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Multi-spillover Effects of Multinational Corporations on Host Countries: A Review of Literature

Harpreet Dusanjh
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The debate on the mushrooming growth of MNCs (multinational corporations) across the globe is drawing the attention of researchers as well as policy makers worldwide. This debate concerns the self-seeking motives of the entry of these MNCs in the host nations. Arguments differ on whether the MNCs operate in the new nations for their own motives only, thereby ignoring the interest of the host countries and their domestic firms. Several studies conducted in the past have attempted to measure the effects of the entry of the MNCs in the host nations. Unlike the direct effects, the indirect effects of these multinationals are quite difficult to enunciate due to the imprecise and disparate nature of the definition of these spillovers. The present paper contributes to this research by investigating the findings of past empirical researches carried out on spillover effects generated by these MNCs in the host nations. The study concludes that existence of both positive as well as negative spillovers is not the sole outcome of an 'MNC entry' into a host nation as posed by its critics but an array of other factors, thereby calling for a wider research to explore these factors.

Introduction

Multinational Corporations[1] (also known as MNCs, MNEs or Foreign Controlled Companies) have become the buzzword of globalization. Today, these multinational corporations account for about 70 per cent of the total world trade (UNCTAD 2003). The UNCTAD World Investment Report, 2005, enunciates that there are 70,000 parent firms and 700,000 foreign affiliates in the world. Not only this, the total sales of these foreign affiliates were about $19 trillion worldwide even larger than the figure of world exports. Further, foreign affiliates of the MNCs account for one-fifth of the world exports and

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one-third of the developing countries' exports (UNCTAD 2005). An analysis of the emerging trends of global corporate power reveals that in the last two decades, the economic influence of global corporations has increased enormously. Multinational corporations play a crucial role in inter-connecting rich and poor economies, thereby transmitting capital, knowledge, know-how, and creativity across nations. This is because it has been widely recognized that MNCs are among the most technologically advanced nations of the world which invest higher in R&D—more than other domestic firms (Borrensztein et al. 1998; Griffith 1999; Marcin 2007). Not only this, the operations of the MNCs lead to a transfer of their technological superiority, better management practices, and exploitation of economies of scale to domestic firms in the host countries (Findlay 1978; Turok 1993; Young et al. 1994; De Mello and Sinclair 1995; Caves 1996; Rodriguez-Clare 1996; Blomstrom and Kokko 1997; Moran 1998; Blomstrom and Sjoholm 1999; Markusen and Venables 1999; Lim 2001; Giarratana 2004; Gorg and Strobl 2005; Bergman 2006; Branstetter 2006; Lee 2007; Marcin 2007).

However, researchers fail to agree that the spillovers generated from MNCs to domestic corporations are definitely positive (Haddad and Harrison 1993; Kokko and Tansini 1996; Djankov and Hoekman 1998; Aitken and Harrison 1999; Konings 2001). At least in the short run, the productivity of domestic companies may undergo a decrease due to competition generated by these MNCs (Aitken and Harrison 1999; Marchin 2007). Moreover, foreign firms may also entice away the most competent skilled labour force of the domestic corporations (Marchin 2007).

If an indication of the spillovers generated from MNCs is consistent with the hypothesis that these corporations transmit their knowledge on new technologies and information on external markets, policy makers in developing countries will be willing to diffuse such knowledge to their domestic industries in order to increase their nation's competitiveness in international markets. Hence, a concrete understanding of the contribution of MNCs in positive or adverse form in budding economies is becoming imperative to shape the regulatory regime under which both MNCs and domestic companies operate. If MNCs offer benefits to the domestic economies of the host countries, policy makers will willingly offer incentives to lure more and more multinationals in their economies (Oman 2000; Blomstrom and Kokko 2003; Meyer 2004).

Therefore, this piece of research relating to multinational corporations focuses its attention on the motive of the entry of multinational corporations into host countries and also to review the empirical literature existing on spillover effects generated by these MNCs in order to deduce the externalities generated by these MNCs on the domestic corporations of the host nations across different parts of the world.

