

The Progressive Economy of India

Dr. Amit Chakrapani, Associate Professor,

DAV Institute of Management, Faridabad – 121002

chakrapaniamit@gmail.com, deandavim@gmail.com

Abstract:

India is swiftly becoming an international entity that cannot and should not be ignored. There is more and more emphasis about what India can provide to the rest of the sphere. This paper scans and reviews India's historical backdrop and current views on foreign trade, growing economy, amazing information technology, cultural characteristics, and what the future may hold. It is endeavored to provide insight into whether India has what it takes to offer global business players in its land. The Indian and global business environments are changing intensely. Today, global companies operate in a highly complex, interlinked, and fast-shifting marketplace. Asia, though not yet the world's largest economy, has increasingly become the pivot of change for global businesses and the world has fully acknowledged the potential of India and China. At the same time, Indian firms are venturing out more often, and further – through acquisitions abroad, increased exports, and listings on foreign stock markets. The East is now truly meeting the West – and this new paradigm is

evident in Indian businesses, who a few years ago, were servicing global companies, but are now becoming global competitors. There is also a growing recognition that, while global brands, processes, and technological offerings are important, so too is a deep understanding of local conditions – which tend to be highly diverse, both culturally, and socio-economically. To succeed in such a culturally rich and diverse country, leaders must be sensitive to culture, family, and other nuances. On the flip side, Indian firms expanding overseas must now acquire new skill-sets, and mind-sets that are more appropriate to the global business environment. All of these factors require a new type of leadership, both for multinationals operating in India, and for the new breed of Indian MNCs.

Key words:

Liberalization, Globalization, Foreign Trade & Investment, Information Technology, Social and Cultural Dimensions, Human Resource

Introduction

In today's world, business must compete on a much wider playing field, no longer confined within national borders. Post-liberalization in 1991, India has undergone a paradigm shift owing to its competitive stand in the world. The Indian economy is on a robust growth trajectory and boasts of a stable annual growth rate, rising foreign exchange reserves and booming capital markets among others. Today, India is the fourth largest economy in the world by GDP and PPP (purchasing power parity) and there is ample reason for India's viability as a destination for foreign investment. In addition to the above-mentioned macroeconomic indicators, higher disposable incomes, emerging middle class, low-cost competitive workforce, investment-friendly policies and progressive reform process all contribute towards India being an appropriate choice for investors.

Historical Backdrop:

India has a stable democratic political system, a huge middle-class population and as seen many years of high economic growth. While India is now a “Sovereign, Socialist, Secular, Democratic Republic” with a parliamentary system of government that supports its companies and global

integration, it was not always that way. The over-all impression in international circles is that the India's government immediately after independence was initially against the thought of innovation and globalization of its businesses. There was resistance against mechanization, automation as well as globalization in many circles of power and influence for several years. The Industries Act of 1951 is a prime example, as it required all businesses to get a license from the government before they could launch, expand, or change their products. They also imposed tariffs and other methods to discourage international trade. These restrictions stunted India and between 1950 and 1987 their economy grew at a very meager rate relative to other nations such as South Korea, China, Hong Kong, and Taiwan. It was not until the 1980's that India's government finally woke up due to a growing budget deficit and foreign exchange crisis. The government did a complete turn around and started actively encouraging foreign investment. During this time growth continued. Initially, Indian companies acted as subcontractors to more sophisticated multinational companies. Eventually however, they realized that they did not need the other companies and began to generate

new technologies on their own. This allowed them to tap into the global marketplace.

Political Backdrop:

India's political control has mainly been by the Indian National Congress. The party was formed in 1885 while India was being ruled by Britain and they had a major part in protesting British rule and being declared an independent nation in 1947 (“Indian National Congress,” 2009). They have traditionally supported socialist economic policies and in the 1990's they endorsed market reforms, which included privatization and the deregulation of the economy. The Indian National Congress also supports equal rights for all citizens, regardless of what caste they are in. Nonalignment was their stance throughout the Cold War, which called for them to form ties with the West and communist countries but to avoid formal alliances with either (“Indian National Congress,” 2009). From 1998-2004 the Bharatiya Janta Party (BJP) governed India (Schaffer, 2005). The BJP political party was formed in 1980 from a split within the previous political group, the Janta Party (“Bharatiya Janta Party,” 2009). They are perceived as an ethnocentric as well as nationalistic political party and they sought to define their culture in terms of ancient and traditional Indian values (“Bharatiya Janta Party,” 2009). The major

supporters of this party have been conventionally the higher-caste members and the Northern Indians however they have sought to attract support from the lower castes by appointing several lower-caste members to prominent positions (“Indian National Congress,” 2009). In 2004, the Indian National Congress came back into power and remains the guiding force behind India's current political and economic scenarios, including in particular the focus on globalization.

