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Globalization and Indian Economy

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Abstract

The integration with the global economy has provided wider space for India across the globe. At the same time, being interwoven with the global economy, interdependencies of Indian economy with the global economy has increased. The effects of these interdependencies precipitated well in the recent economic Crisis of 2008-09. The slump in demand and liquidity crunch of the US and the EU economies led to the slowing down of growth in India but the impact was not too harsh as it remained in western countries. This highlights the importance of sustainable economic growth of India through implementing policies and factors that make India competitive in the global economy. The liberal economic policies of India unleashed in 1990s have resulted in Iwo decades of remarkable economic growth. In addition to the impressive economic growth, presence of abundant natural resources, cost-effective manpower, large number of English speaking youth indicate the increasing importance of the role to be played by India in global economy.

Keywords: Growth, competitive environment, Global Competitiveness. Indian Economy

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Introduction

With the progress of globalization the business companies all over the world are engaged both in national and international business. Most of the companies that go global fail because of lack of global competitiveness. The decision of private business firm to invest or to do business in any country depends upon the competitiveness of that country. In this paper different aspects of Indian Economy and global competitiveness are discussed and commentary is made on the factors contributing to competitive environment in India especially in light of recent global competitiveness reports. Global competitiveness of a nation refers to the degree to which that nation can under free and fair market conditions, produce goods and services that meet the test of the, international market while simultaneously expanding the real income of its citizen. According to world Economic forum "Competitiveness is defined as the ability of a national economy to achieve sustained high rates of economic growth on the basis of suitable policies, institutions and other economic characteristics.' Productivity (and thus competitiveness) is viewed as a function of political, legal and macroeconomic context.

The interplay of these basic functions leads to productivity which provides competitiveness advantage to nations. The quality of microeconomic business environment and the sophistication of company operation and strategy determine the quality of microeconomic business environment. Stability of political and legal system creates an environment where competitiveness is possible. It is, infact the macroeconomic environment that reates competitiveness. The question why some nations enjoy competitive advantages over the rest could be answered only after studying Porter's Diamond of Determinants of Competitive Advantages. Michael E. Porter believes that national level productivity is the only meaningful concept of national competitiveness. He finds it to be inappropriate to define competitiveness solely on the basis of exchange rates, interest rates, cheap and abundant labour, natural resources, government policies or management practices.

Classical theory focused factors of production such as land, labour and natural resources as the drivers of competitiveness of a nation. With the passage of time the paradigm shift brought by technological breakthrough and globalization has overshadowed the classical theory. The concept of competitiveness has become more dynamic and evolving. The evaluation parameter for competitiveness of a nation must include parameters like global strategy, foreign investments,

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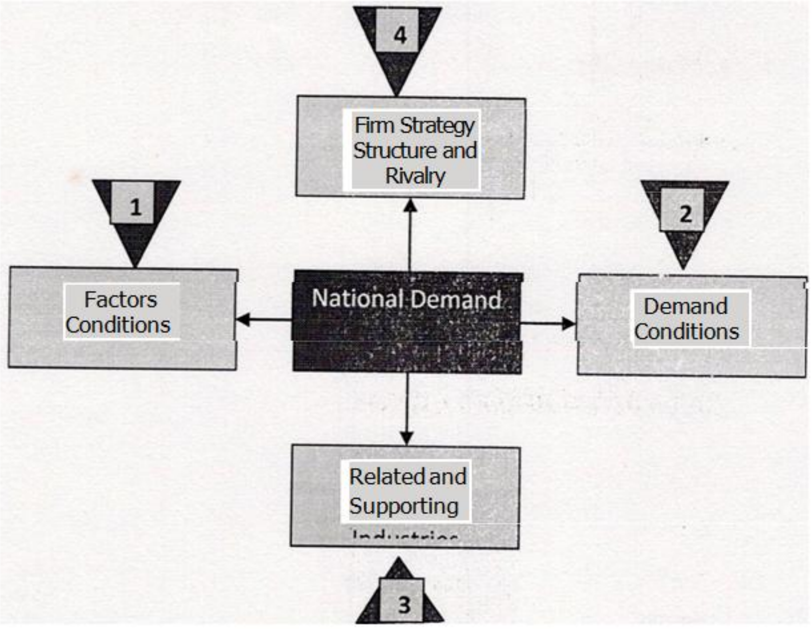
segmented market, differentiated products, economies of scope and scale, innovation etc.