Methodology of the Study

The compass of the present study revolves around the following objectives:

- To explore the motives of the multinational corporations operation in any host country; and

- To bring out the nature of the spillover effects on the domestic firms operating in the host country due to the entry of the multinational corporations (MNCs).

To construct a sample of the study, a thorough search for existing empirical literature all over the world has been conducted. This has been done with the help of various online databases such as JSTOR, Emerald, NBER, Oxford University Press, SSRN, Blackwell Synergy, Proquest, and the like. Thereafter, an exhaustive study of this literature was undertaken in order to enunciate the impact of the existence of the MNCs in the host country on its domestic firms.

The paper is organized as follows: The first section introduces the theme. The second section throws light on the objectives and methodology of the present paper. The third section brings out the existing economic theories highlighting the motives behind the entry of the multinational corporations in any host country (developed or developing). The fourth section intensively analyses the literature on spillover effects of the multinational enterprises and fifth section concludes the paper.

Motives Behind the MNCs Entrance in the Host Country

The economics studying the motives governing MNCs to move into a host country is not very old. Since 1960, various economists have tried to explain this phenomenon with their own reasonings. Hymer (1960, published 1976) was a pioneer who explained the internationalization of the firms. Hymer argues that the existence of imperfect market conditions becomes the major motivating factor for investing abroad. Since Hymer's contribution, the theory has evolved with the contributions of Vernon (Product Life Cycle Theory, 1966),[2] Kindleberger (1969), Caves (1971, 1974a, 1982), Buckley and Casson (1976), Dunning (1979, 1981), Rugman (1981), Teece (1981, 1983), Williamson (1981), Hennart (1982), Kumar (1996), among others. The imperfect market theories have identified three advantages that force multinational corporations to invest in a host country, i.e., ownership specific advantages, location specific advantages, and internalization specific advantages. Instead of considering these three advantages in isolation, Dunning (1979, 1988, 1993, 2000) stressed on combining them to complete the picture. Therefore, he developed a paradigm called 'O-L-I (Ownership, Location, Internalization) paradigm' in his popular theory called 'Eclectic theory'. Dunning's paradigm has gained recognition all over the world among contemporary researchers.

As quoted by Dunning, multinational firms must have three inherent advantages with which to make their operations in the foreign countries profitable. These are:

- Ownership Advantages
- Locational Advantages
- Internalization Advantages

Ownership Advantages

'O-advantages' originate from the ownership of intangible proprietary assets possessed by the multinational firms, the status of which can be enjoyed productively in other countries of the world as well. These assets include

brand goodwill, organizational, technological, managerial, and marketing skills and strategies, capital assets and liquid assets endowment, access to cheaper sources of raw material, and many others.

Locational Advantages

'L-advantages' refer to the attractive opportunities offered by the host countries to these MNCs. These include high quality and the low price factors of production existing in the host countries. These factors account for intercountry differences in input/factor process and productivity, cheap and skilled labour in the developing economies, market access as well as infrastructural (primarily, communication and transportation), societal and political conditions favoring the foreign investors. Locational advantages are also a result of the tariffs and quantitative restrictions imposed on imports by the host country governments.

Internalization Advantages

Ownership and locational advantages must be complemented by internalization incentives to reap full benefits. As multinational firms are rich in technological, managerial, and other types of intellectual property and knowledge, they always operate under a fear of the leakage of such unique knowledge to the domestic firms. This leakage occurs through certain modes of entry, like joint venture, licensing etc. So, in order to avoid knowledge leakages that will result in enhanced competition, these firms must internalize their technology and knowledge. Therefore, these firms instead of licensing prefer to invest in a local subsidiary that takes care of production and sales activities (internalization advantage).

