ABSTRACT

India’s booming knowledge-based sectors demonstrate the power of globalization to transform developing economies. For, India, however, these industries are just part of its contribution to the global economy. This paper places India in international and historical context, examines its link to the world through trade, labor, and capital and outlines some critical challenges that the country faces at this juncture. A nation with far more to offer than skilled programmers it must address problems of poverty, infrastructure, and governance to achieve its potential. India has focused on the country’s high-tech and outsourcing sectors, often leaving the impression that these sectors dominate the Indian economy and may soon dominate the world economy. While the growth of India’s outsourcing-related industries has been remarkable and the country is an increasingly important provider of services to the world.

India could not insulate itself from the adverse developments in the international financial markets, despite having a banking and financial system that had little to do with investments in structured financial instruments carved out of subprime mortgages, whose failure had set off the chain of events culminating in global crisis. The effect on the Indian economy was not significant in the beginning. The initial effect of the subprime crisis was, in fact, positive; however it formed the basis for a debate on “decoupling,” where it was believed that the emerging economies could remain largely insulated from the crisis and provides an alternative engine of growth to the world economy. In consonance with the commitment to ensure faster social development and achieving an inclusive pattern of growth, the government continued its focus on several initiatives and programmes.

KEYWORDS

INTRODUCTION

Indian Economy Overview:

The Indian Economy is consistently posting robust growth numbers in all sectors leading to impressive growth in Indian GDP. The Indian economy has been stable and reliable in recent times, while in the last few years it’s experienced a positive upward growth trend.

A consistent 8-9% growth rate has been supported by a number of favorable economic indicators including a huge inflow of foreign funds, growing reserves in the foreign exchange sector, both an IT and real estate boom, and a flourishing capital market.

All of these positive changes have resulted in establishing the Indian economy as one of the largest and fastest growing in the world.

Growth Trends in Indian Economy

For four years running, excluding 2005, the Indian economy has produced annual growth rate of 8.8%. The growth rate of 2006 was phenomenal, when the country achieved a record 9.6%, the highest rate attained in the last 18 years. The structural transformation that has been adopted by the national government in recent times has reduced growth constraints and contributed greatly to the overall growth and prosperity of the country. Industrial expansion in different parts of India has also been crucial to this end.

During this period of stable growth, the performance of the Indian service sector has been particularly significant. The growth rate of the service sector was 11.18% in the financial year 2006, whereas the industrial sector experienced a growth rate of 10.63% in the same period.

China, India, and the Global Economy

China and India – two fast-growing giants – are increasingly affecting global markets and the global commons. Indeed, the two countries account for 37.5 percent of world population and 6.4 percent of the value of world output and income at current prices and exchange rates. This book, edited by L. Alan Winters and Shahid Yusuf, contains six essays and an introduction that explore whether the Giants’ continued rapid growth through 2020 is feasible, whether there are any hints about the form it will take, and how any such expansion will impinge on other countries. The contributors analyze the Giants’ impact on global markets, systems, and commons rather than via their bilateral links with other countries. Three chapters focus on the Giants’ interactions with other countries via the evolution of their industrial capability, their international trade, and the international financial system. Others consider possible constraints and influences on their growth, while the final chapter looks at energy and emissions. Contributors include: Shubham Chaudhuri, Betina Dimaranan, Elena Ianchovichina, Philip

Asia's Economic Prospects

The purpose of the East Asia research program conducted by the World Bank's Development Research Group is to identify and analyze some of the principal drivers of current and future growth in the major economies of the region including the emergence of industrial clusters. The earlier phase of the program concentrated on regional integration, international production networking, the significance of investment in IT, and enterprise reform. In the current phase, more attention is being devoted to three topics:

- Industrial restructuring and to the strategies adopted by firms to achieve and sustain a competitive edge in the global market;
- To the building of innovation systems in East Asian economies with a specific focus on the role of universities in supplying skills, contributing to scientific knowledge, and in helping to assist with the assimilation of exiting technologies as well as the creation of new ones;
- And on the changing industrial geography of East and South Asia as industries migrate from early starters to late starters which have been quick to acquire industrial capabilities and increasingly, technological capabilities. India’s booming knowledge-based sectors demonstrate the power of globalization to transform developing economies. For India, however, these industries are just part of its contribution to the global economy. For a more nuanced picture of India’s international economic position, this paper places India in international and historical context, examines its links to the world through trade, labor, and capital, and outlines some critical challenges facing the country. What emerges is a more complex picture of India -- a nation with far more to offer than skilled programmers but which must address problems of poverty, infrastructure, and governance to achieve its potential.

