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A Study on Role and Responsibilities of MNCs and Its Contribution to Economic Development

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Abstract

This study examines the role and performance of MNCs and their contribution to economic development. It analyses how MNCs promote Foreign Direct Investment, generate employment, Transfer technology and foster infrastructure growth in host countries. Using a qualitative approach and the case study analysis, the study evaluates the economic benefits and challenges posed by MNCS. The findings highlight the importance of transparent policies and effective regulation to maximise their developmental impact of MNCs. This research provides insights for policymakers, scholars, and students in understanding their intersection of law, economics, and multinational enterprise activity.

Keywords: Multinational Corporation (MNCs), Technology Transfer, Corporate Governance, Foreign Direct Investment (FDI), Employment Generation, Taxation and Regulation.

1. Introduction

Multinational corporations operate in multiple countries combining capital, technology, and management expertise. Their growth is closely linked to globalization, enabling access to new markets and global value chains. MNCs dominate international trade and investment by influencing both developed and developing economies. Their impact extends beyond business, affecting labour markets, innovation and economic policies. They highlight the complexity of regulating cross border operations under multiple legal system. Studying in MNC is essential to understand their role in economic growth and public welfare. Overall, they are key drivers of integration and development in the global economy. One of the key contributions of MNCs to host economies is through foreign direct investment (FDI). FDI brings long term capital, advanced technology, and managerial expertise often unavailable locally. MNC activity promotes technology transfer and higher productivity in domestic industries. It helps integrate host countries into global production networks stimulating economic development. In developing nations, FDI generates employment and strengthens export capabilities. These investments contribute to GDP growth and infrastructure improvement. They also enhance the skills of the local workforce. The benefits depend on supportive policies and strong institutional frameworks MNCs introduce modern managerial practice in host firms. Overall, their presence improves business efficiency and economic

performance in the host economy.

Despite the economic benefits, MNCs pose important legal and regulatory challenges for host countries. Government must balance attracting investment with protecting labour, environmental, and public interests. MNCs operate under complex national and international laws, making regulation difficult. Clear legal framework reduce uncertainty for investors and maximise developmental benefits. Weak and inconsistent regulations can lead to market distortions and exploitation of loopholes. Policy coordination is essential to ensure MNC activities supports sustainable growth. Studying MNCs helps to understand the interaction of law, economics, and development. Overall effective regulation ensures MNCs contribute positively to economic and social progress.

2. Statement of the Problem

Multinational corporations have become major contributors to economic activity in both developed and developing countries. While MNCs bring foreign direct investment, technology transfer, and employment opportunities their actual contribution to sustainable economic development remains a subject of debate. In many host countries, concerns have been raised regarding profit repatriation, unequal bargaining power, and limited benefits to local industries. The economic gains from MNCs operations often depend on the effectiveness of legal and regulatory frameworks. There is also a need to examine whether MNCs performance aligns

with national development objectives. Therefore the problem lies in assessing their real role and performance of multinational corporations in promoting balanced economic development. A systematic study is required to analyse both the benefits and challenges associated with MNCs.

3. Review of the Literature

Dunning (1993) emphasised the importance of foreign direct investment by MNCs in stimulating economic growth. He argued that MNCs contribute to host countries through technology transfer, capital infusion, and managerial skills which enhance productivity and global competitiveness.

Buckley (2002) examined the socio-economic and environmental challenges posed by MNC operations. He argued that despite economic gains, multinational activities can lead to resource depletion and social inequalities if governance is inadequate.

Alfredo (2010) conducted an empirical study and found that the contribution of MNCs to economic growth varies by sector; manufacturing FDI showed stronger positive effects on GDP growth than services in many developing nations.

4. Research Gap of the Study

The existing literature extensively discusses the role of multinational corporations in economic growth, foreign direct investment and technology transfer. However, most studies focus either on macro-economic impacts or on firm level performance without integrating both economic and legal perspectives. Limited research has been conducted on how regulatory and legal frameworks influence the actual developmental outcomes of MNC activities in host countries. Moreover, many studies are based on generalised global data and do not adequately assess country-specific conditions affecting MNCs performance. There is also a lack of comparative analysis between the expected and actual contribution of MNCs to sustainable economic development. Therefore, a comprehensive study examining the role performance and legal environment of MNC is necessary to bridge this gap.

