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THE CHALLENGES OF INDIA ECONOMY IN CURRENT INTERNATIONAL ECONOMICS ENVIRONMENT

Abstract:

In the past few years India´s economy has got economic growth 5 percent a year. Despite the country´s economic view is unpredictable. On one hand India has strong economic growth and healthy market. On the other hand the country´s development is being complicated by insufficient infrastructure, higher budget deficit, low foreign direct investments flow and slow employment growth. The second most populated country of the world with huge natural resources amount has the potential to come back in world economic development where it used to be. Thus the main aim of this paper is by means of current status and development analysis of India´s economy at present times and in the past to determine its future position and leeway in the international economics system.

Keywords:

Global political economy, economic growth, labor force, international business, BRICS countries

JEL Classification: F50, F59, F68

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Introduction

When it comes to the history of India, it has many common features with China. Thousands years old civilization that has charmed even the first European who got there, Alexander the Great, India has also experienced many invasions, after all India has managed to protect its face. Fojtikova (2012) argues that the biggest difference from China is that it has been centralized only relatively recently and consists of various ethnic groups and religions. However India comes back to a place in the global development, where it has previously been, for historian it is quite likely a scenario.

The level and performance of India economy is still largely influenced by the period of colonialism. Krejčí (2007) points out to the fact that the ratio between the economic level in England and India was in the middle of the 20th century 2: 1, while now it is estimated at over 30: 1. A similar trend can be observed in other developing countries that freed themselves from colonial rule and which economies now are facing disruptive impacts of globalization. Regarding the economic development India wants to return to the place where it used to be.

The goal of this paper is based on the analysis of the state and development of Indian economy in the past and at present times to characterize its future position and maneuver area in the system of world economy. In order to achieve this goal methodological instrumentation consisting of methods such as analysis, logical deduction, comparison and comparative analysis will be used.

BRICS is a designation of common economic group of countries such as Brazil, Russia, India, China and South Africa. For the first time this designation was used by the Goldman Sachs investment bank in 2001, at hat times it was just BRIC. South Africa acceded to the group in December of 2010 and was formally initiated on 18 February 2011. According to Hnat and Stuchlikova (2014) these economies in 2050 due to their rapid economic growth are to become dominant economies of the world.

Indian economy development

Since 1947 the character of Indian economy has been affected by getting rid of colonial dependency and direct control of individual sectors from English capital. The mixed economic system was putting into effect and government played an active role in central planning regulation, investment and production. Despite dominating role of government in many areas of economy, large commercial companies had a big power in Indian economy. The main objective of the government was to eradicate the poverty and development of a democratic society. Nehru - the first Indian Prime Minister believed that the way to achieve this goal is a state-planned economy. Krejčí (2007) states that the Soviet Union was a model for India to implement social changes, which over 20 years has transformed from a backward peasant empire into classless and industrialized country, which worked its way up to a world superpower by means of planned economy and emphasis on science and education. In the days of British rule India economy was mainly driven in favor of British interests, in terms of supplying primary products and raw materials into the UK.

For a poor agrarian society the industrialization was necessary. The Five-Year Plan of 1951-1956 proposed corrective action, under which the central planning was focused on capacity building in India for the capital goods production, other sectors were managed separately. In the next period of 1956-1961, in which the major personalities were Nehru and Mahalanobis as Chairman of the Planning Commission, a development policy was declared refusing excessive consumption and luxury, and limiting imports and exports (Ivanička, 2006). Individual savings were being encouraged to provide resources for investment. There was no interest in foreign capital, which in the past was only removing profits from the country. Strategic enterprises were nationalized, licensing regime and political controls were installed. Lipková (2011) argues that companies were ordered where to establish their businesses and what to produce. Enterprises were not allowed, in order to maintain low unemployment, to close their business. As in other socialist countries with similar economy the high inefficiency was the logical consequence of domestic producers' protection and central planning management. Around 250,000 Indian workers produced the same amount of goods as 8000 Japan ones (Cihelková [et al.] 2009).