INDIA - GLOBALIZATION - IT – TRADE

Globalization of the Indian economy:

INDIA may be a long way from melting polar ice caps, but its economy will be among the worst affected on account of climate change. According to a report by Lehman Brothers India’s GDP would dip by 5% for every two degree temperature rise. Speaking to ET, John Llewellyn Lehman Brothers global economist, said, climate changes
are likely to effect India in a host of ways. Both India and Bangladesh would face problems because of rising sea levels. Agricultural productivity would also be affected, as monsoons will be short with intense bursts. Water supply would also suffer because of lesser snowfall in the Himalayas, which provide water for 40% of the world’s population. The effect on GDP will be non-linear.

Initially, every 2-degree rise in temperature would result in a 3% dip in global GDP. The next 2 degrees would do even more damage to the economy. However for India the effects are likely to be much more harmful. For every 2 degree rise in temperature the effect on GDP is 5% and for the next 6 degrees it would be 15-16%. He feels that India may lag China and be amongst the last of the major emitters to enact policy that seriously bears down on greenhouse gas emissions. According to Mr. Llewellyn, there is both a direct and indirect effect due to climate changes and this differs from sector to sector and country to country. Incidentally the largest developers of clean development mechanism (CDM) projects are in China, while India hosts the largest number of these projects. According to Mr Llewellyn these projects represents revenue transfers for countries like India. India will continue to reap the benefit for the next 5-10 years. At present, the carbon emitters in Europe pay upto 20 euros a tone for their emissions. As per the Kyoto Protocol on global warming, countries will have to pay for high carbon emissions and can also trade with deficient countries.

While, the developed world, led by USA and Europe are among the high polluters, India, China, along with most developing countries are among the deficient countries who can earn revenues from trading in these emissions. However, the US is still not signed the protocol which means it has still not started paying for its emissions. In its latest report “The Business of Climate Change II”, a sequel to its earlier report on climate change, Lehman Brothers has said the the US, the European Union, Japan and Russia are estimated to have accounted jointly for nearly 70% of the build-up of fossil-fuel CO2 between 1850 and 2004. The report points that there are arguments on who should foot the climate change bill. India and other developing countries argue that developed countries grew rich through a fossil-fuel burning economic model of growth, and that it would be inequitable to seek to prevent them from following a similar path.

However, many developed countries (particularly US) are unlikely to agree to be the only ones to pay for future abatement. They argue that future emissions, and thereby the future stock of atmospheric greenhouse gases, stand increasingly to be the result of today’s developing countries, especially China and India, and that these countries’ industrial production is growing fast not only for export but also to serve their domestic demand. But Mr. Llewellyn,
said that some sort of a system could be in place for the US 20009-10, which will have some indications on the US stand on the issue, largely on account of competitive pressures.

India Foreign Trade and Global Economic Policies:

India is quickly emerging as a powerful trade partner in the global economy. What was once an undeveloped, closed-off economy is now becoming a massive economic force in Asia, rivaling all in the region. The economy of India is twelfth largest in the world (in exchange rates, with a GDP of US $1.089 trillion) and the fourth largest in the world by purchasing power. India has a population of 1,147,995,904, making it the second-largest country in the world. In 2006, India's trade reached 24% of GDP, which is by no means excessive, but is a huge increase from the 6% it was in 1985. On a global scale, Indian trade represents 1% of the world's commerce.

India Exports

In 2007, India's exports stood at $140.8 billion, making it the 26th-largest export economy in the world. The country's exports have grown steadily in the past few decades, ever since foreign direct investment (FDI) was allowed on a large scale, and most of the state-run industries were privatized. Most of these changes have occurred since the economic reforms India implemented in 1991. Below is a table illustrating the volume of exports India has seen between 2003 and 2008.