5. Objectives of the Study

- i). To find out the major economic and legal issues related to the role and functioning of multinational corporations in host countries, particularly in the context of economic development.
- ii). To analyse the performance of multinational corporations in terms of foreign direct investment, employment generation, technology transfer and contribution to economic growth.
- iii). To examine the constitutional and legal challenges arising from the operations of multinational corporations, including issues of regulation, sovereignty and compliance with national laws.
- iv). To evaluate the overall impact of multinational corporations on sustainable economic development considering both positive contributions and associated drawbacks.
- v). To understand the important areas influenced by multinational corporations such as industrial development, trade, human capital formation and infrastructure growth.
- vi). To suggest suitable measures and policy recommendations to enhance the positive role of multinational corporations while minimising their adverse economic and legal effects.

6. Methodology

This research is based on both Doctrinal and Non doctrinal Research. The sources of data collected from different newspapers, journals, magazines, AIR, and e-resources (websites). This research is used Stratified Random Sampling. There are 108 sample size of the respondent is used. In this research adopted some of the statistical tools such as Plus method and average method. The duration of the research is three months.

7. Significance of the Study

This research provides the government with valuable insights into the economic and legal impact of multinational corporations. It helps policymakers understand how MNCs contribute to employment, foreign investment and infrastructure development. The findings can guide regulatory reforms and strategies to maximise economic benefits while minimising potential risks.

This study enhances my understanding of both economic and legal aspects of multinational corporations. It develops analytical skills by examining real-world performance, policies and challenges of MNCs. Additionally, it equips me with knowledge to make informed recommendations and strengthens my research capabilities in economics and law.

8. Hypothesis

The Research is based on the following hypothesis:

- i). A stable and investor friendly legal framework encourages better performance of multinational corporations and increases their contribution to economic growth and development in the host countries.
- ii). Foreign Direct Investment by multinational corporations significantly contributes to the economic growth of the host country.

9. Limitations of the Study:

Multinational corporations (MNCs) significantly contribute to economic development, but several limitations exist. They may exploit labour by offering low wages and poor working conditions, while sometimes monopolizing local markets, which affects domestic businesses. Tax avoidance and profit repatriation reduce government revenue for development purposes. Environmental degradation can occur, particularly in countries with weak regulations. Decision making and critical technology often remain centralised in the parent company, limiting social skill development and autonomy. Overreliance on MNCs exposes host economies to global market fluctuations. Cultural and social disruptions may arise as global practices override local traditions. MNCs may prioritise profits over social responsibility, neglecting sustainable development goals. Legal and regulatory enforcement across borders can also be challenging these limitations underscore the need for effective governance and policy frameworks to ensure inclusive and sustainable economic benefits.

10. Result and Discussion:

Part 1: Doctrinal Research

Multinational corporations have emerged as key players in the global economic system. With the expansion of globalization and liberalisation of trade, MNCs operate across national borders, controlling production, investment and distribution networks in multiple countries.

These corporations significantly influence the economic structure of host nation, especially in developing and

emerging economies. From a law and economics perspective, MNCs contribute to development through foreign direct investment, employment generation, technology transfer and enhanced productivity. At the same time, their operations raise legal and regulatory concerns, including labour rights, Environmental protection, competition, and taxation. Understanding the role and performance of MNCs is therefore essential to assess both their economic impact and the effectiveness of legal frameworks governing them.

This study aims to analyse the role of multinational corporations in economic development, evaluate their performance in host countries, and examine the legal and economic implications of their activities

Role of Multinational Corporations in Economic Development

One of the primary contributions of Multinational Corporation to economic development is through foreign direct investment (FDI). MNCs bring capital investment into host countries which helps in boosting industrial growth improving balance of payments and strengthening foreign exchange reserves. FDI inflows from MNCs often lead to the development of new industries and expansion of existing ones, thereby accelerating economic growth.

Performance of Multinational Corporations in Host Countries

The performance of multinational corporations in host countries can be evaluated in terms of productivity efficiency and contribution to economic output. MNCs generally operate with advanced technologies, efficient supply chains and superior management techniques which improve productivity levels in host economies. Their presence often leads to increased competition comparing domestic firms to improve efficiency and innovation.

In many developing countries MNCs have significantly contributed to industrialisation by establishing manufacturing units research facilities and service centres. Countries such as India and China have benefited from the presence of MNCs in sectors like information technology, pharmaceuticals, automobile manufacturing and telecommunications. This has resulted in export growth and integration of host countries in global markets.

Technology Transfer and Infrastructure Development

Another important role played by multinational corporations is technology transfer. MNCs introduce advanced technologies, technical know-how and research and development practices to host countries. This transfer of technology helps domestic firms upgrade their production process and improves overall industrial efficiency.