Geographical Backdrop:

The Indian Peninsula and parts of mainland Asia make up the country of India. It is slightly more than 1/3 of the size of the US and has a diverse geography ranging from upper plains, rolling plains, deserts, and the Himalayan Mountains. The waters of the Indian Ocean make up its vast shoreline and give the country access to important trade routes. The country's natural resources include the 4 largest coal reserve in the world, minerals, petroleum and arable land. India has several environmental issues including deforestation, air pollution, water pollution and a large growing population. India's agricultural industry produces rice, wheat, oilseed, and cotton as well as sheep, goats, poultry and fish. Textiles, chemicals,

pharmaceuticals and petroleum are some of
the industries in India.

Transportation System:

In 2009, Indian Railways carried almost 20 million passengers and 2.4 million tons of freight a day. As one of the world's largest employers, it is also the world's largest railways under single management. Freight costs in India are much higher than other countries due to the subsidizing of passenger travel through freight tariffs. The Indian Ocean provides the ports that India needs to improve foreign trade. India has 13 major and 199 minor ports along its coastline and has enjoyed a 10% increase in port cargo volume in the last ten years. Unfortunately, India's ports are at 60% capacity and will need to be made more efficient to meet the anticipated economic growth. India has 15 international airports which handled 142 million passengers in 2010 and 2011 and 1.6 million tons of cargo. US investment in the airline industry will need to be close to \$30 million USD in order to keep up with the growing increase in air traffic. Against the world-class standards, most of India's roads are in poor shape, congested and consist mostly of two lanes or less, and yet they carry 85% of the passenger traffic and 60% of the country's freight. Roads are important resources in the development of the rural areas where 33% of the villages have no

access to roads during the monsoon season. Several government plans contain measures for increased public funding for roads and other methods of transportation including the National Highway Development Program, the Central Road Fund, the National Railway Development Program, and the National Maritime Development Program.

Social Backdrop:

With the world's largest democracy and the 2 most populous countries in the world, India has a population estimated to be over 1 billion with an annual growth rate of 1.3%. India has one of the largest school-age populations in the world and has a literacy rate of 74.04% (male: 82.1%, female: 65.5%). It has a well-established education system with more than 1.6 million schools enrolling in excess of 130 million students. For higher education, India has more than 500 universities, as well as more than 25,000 colleges and 7,000 technical institutions with approximately 13 million students (Provisional Population Totals India). 30% of India's population is urban with New Delhi, the capital, housing almost 22 million people and the city of Mumbai with close to 20 million. India is a young country with a low median age of 26.2 years - more than ten years younger than the

median age in the United States. India is very diverse in its languages, religions, and cultures. Hindi is the language that 40% of the country uses but there are also major languages like Bengali, Telugu, Marathi and Tamil. Surprisingly, English is the language commonly used for national, political, and commercial communication. Hinduism is the predominant religious affiliation with over 80% of India's population practicing. Islam ranks 2 at 13.4% of the total population. Though there have been some unfortunate historic events and episodes, India – on the whole - presents a picture of communal harmony and national integration; and majority of Indian subscribe to the philosophy of non violence and peaceful co-existence. India is rated high for degree of risk for infectious diseases and has the largest burden of tuberculosis in the world. Programs such as the National TB control program have successfully met worldwide targets in detection and treatment rates since 2009. 43.5% of India's children under 5 years old are underweight. Most of India's population is employed in agriculture but the services sector is steadily gaining at 34% as of 2009. As stated earlier, over 1.6 million Indians are employed by the Indian Railways, making it the largest employer in the country.