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Rank</th>
<th>% Change</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$44,500,000,000</td>
<td>32</td>
<td>28.63 %</td>
<td>2001 est.</td>
</tr>
<tr>
<td>2004</td>
<td>$57,240,000,000</td>
<td>31</td>
<td>20.86 %</td>
<td>2003 est.</td>
</tr>
<tr>
<td>2005</td>
<td>$69,180,000,000</td>
<td>33</td>
<td>10.19 %</td>
<td>2004 est.</td>
</tr>
<tr>
<td>2006</td>
<td>$76,230,000,000</td>
<td>33</td>
<td>46.92 %</td>
<td>2005 est.</td>
</tr>
<tr>
<td>2007</td>
<td>$112,000,000,000</td>
<td>29</td>
<td>25.71 %</td>
<td>2006 est.</td>
</tr>
<tr>
<td>2008</td>
<td>$140,800,000,000</td>
<td>26</td>
<td></td>
<td>2007 est.</td>
</tr>
</tbody>
</table>

Products exported by India include:

- Petroleum products
- Textile goods
- Gems and jewelry
- Engineering goods
- Chemicals
- Leather products
In addition to these goods and products, much of India's GDP is contributed to by the business process outsourcing (BPO) industry, call centres, and other service-based jobs from the US, Europe, and some of Asia.

**India Imports**

As the middle class of India becomes more affluent and wealthy, domestic consumption will continue to increase, as it has been doing in recent years. This will fuel more imports.

India imports the following:

- Machinery
- Vehicles, including aircraft
- Mineral fuels and lubricants
- Beverages and tobacco
- Chemical fertilizers
- Medical equipment
- Electronics and computer accessories

**Global Market Economy**

The rise and advancement of information technology with increased communications across the world has made individual economies merge into the world scene. Individual economies which were previously isolated from each other, are now influenced more by each other’s actions and policies and the situation in the global markets which in turn help them to frame their own policy measures.

Global market economy or global economy means a place where all the economies of the world merge and transactions of goods and services are carried on at the international level. The domestic prices of individual products fall in line with the international prices, now determined by international demand and supply of that commodity.

Global equity market was influenced when the Indian stock market crashed a couple of months back having far reaching effects on the NASDAQ as well as Dow-Jones index. Global Market Economy or where all the economies come together is also termed as globalization meaning increasing global connectivity and integration and interdependence between the individual countries’ markets.

Globalization also implies increasing integration of the technological, political, economic, social and cultural spheres of the countries of the world. We can see more and more interest in world politics in India than ever before and Indian culture being marketed across the world. With more and more interaction between the developed and developing countries, domestic economic policies are also heavily influenced by what the more powerful foreign partners are doing. In a way, globalization is said to have the damaging influence of promoting the culture of the developed economies and thrusting it on the traditional values of the developing world. This is unknowingly taking the form of neo-colonization.

Global market economy functions on the emergence of worldwide production markets and a broader access to wide
range of products for companies and consumers. It also entails lower restrictions on the movement of goods and services across the globe. Thus cartels and tariffs are also gradually phasing out. But simultaneous free movement of labor between countries is not taking place due to strict immigration laws put in place by many of the economies. Globalization is also said to bring about a rise in employment in the developing nations with companies in the developed world outsourcing their functions due to low cost labor available. “Intellectual Property Rights” are also getting more recognition across the world.

Global markets like the crude oil market are having a tremendous impact on the world economy. Crude oil touched almost $70 a barrel which resulted in trade deficits in countries such as India. With greater assimilation of the world cultures and improved standards of living supposedly achieved as a result of globalization, benefits of these are only limited to the privileged few in the developing economies already reeling under poverty, illiteracy and unemployment. Globalization brings global markets and the concomitant global competition to the fore. This sometimes throws the previously protected domestic producers out of employment and worsens their condition. Thus the influence of the global market economy is not always beneficial to the less developed countries where the poor are made poorer while the rich get richer.