MNCs also contribute to infrastructure development by investing in transport, communication, energy, and logistics. Such investments improve their business environment and support long-term economic development. The spill over effects of technology and infrastructure development often extend beyond the immediate operations of MNCs benefiting the border economy.

Legal Regulation and Challenges Associated with MNC

Despite their positive contributions multinational corporations pose several legal and economic challenges. Issues such as labour exploitation, environmental degradation, tax avoidance, and monopolistic practices have raised concerns regarding their operations. Host countries often struggle to

regulate MNCs effectively due to their economic power and cross border nature.

Legal frameworks at both national and international levels aim to regulate MNC activities through investment laws, competition laws, labour regulations, and environmental standards. International organizations such as the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD) play a key role in promoting responsible investment practices. A balanced legal approach is necessary to ensure that MNCs contribute to economic development without undermining social and economic justice

Conclusion

Multinational corporations play a crucial role in promoting economic development by bringing foreign direct investment, generating employment, transferring technology, and improving infrastructure in host countries. Their performance has significantly contributed to industrial growth, export expansion, and integration of developing economies into global markets.

However, the economic benefits of MNCs must be balanced with effective legal regulation to address challenges such as labour rights violations, environmental concerns, and unfair competition. A strong and transparent legal framework is essential to ensure the multinational corporations operate responsibly and contribute sustainably to economic development. When properly regulated, MNCs can act as powerful agents of growth and development in the global economy.

11. Case Laws:

- i). **Balco employee v. the Supreme Court of India:** In *Balco Employees Union v. Union of India*, the Supreme Court of India upheld the government's decision to disinvest 51% of the shares of Bharat Aluminium Company Limited (BALCO) to private strategic partner as part of economic reforms. Employees challenged the disinvestment, claiming it affected their rights and protections under Article 14 and 16 of the Constitution and that they should be heard in the decision-making process. The court held that BALCO was not a "State" under Article 12 merely because it was formally government owned, and that economic policy decisions such as disinvestment are not subject to detailed judicial review. The court emphasised that unless a government policy decision is arbitrary, mala fide or contrary to law, the judiciary will not interfere with it. It also ruled that employees do not gain a special right to dictate ownership changes merely because they were employed by formerly public enterprise.
- ii). **Uber India systems Pvt Ltd v. Competition Commission of India:** *Uber India system Pvt Ltd v. Competition Commission of India*, the Supreme Court of India upheld the order directing investigation into alleged anti-competitive practices by Uber under the Competition Act, 2002. The case arose from a complaint by Meru Travel Solutions, which accused Uber of predatory pricing and abuse of dominant position in the radio taxi services market. The issue centred on whether Uber's heavy incentives to drivers and pricing strategies constituted abuse of dominance under Section 4 of the Act. The Supreme Court dismissed Uber's appeal against the Competition Appellate Tribunal's order and affirmed that the Director General should complete the

investigation. The case highlights the role of competition law in regulating digital platform markets where pricing strategies and incentives could impact market dynamics.

iii). **McDonald's India Pvt Ltd v. Vikram Bakshi:** In McDonald's India Pvt Ltd v. Vikram Bakshi, The Supreme Court of India dismissed Vikram Bakshi's appeal against a Delhi High Court order directing the dispute between him and McDonald's India to be resolved through international arbitration. The conflicts stemmed from a long-running dispute between McDonald's and Bakshi's over control of their 50:50 joint

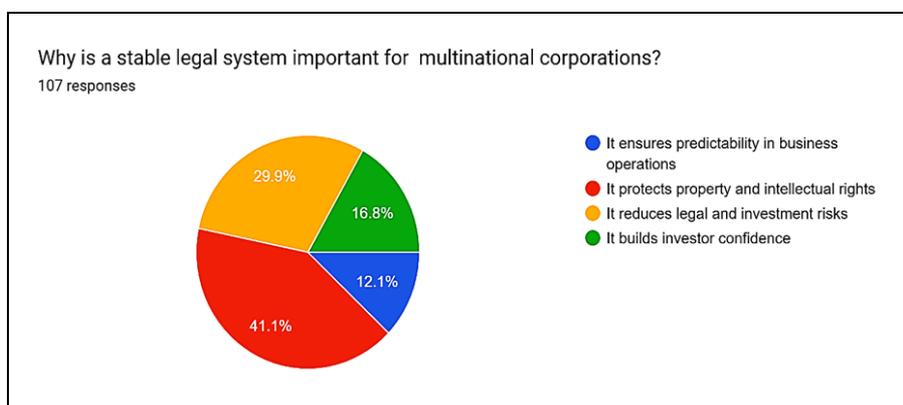
venture, Connaught Plaza Restaurants Ltd (CPRL) which operated McDonald's outlets in North and East India. McDonald's had removed Bakshi as managing director in 2013, leading to multiple legal battles over management rights, royalties and use of trademarks. The High Court ruled that the matter should be referred to the London court of International Arbitration, and the Supreme Court upheld this decision, allowing arbitration to proceed. This case highlights the enforcement of arbitration clauses in commercial agreements and the role of alternative dispute resolution in joint venture disputes.