A diagram of the diamond is provided in figure-I. Each point in the diamond and the diamond as a system acts as the basic ingredients for attaining excellence in global market.

Figure -1 **Factors** of competitive Advantage



1. Factor Conditions

Competitive advantage from factors of production depends on how efficiently and effectively the factors are employed. Factors include the advanced factors, specialized factors, basic and generalized factors.

Advanced factors include modern digital data communication infrastructure, highly educated personnel and research industries in sophisticated disciplines, specialized factors are skilled personnel, infrastructure with specific properties, knowledge base in particular fields, and other factors with relevance to a limited range or even to a single industry are more critical in determining competitive advantage than basic factors such as natural resources, climate, location, unskilled and semi-skilled labour and debt capital and generalized factors such as the highway system, a supply of debt capital or a pool of well motivated educated employees. Nations succeed in industries in which they are particularly good at factor creation.

2. Demand Conditions

There are three attributes of home demand which influence the competitive advantage, viz., "the composition of home demand, the size and pattern of growth of

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home demand, and the mechanism by which a nation's domestic demands are transmitted to foreign markets.

Nations gain competitive advantage in industries where the home demand gives their companies a clearer or earlier picture of emerging buyer needs, and where demanding buyers' pressure companies to innovate faster and achieve more sophisticated competitive advantages than their foreign rivals.

The size and pattern of growth of home demand can reinforce the national advantage in an industry. Large home market size can lead to competitive advantage in industries where there are economies of scale or learning, by encouraging a nation's firms to invest aggressively in large-scale facilities, technology development and productivity improvements. Large home demand, however, will be an advantage only if it is for segments that are demanded in other nations. A nation may also gain advantage when its domestic demand internationalizes and pulls products and services abroad. This may happen when a nation's buyers for a product or service are mobile or are MNCs or when domestic needs and desires get transmitted to foreign buyers.

3. Related and Supporting Industries

The presence in the nation of related and supporting industries that are internationally competitive creates advantages in downstream industries in several ways such as the supply the most cost-effective inputs in an efficient and preferential way. More important - however, is the advantage they provide in innovation and upgrading, based on close working relationships.

4. Firm Strategy, Structure and Rivalry

National circumstances and context create strong tendencies in how companies are created organized and managed as well as what the nature of domestic rivalry will be. Among all the points on the diamond, domestic rivalry or competition is the most important because of the powerfully stimulating effect it has on all others. Domestic rivalry not only creates pressures to innovate but to innovate in ways that upgrade the competitive advantages of a nation's firms.

Based on the concepts postulated by Porter, World Economic Forum comes out with a report named "The Global Competitiveness Report" every year. The report contributes to enhancing the understanding of determinants of economic growth. It also provides underpinning factors that makes a country more competitive than other. Policy makers, economic reformers and business leaders accept the global

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competitiveness report as a reliable tool to formulate the strategy for competing at the international level.

Data on Indices of World Competitiveness Growth Projections and GDP (PPP) as share of world Data on Indices of world Competitiveness is shown in Table 1. The competitiveness of 134 countries has been computed on the basis of different criteria grouped under various factors. Top 30 countries including India which is ranked as 49 have been shown here:

India slips to 51 on global competitive list

India has slipped to 51st from the 49th spot in the World Economic Forum's annual Global Competitiveness Report (GCR) 2010-2011 among 139 countries rated for institutions, policies, and factors that determine the level of productivity. The top ten ranked countries have retained their spots since 2009. While Switzerland is first for the second consecutive year, Sweden is second and Singapore is at the third spot.

The US has slipped to fourth and China had jumped to 27 from29.

"Switzerland, a model country, has the most effective and transparent public institutions in the world with a level playing field, an independent judiciary, strong rule of law, and highly accountable public sector," said the report released on Thursday. "India has failed to improve significantly on any of the basic drivers of its competitiveness," said the report. But its large market size, good results in more complex areas including financial markets, business sophistication and innovation make it competitive. India shows up poorly when it comes to institutions. It ranks 71 in diversion of public funds, 88 in the public's trust of politicians, 83 in irregular payments and bribes, 72 in favouritism in decisions of government officials, 57 in wastefulness of government spending, 95 in burden of government regulation, 127 in business costs of terrorism, 67 in business costs of crime and violence, 73 in organised crime, 68 in reliability of public services, 70 in ethical behaviour of firms and 76 in efficacy of corporate boards.