The share of the USA, once considered to the highest in the global economy, has declined to 25% with newly emerging economies such as India, China, Vietnam and many others of South East Asia catching up. For the past few years the USA has had inadequate domestic savings to meet its growing investment needs. With increasing FDI flows, this is being reflected in the current account deficit which is currently at 6%-7% of its Gross Domestic Product. This is also accompanied by trade surpluses of the growing economies who want to invest in the USA.

India Economic Development

Agriculture, services and manufacturing industries all contribute to the development of the Indian economy. The IT outsourcing, software and call center/ BPO industries in particular have helped propel Indian economic development in recent years.

Economic development in India depends on the various sectors that constitute the Indian economy – these are primarily the agriculture, services and manufacturing industries.

India is rated as one of the top economies in the world in terms of the purchasing power parity of the gross domestic product by leading financial entities of the world such as the International Monetary Fund, the World Bank, and the CIA (as referenced in the CIA World Fact book).
As far as agriculture is concerned, India is in the second largest in volume of output. Certain connected sectors of the agricultural sector have played a major role in the development of the Indian economy by providing employment to a number of people in the forestry, fishing and logging industries. During 2005, the agricultural sector contributed 18.6% to the entire GDP, and at least 60% of the total labor force working in India was employed in the agricultural sector.

Production volume has gone up in Indian agriculture at a consistent rate since the 1950s. Much of this improvement can be credited to the various five-year plans that were instituted for the development of Indian agriculture. Developments in irrigation processes, as well as various modern technologies used have contributed to the overall improvement of agricultural processes. Substantial amounts of research and development have been carried out in the agricultural sphere in India by organizations such as the Indian Agricultural Research Institute, the Indian Agricultural Research Statistics Institute, and the Indian Council of Agricultural Research.

In the industrial arena, India is 14th in volume of factory output. Economic developmental roles are also being played in the areas of gas, mining, electricity and quarrying. All these sectors contribute significantly to the GDP, and provide jobs to India’s citizens. India is regarded as the 15th best economy in terms of work production by the services sector. A sizeable amount of the Indian workforce is also employed by the service sector. In the ten-year period between 1990 and 2000, the rate of growth has been 7.5%, which is more than the 4.5% rate during the 30-year period from 1951 to 1980.

Sectors such as information technology (IT), software development, call centers, IT outsourcing, business process outsourcing (BPO), and other IT-enabled services have been the biggest contributors in the services sector of the Indian economy. An increasing number of Indian companies are becoming global players.

The following Indian companies are part of the Forbes Global 2000 list:

- Infosys Technologies
- Oil and Natural Gas Corporation
- ICICI Bank
- Reliance Industries
- Steel Authority of India
- State Bank of India
- Tata Consultancy Services
- Indian Oil Corporation
- Tata Steel
- National Thermal Power Corporation

**Impact of Global Meltdown on Indian Economy in 2009**

With the advent of 2009, economists are debating the extent of the impact of global meltdown on the Indian economy in 2009. The predictions range between somewhat optimistic to
fairly pessimistic. But the common thread running is that 2009 will be challenging, indeed.

The Deputy Chairman of the Planning Commission Shri Montek Singh Ahluwalia says the stimulus package part two is part of the government strategy to deal with the situation as it evolves. The fiscal and monetary measures taken under the second package are targeted to increase liquidity for pushing up demand, addressing the concerns of the industries and provide incentives to exporters that have been hit by the recessionary conditions.

The first objective is aimed to be met by reducing the key interest rates further the CRR has been cut by point 5 percent, bringing it down to 5%. The repo and the reverse repo rates have been reduced by 1% each, bringing them down to 5.5% and 4% respectively. All this will leave more funds with the banks to enable them to lend more at lower rates of interest.

The second objective will be met by curbing cheap imports. That explains why certain duties on import of cement, Zinc and ferro-alloys, TMT bars etc. that were removed earlier to fight inflation, have been restored. The third objective to boost exports is hoped to be met by a twin stroke-increasing duty drawbacks, which the exporters claim against the taxes paid on inputs needed to manufacture the item for export and extend the duration of the scheme up to the end of December this year.