Thus, the foreign firms are motivated by the multiple reasons hovering round Dunning's paradigm, seeking the availability of resources (Dunning 1998; Rugmen and Verbeke 2001), large unexplored markets (Vernon 1966), and the low factor cost of production (Vernon 1966).

Spillover Effects of Multinational Corporations on Host Countries

Multinational corporations have both direct as well as indirect effects on the economy of the host nations. In a direct manner, the MNCs influence resort to modes such as technology transfer, licensing, and exporting. In this process, these MNCs create employment, transfer R&D, and bring technology and skills infused in manpower to the host economy. Besides these direct effects, these MNCs also exert certain indirect effects on the host countries that are referred to as the spillover effects. In fact, the term 'spillover' has not been defined very clearly anywhere in the literature when it exists with reference to FDI or MNCs, with the exception of a few authors such as Globerman (1979), Blomstrom and Kokko (1993) and Meyer (2003). In their view, spillovers are said to take place when the firm-specific assets of the advantages of the company can not be fully internalized, thus making the uncompensated benefits to leak from these MNCs to domestic companies, customers, as well as suppliers in the host nation. In other words, spillovers exist when *'The MNCs cannot reap all the productivity or efficiency benefits that are followed in the host*

country's domestic firms as a result of the entry or presence of MNC affiliates.' (Blomstrom and Kokko 1997)

As far as types of spillovers are concerned, Harris and Robinson (2004) divided them as follows:

Intra Industry Effects

These effects include demonstration effects (Girma and Wakelin 2001; Meyer 2004) resulting from an imitation of foreign products and processes, competition effects that result in a reduction of costs (Aitken and Harrison 1999) and labour market effects (Driffield and Taylor 2001) resulting in improved human capital in the host nation.

Inter-Industry Effects

These include forward linkages (Lall 1978; Markusen and Venables 1999; Kugler 2001; Smarzynska 2002; Meyer 2004) resulting in an upgradation of quality and lowering of costs thus weeding out the crowding of less efficient domestic firms as well as backward linkages (Markusen and Venables 1999; Kugler 2000) through the purchase of improved quality intermediate products.

Agglomeration Effects

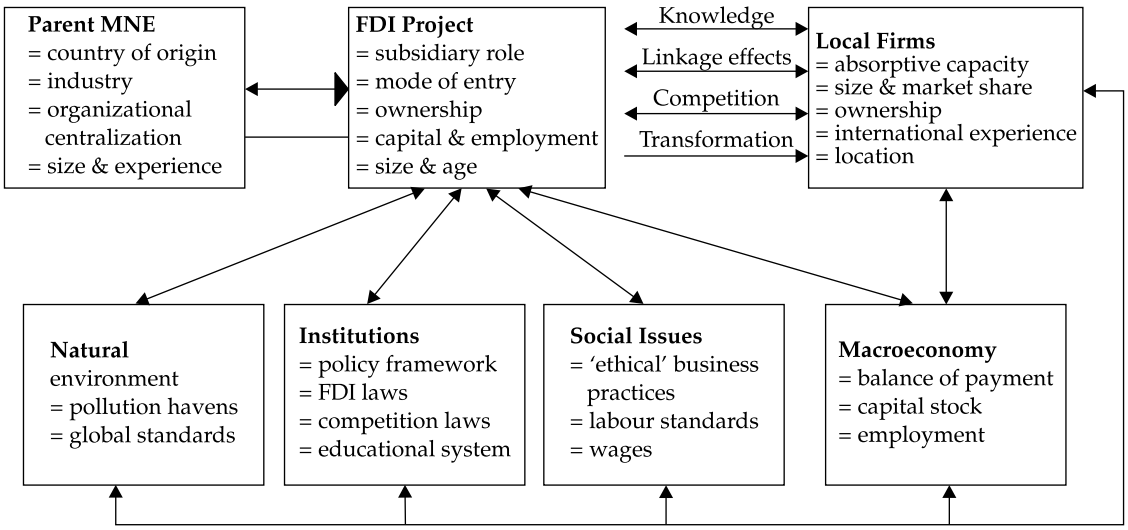
These include effects caused by labour market such as movement of workers trained in foreign firms to domestic firms or effects caused by upward pressure of wage costs (Driffield 1999), and infrastructure effects resulting in an access to the R&D of foreign firms or negative spillovers in the form of increased cost of resources, access, etc. (Audretsch and Feldman 1996; Taylor and Wren 1997). For example, where a domestic firm improves its productivity by copying some technology used by MNC affiliates operating in the local market without paying any price. Another kind of spillover occurs if the entry of an affiliate leads to more severe competition in the host economy, so that local firms are forced to use existing technology and resources more efficiently. A third type of spillover effect takes place if the competition forces local firms to search for new, more efficient technologies. These effects may take place either in the foreign affiliate's own industry or in other industries among the affiliate's suppliers or customers.

