. It is vital to analyze then, this aspect of Indian policymaking. When domestic investment and savings doesn't meet the required rate of growth in the economy, the gap in investment is filled by the MNCs' investment. When the targeted foreign exchange is not met by the net foreign exchange derived from imports and exports together with net public debt, the gap is constituted by MNCs' net exports and capital inflow. They fill the gap between targeted government tax revenues and locally raised taxes as well as the gap of management skills, entrepreneurship and technological skills. However, there is a need for meticulous examination before

hailing these big daddies of the corporate world as the panacea for our nation's economy. MNCs provide capital and savings but they charge a higher interest on capital borrowed by the government in the host country. MNCs repatriate the profits to their home country hindering the re-investment possibility of those profits in the host country. Further, MNCs import the required intermediate goods without purchasing from domestic producers, thereby reducing the opportunity to grow for the domestic producers. Even the tax policies are liberalized for these companies.

An argument in favour of these multinationals is that they help provide competition to local small scale industries and help improve their quality. While it may be true in some cases, the fact remains that multinationals have greater power. Power in the dual sense- market power as well as political power!! The large scale campaigning for some major political parties is financed by these big-shots and these parties in turn return their favours by providing quick approvals and clearances. These companies then begin to dictate to some extent the policies adopted by their host nation. What kind of one-sided competition are we then providing to our local industries?? Aren't we furthering a monopolistic structure by wiping out our very own "kirana-shops" with these giants?? In the US, small retailers that once served the middle classes could not match Walmart's much lower prices. The Indian retail market is different. These locally owned, small retailers keep their prices low because they use only the cheapest possible casual labour and invest next to nothing in their stores. Prices cannot get any lower. In India, Walmart can compete only by offering higher prices — and better quality to attract the middle-class consumers who are able to pay. Who is willing to shop for

grocery in the open when you have air-conditioned stores providing you so many “offers”??

The local industry is facing stifling competition. It is constantly being badgered to innovate and adopt new strategies to stay in the business. We talk of these cottage industries specializing in niche products. They make pickles, bangles and agarbattis, provide services like repairing automobiles and cellphones etc. Relegating these activities to the small scale industries is acceptable provided big Indian companies have a presence in the formal sector as well. The Indian industry needs to take the challenge head on by exploring markets that these multinationals have a stronghold in. A very good example is the Micromax Company which has carved a market (22% share) for itself in the past few years in the smartphone sector.

Yet another unquestionable facet of the story remains that small scale industries are indeed indispensable engines of the economy. Especially in a country like India which is entrapped in problems ranging from dire poverty, unemployment, crumbling infrastructure; small scale industries have had a huge role in ameliorating these spheres. SSIs contribute almost 7.2% to the Indian GDP. Especially for budding entrepreneurs, SSIs have low capital requirement and are thus a favoured route to set up their businesses. With the coming in of much larger and powerful MNCs, SSIs undoubtedly have faced unprecedented competition. Even with the odds tilted heavily in the favour of MNCs, SSIs haven't exactly vanished from the face of earth! Tradeoffs do take place, in some case enough to shut them down while in other they find their own safe waters to float on. The biggest advantage that MNCs gain over SSIs is their heavy bank accounts! They advertise more rampantly and are

much more in the public domain. In such a scenario, it is hard for the SSIs to make their presence felt. Despite all this SSIs continue to be a part of our economy due to many factors. There are certain products that aren't lucrative or profitable enough a battlefield for the MNCs to enter for example making matchboxes, incense sticks, Similarly goods that have high transportation cost and are thus produced only for the nearest markets, are produced on a small scale. Such goods are not a favourable destination for MNCs either. One of the ways for the MNCs to enter India is through the small scale industries. In such a case, the MNCs do not construct their own plant rather they engage a number of SSIs to produce the good according to their specifications. Through the means of outsourcing their demand they generate employment and give a more powerful role to the SSIs. For example on the label of many consumer products you might have read ‘manufactured by’ a local plant in India while ‘marketed by’ the parent company. A visit to big bazaar might remind you of the range products made by them, sold alongside those of other companies. These again are outsourced to small manufacturers. Even when none of the above cases apply, SSIs continue to survive and persist. For example take the case of Nirma detergent, with the coming in of big players like surf, Ariel etc it went through a stifling time. But it adopted a unique marketing strategy and emerged a winner. Today it is one of the market leaders in the lower end of detergent sector. So while there is a trade off, it hasn't completely written off the small scale industries. As C. K. Ranganathan of Cavinkare puts it, “What is required to take on MNCs is the ‘Can Do’ spirit. I have heard many Indian firms saying that they can't take on global competition as they had deep pockets etc. If

you have this mindset, you are already defeated”.

But nevertheless when a shark enters, the small fishes are either displaced or eaten up. Similar is the case here. When large MNCs enter the fray, they do take away a lot from the small and medium players. They eat into their market share and thus subsequently into their revenue. So what's debatable is the extent of such a trade off, but that such a trade off takes place is undoubtedly a resounding yes! The Government's policy initiatives like enactment of the new Micro Small and Medium Enterprises Development Act, 2006, pruning of reserved SSI list, advising FIs to increase their flow of credit to the SME sector, are all initiatives towards boosting entrepreneurship, investment and growth. The government of host countries must have stringent regulations over the activities of MNCs. They should bargain for better deals and demand that MNCs adhere to certain criteria set by the government. While some survive and find ways to tackle the competition unleashed upon them, others give in. And eventually it is the economy that wins!

## Political Pull Vs Economic Reasoning

**Surbhi Ghai and Swaril Dania**  
II Year

“The first lesson of economics is scarcity: there is never enough of anything to fully satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics.”

-Thomas Sowell

The disciplines of economics and politics constitute two different realms and their interaction might appear superficially inconsequential. However the larger truth is that in the context of a political system, there are two conflicting forces that necessarily influence development i.e. economic reasoning and politics. These forces, rarely in sync, interact and aim to satisfy the goals envisaged for development.

One such conflict exists between market efficiency and equity. According to Adam Smith's concept of the 'invisible hand of the market' the economy can reach the state of equilibrium in the long run without any state intervention and hence, the market is fully efficient. This classical notion, which forms the backbone of major economic reasoning, is challenged by populist government schemes like subsidies, minimum wage which aim at equity but create artificial conditions in the market and situations of market distortions.

### Policy making through economic telescope

#### 1) Subsidies

Today, subsidies extended to any economic sector with an aim to promote economic and social welfare, have become an intrinsic part of government measures. It not only induces higher production and consumption and serves distributional goals but also help in correcting market failures. However, according to public finance economist Ronald Gerritse subsidies “may have externalities that we did not bargain for”.

Subsidies create economic and market inefficiency by transferring resources from more productive to less productive use through sectoral allocation of the resources to the subsidized sector. It is also known to affect the fiscal budget by indirectly drawing resources away from the tax-