However, India ranks 42 in transparency of government policy making, 45 in its strength of auditing and reporting standards, 33 in strength of investor protection, 41 in judicial independence, 47 in legal framework in dispute settlement and 37 in legal framework in challenging regulations. India's macroeconomic environment continues to be characterised by persistent budget deficits (80), high public debt (115) and high inflation (123 out of 139). However, it ranks ninth in national savings rate. India is 104th in health and primary education, with high rates of communicable diseases and high infant

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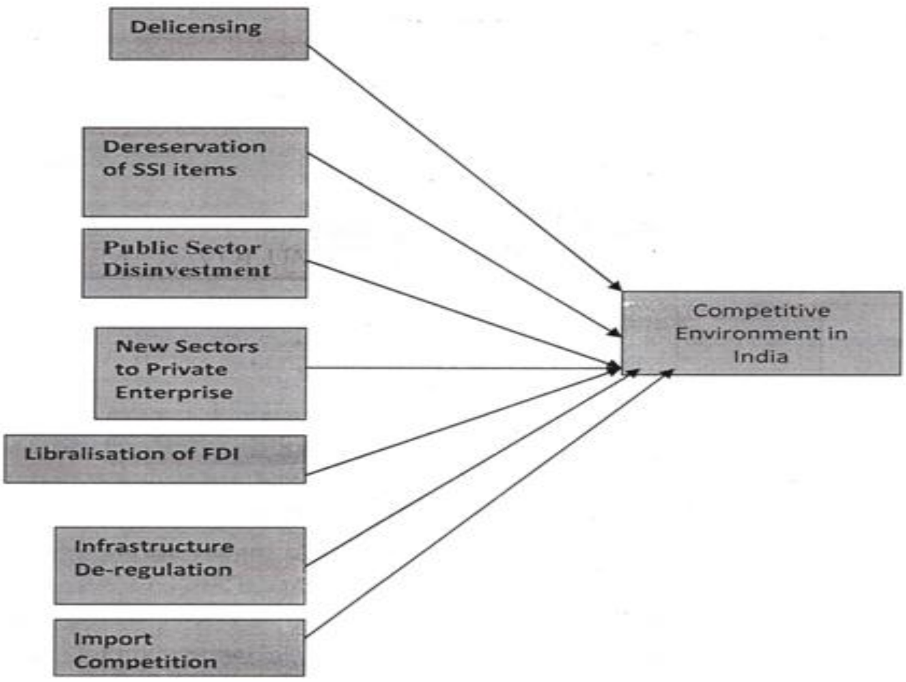
mortality (111). Life expectancy in India (rank 109) is 10 years less than in Brazil and China. The quality of primary education remains fairly poor (rank 98), despite becoming universal. Higher education also is a weak point, with low enrolment rates at secondary (rank 108) and tertiary (rank 101) levels. Itis 39 in the quality of its educational system, and 23 in thequality of its management schools.

Factors Contributing to Competitive Environment in India

The competitive environment in progress the India begins with the introduction of the policy of economic reforms in 1991. The degree of global competitiveness in a country infact is directly correlated with competitive environment in the country. The factors contributing to the competitive environment in India are discussed as under

The new industrial policy of 1991 has abolished all industrial licensing, irrespective of level of investment, for all industries except 18 specified industries. These 18 industries would continue to be subject to compulsory licensing for reasons related to security and strategic concerns, social reasons, problems related to safety and over riding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption. The government further reduced the industries which were under compulsory licensing to 14 industries. It was reduced to 9 in 1997-98 and later to 5.

Fig.2: Relationship Between: Factors Contributing Competitive Environment in India



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The Government has taken major accelerated since 2005. Number of policy measures since the early items de-reserved in 2005, 2006 and 1990's for making Indian industry, including its crucial Small Scale Sector, competitive to unleash its growth potential. One of the crucial measures have been the gradual and calibrated removal of restriction in the form of reservation of items to be exclusively produced in the Small Scale Sector. The pace for de-reservation of the items has 2007 were 108, 180 and 212 respectively. In February 2008, 79 more items were de-reserved. Thus, from 2005 onwards Government has de-reserved 579 items and only 35 items were remaining for exclusive manufacture in the SSI Sector. The Government has decided to further de-reserve another 14 items. With this de-reservation, only 21 items will main in the list of the items which can be exclusively manufactured in the Small Scale Sector.