The views regarding the effects of MNCs on host countries are divided as some scholars opine that MNCs have a positive effect on host countries while others argue that they affect the host country economy adversely. Based on the various studies, the following possible effects of MNCs on host countries can be enunciated (see Figure 1).

As far as literature is concerned, MacDougall (1960) was first to include spillovers while trying to measure the welfare effects of FDI (Blomstrom and Kokko 1998). Since then, numerous studies at the aggregate level, industry level, and even at company level, have been carried out globally. However, the results of these studies don't turn out to be unanimous. One the one hand, some of the studies find positive effects or spillovers of these multinationals on the host countries; other studies fail to find such effect and enunciate rather negative outcomes of the presence of these multinationals. Table 1 throws light on the findings of some important empirical studies.

From the analysis of existing literature cited above, various effects of multinational companies on host nations can be enunciated.

Figure 1



Source: Klaus 2003.

Table 1
Empirical Literature Focusing on the Impact of Spillovers Caused by MNCs on Domestic Firms in Host Countries

Author	*Country*	*Results*
Katz (1969)	Argentina (1960s)	MNCs had a positive effect on inter-industry (delivery schedules and prices of suppliers) as well as intra industry (enhancement of quality standards, price etc.) spillover effects on the technology of the local Argentine firms.
Caves (1974)	Australia	MNCs had a positive spillover impact on labour productivity in its host country Australia.
Globerman (1979)	Canada	Using 'Caves' methodology, Globerman's study found that MNCs showed a weaker evidence of the presence of technical efficiency in its host country Canada. However, the study supported the evidence of occurrence of spillovers due to foreign presence as revealed by productivity growth in the host country.
Desai (1980), Lall (1983)	India	MNCs had a positive spillover impact on R&D in the host country. The study took Indian R&D as evidence to prove that imported technology encouraged in-house local R&D. The findings of these studies were also supported by researches conducted by Kartak (1985, 1989), Siddharthan (1988, 1992), etc.
Caves et al. (1980), Gupta (1983)	Canada	MNCs caused a positive spillover impact on the advertising intensity of the domestic firms.

(*Table 1 continued*)

(*Table 1 continued*)