Human Rights – Issues and Challenges:

Indian women have made major strides in improving gender equality. The improvement of girls' education, women's ownership of assets and lower fertility levels have contributed to smart economics – creating opportunities and better conditions for women and girls which in turn increase the development prospects for all Indians. There are still concerns about female mortality in India where 1 million of the world's 3.9 million “missing women” deaths happen. (Missing deaths are those that take place before birth, in infancy and early childhood, or in the reproductive years). In India, one quarter of the poorest 40% of the population still marries before the age of 18 and some of the poorest women are not allowed to take major marital decisions influencing their lives. Due to a surge in violence against protestors, India's civil liberties rating declined from 4 to 5. Also affecting the decline were the live ammunition used in the enforcement of curfews enforced on those civilians who were opposing the increase in militarization in the region. The Indian government has made some efforts to combat corruption but it remains an important factor in India's human rights story. Reports of high government officials not being prosecuted

for corruption have left citizens wary of reporting or filing complaints. As a case in point, after resigning in 2008, when he was charged with receiving a bribe, the Education Minister was allowed to rejoin the cabinet in 2009 (World Bank 2011). Journalists use some degree of self-censorship after many were threatened or kidnapped by militant groups. Academic and religious freedoms are honored by authorities but these groups risk the attacks of militant factions.

Cultural Dimension

India is a diverse and complex society and there are not standard rules for doing business there. A business person may have to consider the region, religion, and caste when dealing with Indian businesses. Business etiquette depends on whom you are talking with and the reason for the conversation. Hierarchy plays a major role in the Indian business culture as Indian society defines a person's role, status and social order. It is important to always greet the most senior person first. English is the language for doing business in India. A meeting in India requires a handshake however; using the Namaste (palms together at chest level and a slight head bow) would be recognition of Indian etiquette. Always use his/her formal title (Doctor, Mr., Mrs.)

when addressing an Indian and exchange business cards at the first meeting remembering to put the card away respectfully and not in your pocket. Doing business in India requires relationship building. Negotiations can sometimes be slow and call for patience. Keep in mind that anger and frustration or not acceptable behavior. Business lunches are preferred and be aware that Hindus do not eat beef and Muslims do not eat pork. Majority of Indians are either totally or mainly vegetarians.

Economic Backdrop:

According to the International Monetary Fund, as of 2011, the Indian economy is nominally worth US\$1.843 trillion; it is the tenth-largest economy by market exchange rates, and is, at US\$4.469 trillion, the third largest by purchasing power parity, or PPP, with its average annual GDP growth rate of 5.8% over the past two decades, and reaching 10.4% during 2010. India is one of the world's fastest-growing economies. However, the country ranks 138th in the world in nominal GDP per capita and 129th in GDP per capita at PPP. Until 1991, all Indian government agencies, enterprises and establishments followed protectionist policies that were influenced by socialist economics. Widespread state intervention

and regulation largely walled the economy off from the outside world. An acute balance of payments crisis in 1991 forced the nation to liberalize its economy; since then it has slowly moved towards a free-market system by emphasizing both foreign trade and direct investment inflows. India is today one of the three largest Asian economies in terms of purchasing power parity. The median age of India's population is about 25, which in comparison to other Asian countries, puts India in a very favorable demographic position. The United Nations predicts that India's working age population (15-64 years) will increase by 135 million in one decade, that is, by 2020. So while most countries such as those in Europe, China and the US will witness a decrease in workforce in the coming decades, India's position is strengthening: this is a product of its high birth rate, which will last until around 2050. A young, eager and well educated workforce is the key to India's future prosperity. With the 467-million workers, the Indian labor force is the world's second-largest. According to Central Intelligence Agency, the service sector makes up 54% of GDP, the agricultural sector 28%, and the industrial sector 18%. Major agricultural products include rice, wheat, oilseed, cotton, jute, tea, sugarcane, and potatoes. Major

industries include textiles, telecommunications, chemicals, food processing, steel, transport equipment, cement, mining, petroleum, machinery, and software. In 2006, the share of external trade in India's GDP stood at 24%, up from 6% in 1985. In 2008, India's share of world trade was 1.68% with the position at world's fifteenth-largest importer in 2009 and the eighteenth-largest exporter. Major exports include petroleum products, textile goods, jewelry, software, engineering goods, chemicals, and leather manufactures. Major imports include crude oil, machinery, gems, fertilizer, and chemicals. Between 2001 and 2011, the contribution of petrochemical and engineering goods to total exports grew from 14% to 42%, averaging an economic growth rate of 7.5% during the last few years; India has more than doubled its hourly wage rates during the last decade. Some 431 million Indians have left poverty since 1985; India's middle classes are projected to number around 580 million by 2030. Its automotive industry, the world's second fastest growing, increased domestic sales by 26% during 2009–10, and exports by 36% during 2008–09, Power capacity is 250 gigawatts, of which 8% is renewable.