The government is able to do this because the inflation rate is consistently falling for the last one and a half month. As Shri Ashok Chawla Economic Affair’s Secretary in the Finance Ministry observes, “the trend is clear. This will translate into lower interest rates.” There is a possibility of inflation rate coming down to a tolerable 5% by the end of the current financial year. Shri Ahluwalia is confident that despite the gloomy international economic situation India will register growth rate of 7%. But, he says, fiscal deficit will be higher than anticipated on account of the stimulus packages announced. The mid-year economic review presented in Parliament, projects its increase to 5 percent against the target of 2.5 percent.

The Reserve Bank of India Governor Shri.D Subbarao too admits that 2009 will be “more challenging” adding that the RBI will continue to do everything possible to mitigate the impact of global crisis on the Indian Economy. He however, says that the outlook for India and the world remains uncertain and the path of global crisis and its resolution remains unclear.

That view is shared by the Nobel laureate Amartya Sen as well. Sen recently admitted that he did not have a ready answer to how deeply global meltdown will affect India in the New Year. The World Bank President Robert Zoellick predicts that the global economy is likely to “worsen” in the first half of 2009. The IMF chief concurs with him.
The RBI has made it more than clear that it has a road map to deal with the situation and steps will be taken as and when required. To quote Shri Subbarao “our approach has been to cross the river by feeling the stones.” It has already lowered its key interest rates- the CRR to a 2 year low and the repo and reverse repo rates to an 8 year low.

But there are areas of concern as well. Foreign investment flows have declined. The Commerce Minister Shri Kamal Nath informed the Lok Sabha “FDI Inflows between April and September 2008 showed an increasing trend each month in comparison to the same period in the previous year.” But he cautioned that FDI flows to the developing nations would generally decline in 2009. He was however quick to add that the government has put in place a liberal policy which permits FDI up to 100 percent on the automatic route, in most sectors and activities.

The other area of concern is that India’s industrial growth has declined for the first time in 15 years. Since Industry accounts for about 25 percent of the country’s GDP it is bound to affect the growth rate. Exports declined by 9.9% in November last which is also worrisome.

The RBI in its report says there are downside risks from India’s increasing global integration such as the sustained outflow of capital, financial contagion and slowing world growth. It corroborates Prime Ministers view that in a globalised world, we cannot retain that we will not be affected by the crisis that has been created somewhere else. But it says that use of a combination of instruments to absorb excessive pressure had helped cushion the impact on Indian economy.

The silver lining is that since 50% of our GDP comes from the service sector, which is not affected much by the global recession; growth rate in the current year will end up around 7%. That is what the mid-year review estimates. Five years of nearly 4% farm growth and high domestic saving rate of 36% is seen as making that possible.

That the government is alive to the situation is apparent through the measures it has been taking in association with the RBI from time to time. It has raised public expenditure by Rs.20,000 crore through the first stimulus package announced on December 7. The RBI too injected Rs.300,000 crore liquidity into the system through a series of cuts in rates. The second package will increase availability of funds with banks and non-banking financial companies by 75,000 crore. The state governments too have been allowed additional market borrowings of Rs. 30,000 crore. It is now for the Banks and the big industries to fulfill their share of responsibilities and ensure that the measures taken are effective. They need to move hand in hand with the government.

Time and again, the Prime Minister has been assuring the person that despite the international environment the country has the capacity, ability and
resilience to cope with the present global crisis. He has been citing the economic crisis of 1991, which Asia faced and which was “more” serious, but India overcame it efficiently. With steadfast commitments of all the players in the field we look forward to see India coming out of the present global crisis with minimum bruises.

CONCLUSION

A decline that will not be made up fully by India. This will ease some of the political economy problems just alluded to. It also is likely to be accompanied by a switch to lower reserve accumulation, which could raise global interest rates somewhat. This will adversely affect some of the world’s richest countries, which are among the biggest borrowers, and some of the poorest; and both groups would do well to start adjusting their fiscal and external positions in anticipation. Finally, China and India contribute to, but are not the primary causes of, increasing energy prices and carbon emissions. All countries should continue to pursue their own energy-efficiency strategies both for domestic reasons (such as balance of payments and local pollution) and for global ones.

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