Author	*Country*	*Results*
Lall and Mohammad (1983), Nayyar (1983)	India	Manufacturing industries in developing countries with high foreign shares tend to be more export oriented.
Blomstrom (1989)	Mexico (1970–75)	A strong positive association was detected between labour productivity. However, there were no changes in the technological frontier or the labour productivity of the least efficient plants.
Blomstrom and Wolff (1989)	Mexico (1965–1982)	The rate of productivity growth of the local firms was found to be positively related to the degree of foreign (US) ownership of an industry (similar evidences were found by Djankov and Hoekman 2000).
Cantwell (1989)	Europe (1955–1975)	Positive technology spillovers generated by foreign firms did not occur in all industries. Rather, a highly beneficial competitive spur was visible only in those industries where domestic firms were having some sort of traditional technological strength.
Nadiri (1991b)	France, Germany, Japan and U.K. (1968–1988)	The study found that an increase in capital stock owned by US multinationals stimulated new domestic investment in plant and equipment. FDI had a positive spillover impact on total factor productivity (TFP) in host country's manufacturing sector.
Willmore (1992)	Brazil	Foreign ownership had a large positive effect on the export performance and import propensities.
Haddad and Harrison (1993)	Morocco (1985–1989)	The negative spillovers varied across sectors. In protected sectors, foreign investment had a significantly negative influence on domestic productivity growth as compared to the sectors without protection.
Kokko (1994)	Mexico (1970)	Positive spillovers were found to be lesser in industries with highly differentiated products, large economies of scale and large market share. But in the other industries, positive relationship between foreign presence and local productivity was observed. Secondly, domestic firms benefitted from foreign firms only in low-tech sectors.
Basant and Fikkert (1996)	India (1974–1983)	There was some evidence of positive spillovers in R&D expenditure leading to the significantly positive impact on output and marginal productivity of the domestic firms.
Kumar (1996)	Developing countries	Export oriented FDI and subcontracting arrangements with MNEs came out as an important means of expanding manufactured exports for developing countries and played an important role in the rapid export growth achieved by East Asian newly industrializing economies in the 1970s and 1980s.
Kokko et al. (1997)	Uruguay	The study found that though the multinational corporations established in Uruguay showed an increased likelihood of exporting, yet at the same time, large foreign shares and technology gaps are likely to produce negative spillover effects on productivity of the domestic firms of the host country.

(*Table 1 continued*)

(*Table 1 continued*)

Author	*Country*	*Results*
Kathuria (1998)	India (1976–89, 1990–1997)	Domestic firms were found to gain significantly from the foreign firms but the positive spillovers were more for the scientific sectors like drug and pharmaceuticals, chemicals, electronics, etc. In addition, the gain was extra where the foreign and domestic firms were closer to the efficiency front. However, non-scientific domestic firms like automobile, non-electrical machinery, metal products, etc., did not benefit from spillovers.
Aitken and Harrison (1999)	Venezuela (1976–1989)	Foreign ownership was observed to have positive spillover effects on domestic productivity in Venezuela. However, due to the market stealing effect of MNCs, the domestic firms were adversely affected, resulting in a negative spillover effect. Also, the effect of FDI seemed to vary across the industries. The study concluded that balance between the positive and the negative spillovers led to a negligible impact of foreign investment on domestic plant productivity.
Markusen and Venables (1999), Hirschman (1958), Kokko (1994), Rodriguez-Clare (1996), Athyere and Kapur (1999) and Gorg and Strobl (2005)	Different countries	Presence of multinationals was observed to have three types of effects on the host economy. First, the competition effect leading to reduction in the market price that, in turn, crowded out domestic firms. Secondly, the presence of multinationals created additional demand of the intermediate goods produced by the domestic suppliers leading to a reduction of the average costs of the domestic suppliers and encouragement to the new entrants. Thus, MNCs may cause to induce both competitive as well as intermediate firms to enter in the market.
Banga (2000)	India	Industries having FDI were having higher productivity than industries without FDI. There was not much difference in the export intensities of the MNC and local firms but the difference in intensity of R&D was very clear. The study further found that spillovers from the FDI depend on the source of FDI. Japanese firms had higher spillover effects than US MNCs due to the type of technology brought in and the existence of a low productivity gap between Japanese and Indian firms as compared to US and Indian firms.
Patibandla (2000)	India	Firms with more domestic ownership derived more benefit from industry level foreign investment than firms with higher foreign investment. Larger firms were able to absorb the spillovers more effectively than smaller firms. Finally, firms with more domestic business tend to derive more externality benefits from the industry's foreign investment. Highly outward-oriented local firms derived externalities associated with international trade. However, local firms, which depend mostly on locally produced materials (inward-oriented) benefitted more by copying practices of and from the spillovers from MNC operations in a developing economy context.