- While public sector enterprises, contribution to national development are widely acknowledged, their poor financial return has been a matter of deep and enduring concern, especially since the mid 1980s when the central government's current revenues were found inadequate to meet its current expenditure. Firms and industry level studies of PSEs have often highlighted gross ineffiencies and poor profitability. In July 1991, the New Industrial Policy was announced by the Government. This policy envisaged disinvestment of a part of government holding in the selected PSEs in order to improve the performance of public sector disinvestment. During 1991¬2006, the sum total of the disinvestment targets were of Rs. 96000 crore of which about 51 per cent was realized.
- The new industrial policy has reduced the role of the public sector. For example, the reduction in the number of industries reserved for the public sector, closure and proposed privatization of some public sector enterprises reduce the area of public sector. The number of industries exclusively reserved for public sector has been gradually decreasing. Now only 4 industries are reserved for public sector enterprises. These industries are defence products, atomic energy, specified minerals and railway transport. The rest are open to private sector. The de-reservation in India led to increase in the number of firms in various sectors and thus has increased the competition in those sectors.
- The economic reforms started in 1991 with an objective of improving the adverse balance of payment position of India and to attract FDI to locate efficiency through competitive environment. FDI and competition are co-related. On the one

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side, FDI increases competition and on the other side, competition increases FDI inflows. During 1991-2008, a FDI amount of Rs. 3,30,705 crore was received. Similarly, during 1999¬2008, 7,962 FTC proposals were approved as a result of which a number of foreign firms with a wide range of products have been established giving a new shape to competition. FDI can be noticed in the various sectors, like telecom, insurance, power and energy, electrical equipments, food processing and retail chains.

- By the year 2002, 22 states had set up their State Electricity Regulatory Commission and 9 State Electricity Boards were corporatised. In telecommunication sector, in all the telecom sectors competition has been introduced or increased due to ending the limit on number of operators in a particular circle. The monopoly of VSNL and BSNL has ended. TRAI has also deregularised the tariffs. Government had also set up IDFC with an infusion of equity of Rs. 1000 crore to develop an institutional mechanism to co¬ordinate debt financing by banks. In addition, the ambitious National Highway Development Project-involving multiple laning of about 13000 km length of highways was entrusted on private players. The private sector was also entrusted with the work of port development. With the liberalisation of the Indian skies, the airlines market in India has witnessed several new players which have made it necessary for the players to build on their competitive strength. In India, there are 14 scheduled airline operators and 65 non-scheduled operators are operating. Out of these, only 1 scheduled operator is in public sector.
- Imports have increased competition not only among domestic companies but also between domestic and overseas firms. Since 1991, when the trade liberalisation was started, the level of imports has also increased in addition to the level of exports. The number of products imported increased and thus increased the competition in the country. The imports, which were $27.92 billion in 1990-91, stood at $95.22 billion in 2006-07. In the early years, the maximum part of imports was industrial goods and in the later years, number of imported electronic and small value products has increased. It means now the competition has intensed in electronic and small items, which gives threat to SSI in India. The import tariffs has declined over the years, resulting an increase in imports. Government has also removed the quantitative restrictions on imports. which has further intensified the import competition.

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Conclusions

The overall mood of the industry looks promising with growth at 10.6 per cent for the five month period, April- to August 2010. However, growth slipped to 5.6 per cent for the month of August 2010 from 10 percent plus in the previous year. Capital goods production remained volatile as growth dipped into the negative zone on two occasions during the present fiscal year after a steep rise. However, the average growth stood at 29 per cent during the period April- August as against 3.4 percent increase in the corresponding period of previous year. Output in the basic and intermediate goods rose but not as much as seen in the previous year. Box 1 reveals the status of India in manufacturing segment as one of the 10 top manufactures of the world in 2010. Consumer goods segment went up by 8.6 percent during the period from April to August in 2010-11, as against 3.6 percent increase in output in the previous year and the rise was seen on account of consumer durables segment. 8 of the 17 industry segments were seen to surpass the growth rate during the first five months of FY11 as compared to the growth observed in the previous year. The six core infrastructure industries continues to remain positive cumulatively up to August 2010, however the pace of growth is slightly lower as compared to the growth posted in the previous year. Growth in the overall infrastructure industries mainly came from crude petroleum, petroleum refinery and steel. Government's efforts in taming inflation brought positive results. Capital goods production remained volatile as growth dipped into the negative zone on two occasions during the present fiscal after a steep rise. However, the average growth stood at 29 per cent during the period April- August as against 3.4 percent increase in the corresponding period of previous year. Output in the basic and intermediate goods rose but not as much as seen in the previous year. Consumer goods segment went up by 8.6 percent during the period from April to August in 2010-11, as against 3.6 percent increase in output in the previous year and the rise was seen on account of consumer durables segment.