In the sixties, the attention was paid to improving the situation of rural India. Investments have been enhanced to increase agricultural production. So called „green revolution" also meant to introduce new types of wheat and rice in high yield, to use the artificial fertilizers and machineries and to expand of watering. Social and economic consequences, however, have been uneven and thus discrepancies among regions were growing. This situation had tried to be solved by the Indira Gandhi government by measures that aimed to direct aid to the poor ones. According to Ivanička (2006) it was about the support of small businesses, sectors demanding on labor, for instances subsidies for hand weavers took priority over the investments into the new mechanical conditions. This strategy proved to be successful and industrial production in India increased considerably. However, it failed to reach the rate of growth like in neighboring countries such as Thailand and Pakistan.

Agriculture was also successful, until the 60s India had to import agricultural products, but since the 80s India has been self-sufficient and even has been showing surpluses. This development was mainly in eastern and central regions of India much slower. Rupert (2000) states that the government underestimated the policies that could improve the country's infrastructure, reconstruction of roads, railways and other services were neglected; the policies of school education and health care were mismanaged and also the benefits from the support of overseas trade and foreign investment were not taken into consideration.

In late 80s, the public sector contributed by 25% to GDP and employed over 70% of population (Jeníček, Foltýn 2010). The government continued controlling private entrepreneurship and restricting foreign trade. The price and distribution controls were implemented, applied import tariffs were the highest in the world. For India this period was characterized by: containment, trade autarky, protectionism, lack of infrastructure, state-owned enterprises inefficiency and high dependence from the primary sector (Cihelková, 2009).

Reforms, the transition to a market economy

The first signs of reform are beginning to emerge during the government period of Indira Gandhi in the 70s. It consisted of moderate deregulation and liberalization of imports in order to achieve easier access to advanced technologies. Nevertheless, the macroeconomic crises linked to a huge balance of payments deficit in early 90s made the Indian government execute stronger steps. India also had to respond to the disintegration of the Soviet bloc, its privileged trading partner. As a result of an economy aid cessation the serious disproportions have begun to accumulate, the level of foreign exchange reserves has significantly decreased. Overall GDP growth fell to 1.9%, inflation reached 16.7% (Appleyard at al, 2006).

The new Indian government of Prime Minister Narasima Ráom therefore immediately after taking office in July 1991 declared an ambitious program of reforms aimed at the transition to a market economy. Jovanović (2014) states that tax system reforms were carried out, the budget deficit was reduce by cutting government spending, liberalization and deregulation of industry, trade and customs reforms, the plan how to strengthen the supervision of banks and other financial institutions. Especially liberalization of foreign trade policy, partial privatization of state enterprises and the entry of foreign capital being oriented into industries and rebuilding infrastructure have become the main means how to improve the performance of India economy. Liberalization consisted of removing tariff barriers to trade, a massive reduction in import duties (up from 300% to 65%; today they are about 45%), the simplification of procedures for obtaining licenses and export and import licenses, and the removal of quantitative restrictions on imports (Hamilton, Webster, 2009).

Privatization allowed private capital to enter into all economic sectors in addition to strategic sectors such as railways, defense and nuclear energy. Favorable tax conditions to attract foreign investors were created. Dicken (2007) states that income tax of foreign companies decreased from 65% to 55%, advantages of investment into infrastructure and advanced technologies were providing. A 5-year tax holiday for stakeholders involved in construction of highways, bridges, airports, ports and manufacturing hi-tech products has been set. Measures in foreign exchange were related mainly to the exchangeability of Indian Rupee.

The Indian economy has continued to benefit from indicative five-year plans, the government however plans to invest only in the public sector and the rest has been left up to the market forces. In general, the initial reforms are considered as successful mainly due to streamlining of market economy, but further results of already started changes are less visible and an important question is whether the already started progress can mitigate or even eliminate extreme poverty that still afflicts about one-third of population (Neumann, Žamberský, Jiránková, 2010).