(*Table 1 continued*)

(*Table 1 continued*)

Author	*Country*	*Results*
Aggarwal (2001)	India	There existed a positive relationship between FDI and manufacturing exports, that was stronger for developing than developed countries and still stronger for high and low tech industries than medium tech industries.
Mahambare (2001)	India	Foreign firms in chemicals, drugs and non-electrical machinery sectors increased their exports in the post-reform period. The study also provided evidence that the reforms had a favorable spillover impact on the productivity of foreign firms. An improvement in the efficiency of foreign firms was also observed in the post-reforms period. The analysis, based on DEA technique reported that 61 per cent of foreign firms showed an improvement in efficiency after reforms compared to 35 per cent of locally owned firms.
Feinberg and Majumdar (2001)	India	Technology spillovers took place from FDI in the Indian pharmaceuticals industry. However, the gainers appeared to be the MNCs themselves and not their Indian counterparts.
Greenway et al. (2001)	United Kingdom	MNCs were found to have an affect the productivity level and export growth rate of the domestic firms through three spillover benefits, i.e., firstly, through information externalities, that lower the fixed cost of entry to the export market (e.g., by establishing the distribution networks, creating transport infrastructures, investing in advertising, market research, market structure, competitors, regulations, and so on. Secondly, they imitate and adopt new technology and business practices from MNCs and lastly the efficiency gains resulting from competition leading to exploration of innovative production and export techniques.
Tong and Hu (2003)	China	Existence of positive spillovers from the advanced nations where technological gap was comparatively larger than that existing in China. However, as far as FDI from greater Chinese countries such as, Hong Kong, Macao, Taiwan, was concerned spillovers were negligible. Employment shares of foreign affiliates from advanced countries, were associated with higher productivity. It supported the argument that a larger technology gap provided large potentials for technology spillover.
Giarratana et al. (2004)	India, Ireland and Israel	MNCs were detected to have generated considerable spin-offs in terms of contribution to training and mobility of human capital but failed to generate considerable technical spillovers. Therefore, the role of MNCs as a source of technical knowledge through patent citations and inter-firm alliances appeared to be limited. The study further found a very limited evidence of MNCs technology externalities measured by patent citations.
Gorg and Strobl (2004)	Republic of Ireland	Multinationals were observed to benefit domestic firms through pecuniary externalities and spillovers. MNCs increase the demand for intermediate goods that affected indigenous firms through market

(*Table 1 continued*)

(*Table 1 continued*)

Author	*Country*	*Results*
		expansions for domestic supplies as well as for price changes. These externalities affected indigenous plant entry and post-entry performance in terms of productivity, survival, and growth. The study asserted that the greater the extent of backward linkages between the domestic and foreign firms, the greater the possibility of externalities benefitting the domestic firms from foreign firms.
Branstetter (2006)	United States	By applying the technique of Multiple Regression on unbalanced paned data set consisting of Japanese firms making investment in the US, the study found that the spillovers from investing Japanese firms to domestic American firms appeared to flow most strongly through Greenfield affiliates. This is so because such affiliates of Japanese firms possessed a productivity advantage over their American counterparts by deploying superior technology and/or managerial practices.
Hale and Long (2006)	China	(i) FDI had positive spillover effects on domestic firms when employee age and education were taken into account, but such positive spillovers disappeared once industry and regional fixed effects were controlled; (ii) Although an average domestic firm did not experience positive FDI spillover effects, domestic firms with high initial productivity enjoyed positive spillovers and with low initial productivity witnessed negative spillovers; (iii) Two mechanisms were discovered to facilitate FDI spillovers, i.e., movement of managers and engineers from foreign firms to domestic firms enhanced the productivity of domestic firms, and younger and more skilled workers increased the FDI spillover effects; (iv) The above two mechanisms account for the differences in FDI spillovers among domestic firms with different initial productivity: Domestic firms with high initial productivity tended to hire younger and more skilled workers, which helped to facilitate technological transfer and FDI spillovers.
Sasidharan (2006)	India	Using an unbalanced panel data set of Indian firms, the study found positive spillover of foreign firms to the domestic firms who were acting as their suppliers thus indicating vertical spillovers. However, no horizontal spillover were observed on the same lines as by other previous studies for India (Kathuria 2001, 2002) as well as other developing and transition economies (Aitken and Harrison 1999; Djakov and Hoekman 2000; Konings 2001; Narula and Marin 2005).
Alvarez (2007)	Chile	Spillover effects of multinationals were found to be important for export success. The concentration of multinational firms was found to have a positive as well as significant effect on the probability of exporting permanently than intermittently on domestic firms. This implied that firms producing goods in a sector/region with higher presence of multinational exporters were more likely to be successful exporters than otherwise.