Part 2: Non Doctrinal Research

Table 1: Importance of stable legal systems for multinational corporations

Indicators	It builds investor confidence	It ensures predictability in business operations	It protects property and intellectual rights	It reduces legal and investment risks	Total
Rural	3(2.77)	5(4.63)	10(9.26)	6(5.56)	24(22.22)
Semi-urban	5(4.62)	2(1.85)	10(9.26)	5(4.63)	22(20.37)
Urban	10(9.26)	6(5.56)	25(23.15)	21(19.44)	62(57.41)
Total	18(16.67)	13(12.04)	45(41.67)	32(29.63)	108(100)

Source: Primary Data



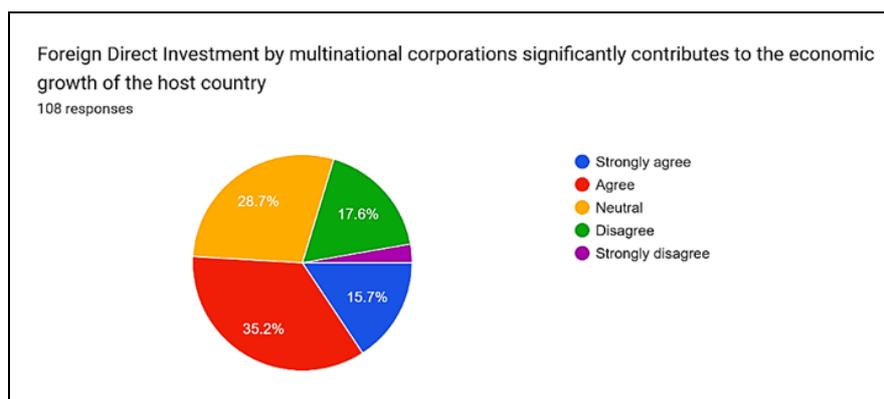
The table shows that out of 108 respondents, most are from urban areas 57.41 percentage of the respondent, followed by rural 22.22 percentage of the respondent and semi-urban 20.37 percentage of the respondent. Overall, the majority believe that protection of property and intellectual rights 41.67 percentage of the respondent is the most important role

of the legal system in supporting business and economic development. This is followed by reduction of legal and investment risks 29.63 percentage of the respondent. Urban respondents show higher awareness across all factors compared to rural and semi-urban respondents.

Table 2: Foreign Direct Investment by multinational corporations significantly contributes to the economic growth of the host country

Indicators	Agree	Disagree	Neutral	Strongly agree	Strongly Disagree	Total
Female	21(19.44)	12(11.11)	17(15.74)	9(8.33)	1(0.92)	60(55.56)
Male	17(15.74)	7(6.48)	14(12.96)	8(7.40)	2(1.85)	48(44.44)
Total	38(35.18)	19(17.59)	31(28.70)	17(15.74)	3(2.77)	108(100.00)