The Foreign Direct Investment

The FDI (Foreign Direct Investment) regime has been progressively liberalized during the course of the 1990s (particularly after 2000). A number of restrictions on foreign investment have been removed and procedures are now much more simplified. With limited exceptions, foreigners can invest directly in India, either on their own or as joint venture industries where foreign investment is prohibited. Moreover, investment ceilings, which are applicable in certain cases, are gradually being phased out. India has witnessed a steady increase of foreign inflows over the years. Major share in FDI, country-wise in the last two years has been as follows: FDI net inflows have grown at a rate of over 30% compounded annually over the last decade. In 2009-10 India received FDI worth US\$20 billion up 11% over the previous year. There has however, been a dip of 23% in FDI net inflows in the first half of 2010-11 to US\$13.5 billion owing to the ongoing global uncertainty stemming from the global financial crisis and sovereign debt crisis in the Euro-zone countries. This has prompted growing risk averseness and unwillingness among the part of global investors to make long-term commitments. FII (Foreign Institutional Investment) inflows in contrast, have surged by 46% in H1 2010-11 to

US\$51 billion as institutional investors have sought to make quick gains from India's higher interest rate environment, strong domestic growth recovery and rise of protectionist measures instituted by other Asian economies to deal with the copious flows entering the region.

The rise of the Information Technology industry in India is due in part by the dynamic role of the Indian government. The national level goal is to have India become an Information Technology superpower and one of the largest generators and exporters of software in the world. In order to pursue this goal, a National Task Force on IT and Software Development was set up in 1998 and closely monitored by the Ministry of Information Technology. It can be said that the national goal has come true as today India has over 1,600 tech companies, and 5 of the top 10 information technology organizations in the world, including billion-dollar multinationals Infosys and Wipro. India is able to provide us with exactly what we needed, low-cost, high-quality products and services. They are also poised to be an even larger contributor in the future as the have 320 million children between the ages of 6 and 16 who will enter the global work force in the next decade and a half.

Discussion and Conclusion:

Despite impressive economic growth during recent decades, India continues to face socio-economic challenges. India contains the largest concentration of people living below the World Bank's international poverty line of US\$1.25 per day, the proportion having decreased from 60% in 1981 to 42% in 2005. Half of the children in India are underweight, and 46% of children under the age of three suffer from malnutrition. The Mid-Day Meal Scheme attempts to lower these rates. Since 1991, economic inequality between India's states has consistently grown: the per - capita net state domestic product of the richest states in 2007 was 3.2 times that of the poorest. Inflation continues to be a cause for concern. The year – on – year WPI inflation that started trending up in December 2009 continued through the current fiscal. The financial year 2010-11 started with a double-digit headline inflation of 11% in April 2010. After remaining in double digits from April to July 2010, the headline inflation came down to single digits and stood at 8.8% in August 2010. Headline inflation in November 2010 was 7.5%. However, the trend reversed and in December 2010, it was 8.4%. Presently, inflation is in the range of 8 - 9%. Corruption in India is perceived to have increased significantly, with one report

estimating the illegal capital flows since independence to be US\$462 billion. Driven by growth, India's nominal GDP per capita has steadily increased from US\$329 in 1991, when economic liberalization began, to US\$1,265 in 2010, and is estimated to increase to US\$2,110 by 2016; however, it has always remained lower than those of other Asian developing countries such as Indonesia, Iran, Malaysia, Philippines, Sri Lanka, and Thailand, and is expected to remain so in the near future. While India is poised to become a global power, they also have challenges that need to be addressed. They have several structural issues, which have resulted in a difference in the growth among states. While India's South and West have seen excellent growth, the North and East are falling well behind. One of the main factors that is involved with the difference is the quality and effectiveness of state and local government. Regional disparity presents a real challenge for all stakeholders. According to a report, India's GDP at purchasing power parity could overtake that of the United States by 2045. During the next four decades, Indian GDP is expected to grow at an annualized average of 8%, making it potentially the world's fastest-growing major economy until 2050. The report highlights key growth factors: a

young and rapidly growing working-age population; growth in the manufacturing sector due to rising education and engineering skill levels; and sustained growth of the consumer market driven by a rapidly growing middle class. The World Bank cautions that, for India to achieve its economic potential, it must continue to focus on public sector reform, transport infrastructure, agricultural and rural development, removal of labor regulations, education, energy security, and public health and nutrition.

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