(*Table 1 continued*)

(*Table 1 continued*)

Author	*Country*	*Results*
Nguyen (2008)	Vietnam	The export decision of domestic firms was associated positively and significantly with foreign firms in the same sector. Forward linkages were also found to be significant and positive. The results show that domestic firms could gain access to new, modern, improved, or less costly intermediate inputs produced by foreign firms as a result of spillover effects. As a result, the forward linkages were able to attract domestic firms to enter the export market. However, when industry effect was observed, only low technology industries were found to gain the benefit of spillovers arising from foreign firms.
Waldkirch and Andra (2008)	Ghana	By making use of a comprehensive panel dataset drawn from the Ghanaian manufacturing sector between 1992 and 1998, the study concluded that foreign firms in a sector had a negative effect on the productivity of domestically owned firms.

Source: Compiled by authors.

Firstly, several studies have appeared linking the export spillovers of firms with firm size and multinational affiliation. Some of these studies find a very strong positive relationship between the presence of multinational and export spillovers in the host country (Lall and Mohammad 1983; Willmore 1992; Kumar 1996; Kokko et al. 1997; Majumdar and Chhiber 1998; Aitken and Harrison 1999; Aggarwal 2001; Greenway et al. 2001; Mahambare 2001; Ngoc and Ramstetter 2004; Rasiah and Gachino 2004; Alvarez 2007 and Nguyen 2008). But others predicting low or negligible export contribution of MNCs to domestic firms can also be traced in the literature without much effort (Kumar and Siddharthan 1994; Pant 1995; Athukorala et al. 1995; Athyere and Kapur 1999; Barrios et al. 2003; and Bernard and Jensen 2004). Further, when considered in Asian perspective, various studies have considered FDI as an important contributor to the rapid growth of manufactured exports of newly industrializing Asian countries viz., Taiwan, Singapore, Hong Kong, Malaysia, and others (Nayyar 1983; Lall & Mohammed 1983; Willmore 1992; and Haddad et al. 1996). For India, though FDI has not led to the export-oriented sector, it has shown the way for export diversification (Banga 2003a and Veeramani 2004).

Another group of studies found a positive relationship between the presence of foreign ownership and R&D spillovers. These studies include Desai (1980), Lall (1983), Kartak (1985, 1989), Alam (1985), Willmore (1986), Siddarthan (1988, 1992), Kokko (1994), Basant and Fikkert (1996), Athyere and Kapur (1999), Aitken and Harrison (1999), Banga (2000), Patibandla (2000), Mahambare (2001), and Rasiah and Gachino (2004). But here again, some other empirical research work found either a low or negative or neutral relationship, e.g., studies of Kumar (1987), Kumar (1994), Kumar and Aggarwal (2000), Feinberg and Majumdar (2001) and Giarratana et al. (2004). Besides this, there are some evidences that also came out with both positive and negative relationship between the two (Tong and Hu 2003).