Source: Primary Data



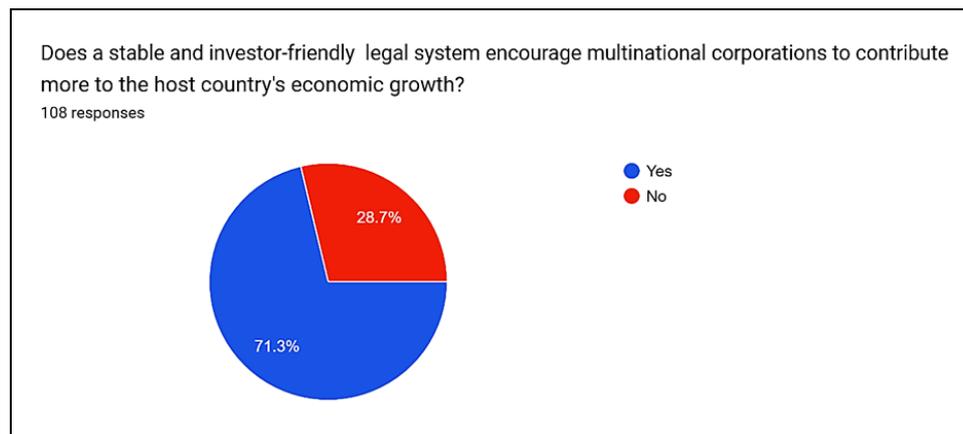
The table shows responses based on gender from a total of 108 respondents, with females 55.55 percentage of the respondent forming the majority and males 44.44 percentage of the respondent. Overall, most respondents agree 35.18 percentage of the respondent with the statement, followed by neutral responses 28.70 percentage of the respondent. A smaller proportion strongly agree 15.74 percentage of the

respondent, while fewer respondents disagree 17.59 percentage of the respondent or strongly disagree 2.77 percentage of the respondent. Both male and female respondents show a generally positive attitude, with more participants choosing agree or strongly agree than disagree. Female respondents show slightly higher participation and agreement levels compared to males.

Table 3: Count of Does a stable and investor-friendly legal system encourage multinational corporations to contribute more to the host country's economic growth

Indicators	Yes	No	Total
Male	19(17.59)	41(37.96)	60(55.56)
Female	12(11.11)	36(33.33)	48(44.44)
Total	31(28.70)	77(71.30)	108(100.00)

Source: Primary Data



Out of the total respondents, 71.2 answered “No”, while only 28.7 percentage of the respondent answered “Yes.” This clearly indicates that the majority of respondents do not support or agree with the statement. Among males 55.55 percentage of the respondent, most selected “No” 37.96 percentage of the respondent, and a smaller portion selected “Yes” 17.59 percentage of the respondent. Similarly, among females 44.44 percentage of the respondent more respondents chose “No” 33.33 percentage of the respondent compared to “Yes” 11.11 percentage of the respondent. Overall, both male and female respondents show a similar trend, with a strong majority responding negatively.

12. Testing of Hypothesis

Hypothesis 1: To test the hypothesis, it was examined whether Foreign Direct Investment (FDI) by multinational corporations contributes significantly to the economic growth of the host country. The null hypothesis stated that FDI does not have a significant impact, while the alternative hypothesis stated that it does. Based on the responses collected, the majority of respondents agreed that FDI promotes growth through capital investment, employment, and technology transfer. Since most participants showed a positive opinion, the null hypothesis is rejected. Therefore, the alternative hypothesis is accepted. It is concluded that FDI significantly contributes to the economic development of the host country.

Hypothesis 2: To test the hypothesis, it was examined whether a stable and investor-friendly legal system encourages multinational corporations to contribute more to the host country's economic growth. The null hypothesis stated that a stable legal system does not significantly influence the contribution of MNCs, while the alternative hypothesis stated that it does have a significant influence.

Based on the responses collected, the majority agreed that a stable and predictable legal framework increases investor confidence and business operations. Since most respondents supported the statement, the null hypothesis is rejected. Therefore, the alternative hypothesis is accepted. It is concluded that a stable and investor-friendly legal system positively encourages MNCs to contribute more to economic growth.

13. Conclusion

Multinational corporations play a vital role in economic development by bringing foreign direct investment, generating employment, transferring technology, and supporting infrastructure growth. Their operations enhance productivity, industrialisation, and global integration of host countries. However, these benefits depend on effective legal and regulatory frameworks to prevent labour exploitation, environmental harm, and market distortions. Stable and transparent policies strengthen investor confidence and maximise developmental outcomes. While MNCs contribute significantly to economic growth, balancing their activities with social responsibility and sustainable practices is essential. Proper regulation ensures that MNCs act as agents of inclusive and long-term economic development.

14. Suggestions

- i). Courts should ensure stricter enforcement of existing laws while interpreting contracts and regulations to prevent exploitation and protect stakeholders' rights.
- ii). Arbitration clauses in joint ventures should be upheld to provide faster dispute resolution and reduce prolonged litigation.
- iii). The government should review and update tax, labour,

and competition laws to close loopholes that MNCs might exploit, particularly in digital and foreign investment sectors.

- iv). Establish clear guidelines on pricing, employment conditions, and environmental compliance to balance economic growth with social responsibility.
- v). Encourage transparency, corporate cooperation, and stronger regulatory oversight to promote fair competition and stable development.

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