Box 2 reveals that India's rural entrepreneur are turning the conventional model of globalization on its head by selling consumer products designed for Indian villagers across global markets.

Mansukhbhai Prajapati, a potter living in rural Gujarat, is completely untaught in English. But the lack of formal education has not hindered this grassroots entrepreneur from building a thriving business using just clay. Prajapati, who belongs to Nichimandal, a village in Rajkot, Gujarat, is the founder of Mitticool Clay

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Creation, a company that makes refrigerators, water filters, cookers, hot plates and other such items of daily use from clay. It all began when Prajapati first built a clay refrigerator that naturally cools the food inside, and does not depend on conventional sources of energy. This cooling process can keep water, fruits and vegetables fresh for a week, while milk can be preserved for three days. "India's rural market spread along 600,000 villages, covering 110 million rural households and over 700 million people. This offers huge market for low-priced utility products," says Paul Basil, founder and CEO, Villgyo Innovations Foundation, an NGO that focuses on rural markets. These innovations are becoming a force to reckon with at a time when large corporations are spending billions of dollars to kick-start new innovations. Total merchandise trade from April — August FY11 stood at US$ 227 billion compared to the total trade of US$ 171.9 billion in the corresponding period of previous year. The trade deficit widened by 56 billion (upto August) as the merchandise exports cumulatively from April to August 2010-11 rose to USD 85 billion as compared to USD 66 billion in the 2009-10. Imports were also seen to increase by 33 per cent to USD 141 billion. FDI is an area which requires special attention because of its inherent long term investment intentions. Presently the FDI investments received up to August this year is running behind the investments received in the previous year.

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Box 1 India in Top 10 Manufactures List

- India, Brazil and China showed strong performance in economic growth in 2010.
- The manufacturing value added of all these countries grew by over 10% last year 2010.
- The share of these three countries in world manufacturing output reached 32% compared to 20% 10 years ago.
- The world manufacturing value added (MVA) rose 5.3% in 2010 whereas the MVA of industrialized countries was up by 3.4% in 2010.
- India topped developing countries(excluding China) in production of textiles, chemical products, basic metals, general machinery and equipment and electrical machinery.
- It overtook Brazil in the production of motor vehicles and now ranks second among developing countries after Mexico.
- However, its Asian competitors Thailand, Malaysia and the Philippines are ahead in the production of electronic goods such as computers and office equipment, radio, television and other communication equipment.

Source :- The international yearbook of industrial statistics 2011, published by the United Nations Industrial Development Organisation (UNIDO). quoted by The Economic Times, March 4, 2011.

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Box 2. When Grassroots Innovation Goes Global Business of Catering to Basic Needs - Examples of top Irmo		ations from the National Innovation Fund. with
Innovation	Innovators Name and Region	Country Exported to
Nliiking Machine	Raghava Gowda. Karnatka	Shri lanka. Nepal, Indonesia, Bangladesh. UAE, Uganda. Ecuador
Pomegranate Peeling	Uddhab Kr. Bharali. Assam	USA, Israel, Pakistan, Turkey, UK, Maxico, Iran, Australia. Turkey. China. Netherlands, Thailand. UAE
Garlic Peeler	M Nagarjun. Tamil Nadu	Eygept, USA, Bangladesh, Peru, Malaysia, Slovenia, Turkey. Singapore, Pakistan.
Coconut Tree Climber	Mushtaq Ahmed Dar, J&K	Taiwan, Mexico, USA, UK, Iran, Maldives, Qatar, Canada, Brazil, Vietr am,
Oil Expeller	Kalpesh Gajjar, Gujrat	Nigeria, Vietnam, Philippins, USA, Tanzania. Malaysia, UK, Australia, Canada. Kenya, S.Africa, Poland, Switzerland, Indonesia
Mini Sanitary Napkin- Making Machine	A Muruganandam Tamil Nadu	Zimbabwe, Israel

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