Further, as far as the impact of the presence of multinationals on the labour productivity of the host countries is concerned, most of the studies are in favor of a positive impact on the productivity of these countries (Caves 1974; Blomstrom and Wolff 1989; Aitken and Harrison 1999; Rasiah and Gachino 2004; Ngoc and Ramstetter 2004; Giarratana et al. 2004; and Waldkrich and Andra 2008). Along with rise in the productivity of labour, there are also many evidences in the literature, which suggest that MNCs induce competition in the host country (Hirschman 1958; Kokko 1994; Rodriguez-Clare 1996; Athyere and Kapur 1999; Markusen and Venables 1999; and Gorg and Strobl 2005; etc.). Besides this, the literature also suggests that these MNCs have a high expenditure intensity and they spend lavishly on advertisement, royalties and technology imports, salaries, and training of their employees (Katz 1969; Caves et al. 1980; Gupta 1983; Chen 1983; Willmore 1986; Gerschenberg 1987; Willmore 1992; Athyere and Kapur 1999; Greenway et al. 2001; Ngoc and Ramstetter 2004; and Hale and Long 2006).

This suggests that these studies analyse various aspects of the presence of multinational companies in the host countries. Several studies find positive impacts of multinational companies on the host countries while others find either negative or neutral effects. However, the results of these studies can't be interpreted in the same manner for developing and developed nations. There is a need to organize specific studies to measure the impact of MNCs operations on the host countries.

Conclusion

Multinational corporations are acting as significant carriers of technology, skills, management practices, and manpower training, thereby proving to be an influential force behind the economic growth and development of any host nation. Therefore, the paper has reviewed the various spillover effects of multinational corporations on the domestic firms operating in the host country. Since, MNCs possess various OLI advantages, therefore, they are at a superior position compared to other domestic companies. However, all the advantages accruing to MNCs can't be internalized by them and are bound to outflow and impact the domestic corporations. An analysis of literature revealed that not all the spillovers are supposed to be definitely positive and can affect domestic firms adversely in the form of negative spillovers.

Though the results of different studies have come out with different conclusions, yet it can be said tentatively that the outcomes are not a result of MNC entry only but on the interaction between the entry of MNCs and different firm-industry-host country specific factors. These factors include the openness of the economy, the policy and institutional framework, infrastructure, technological levels prevailing in the industry, the learning capabilities of the firms, the absorptive capacity of the host economy, the technology gap between foreign and domestic firms, the market share of the foreign firms and skill levels of the work force, cultural differences, etc. (Nelson and Phelps 1966; Balasubramanyan et al. 1996 and 1999; Kokko et al. 1996; Aitken and Harrison 1997;

Borensztein et al. 1998; Kathuria 2001; Lim 2001; Nair-Reicheit and Weinhold 2001; Banga 2003b; Ekanayake et al. 2003; Dimelis and Louri 2004 and Meyer 2004). Due to the fact that above mentioned factors have a dissimilar pattern of occurrence in every country, the outcomes of the entry of MNCs are bound to be different. Therefore, the existing literature is not streamlined to enunciate the definite spillover effect of MNC entry on the domestic firms of the host nations. There is a dire need to conduct more studies by taking into account the specific factors cited above affecting different economies besides MNCs entry for theorizing the research on multinationals.

NOTES

1. 'A direct investment enterprise is defined as an incorporated or unincorporated enterprise in which direct investor, who is resident in other economy, owns 10 per cent or more of the ordinary shares or the voting power (for an incorporated enterprise) and the equivalent (for unincorporated enterprise)' (IMF 1993: 86).
2. Product life cycle theory states that the foreign investment decisions of the multinational firms are mainly affected by the life cycle of its products. At the introductory stage of the product, both production facilities and sales are based in the domestic country. In the second stage i.e. the maturing stage, With the eventual saturation of market, the profit levels of the innovative firm are maintained thorough exports and later on to shifting the production facilities abroad. In the last stage i.e. the standardized stage, production facility is shifted to the developing countries keeping in view the low cost of production. The product life cycle theory is supported by the empirical analysis of the post war period up to the early 1970s, whereby the United States firms invested in Western European countries before subsequently investing in developing countries (Chen 1983).

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