Macroeconomic situation in India in the '90s was developing relatively favorably. India has ranked among the fastest growing economies of the world, inflation and balance of payments obtained reasonable values. According to Lipková (2011) this development was maintained despite many interfering factors, such as agricultural crop failure (as a result of bad weather in the years of 1995/96 and 1997/98), the Asian financial crisis in 1997 and 1998, and international sanctions that were imposed on India and Pakistan as a result of nuclear tests in 1998 and also considerable fluctuations in world oil and commodity prices that occurred in 1998 - 2000 (Appleyard, 2006).

The fact that India could avoid the consequences of Asian crisis in the late 90s having been almost untouched, it simply confirms the ability of India´s economy flexible reaction. Several sectors of Indian economy, especially the information technology sector, have proved remarkable dynamism and vitality. Positive structural changes in industry, increasing productivity, modernization and the inflow of new technologies have been carried out; it resulted in industrial production growth in an average annual growth of 7.3%. At the end of the first millennium decade, however, it decreased to 4.3% as a result of monetary and credit crisis and high uncertainty in international environment (Torado, 2009).

By the end of the first millennium decade these achievements in macroeconomic indicators supported the optimistic prospects for long-term growth and prosperity. Prices of Indian stocks have increased enormously due to the boom in global IT market bonds. This optimism was transferred to the political level and in 1999 the new government has set a target to achieve 7-8% economic growth and increase the living standard of the largest part of poor people (Hitiris, 2003). It must be said that India being found only halfway from successful start of economic development, is nowadays in the transitional period, when it must respond to the current unflattering figures of macroeconomic indicators, which since 2000 have relieved optimistic expectations. Many of the country's economic problems have remained unresolved and analysts have begun to think about further developments much more sober. We have to bear in mind that India is not a tiger, but cumbersome big elephant. India is a vast country and it moves very slowly and awkwardly.

From all the areas of concern to Indian economy there are probably the three most problematic ones as follows.

1. Fiscal policy.

After the significant improvement that followed the balance of payments crisis in 1991, the fiscal situation began to be worse. Decline in revenues and the lack of expenditure control at central and local levels in 2000 resulted in budget deficit in global economy up to 11% of GDP, while public debt in India reached the 80% of GDP (Pressburg, 2005). The question has arisen how it is possible that India has been able to achieve such tremendous economic growth and relatively balanced the balance of payments despite massive government deficits. The doubts have begun to start about next development of India in global economy, in which India has increasingly begun to integrate as a very important subject.

2. Structural policy.

In the second half of the 90s, structural reforms slowed down considerably. A difficult internal politics situation has certainly played its role there. During the years of 1996 - 1999 the general parliamentary elections were held for 3 times and six changes in coalition governments were carried up. That made it difficult to force complex reforms such as the reforms of agriculture, small and medium enterprises, and labor market, all of that was undermining the started economic growth and it was impossible to benefit from increased access to global commodity and capital markets. Taušer (2007) states that an example of the lack of coherence in adopting and implementing structural reforms is the complete abolition of quantitative restrictions on imports in early 2001, what made domestic producers significantly being disadvantaged compared to foreign competition, because the laws on regulating the labor market and effective restructuring have not been in force yet.

3. Poverty.

Cihelková (2009) argues that since gaining independence in 1947, India has been successful in reducing poverty when the poverty rate has fallen by over 20%. Nevertheless, still 35% of population is below the poverty line. GDP per capita is still holding India far behind the other developing Asian economies. The rate of rural poverty increases and government revenues are distributed unevenly. All this was reflected in the lack of fiscal discipline (restricted public expenditures) and the structural reforms slow down (growth was mainly concentrated into the services sector, which lacks of control), resulting in low profits and agricultural and industrial workers being unskilled.

India's potential today

The Indian economy has been growing in recent years an average of almost five percent per year. Nevertheless, the economic outlook of the country appears to be blurred. On one hand, India has a strong economic growth and healthy market. On the other hand, the development of a country is complicated by issues such as poor infrastructure, higher budget deficit of 4.8 percent of GDP, low FDI inflows and sluggish employment growth. Rapid economic growth is strongly reflected in economic structure of the country. Since the fifties the share of services in GDP has increased from 28 percent to over 50 percent; however the share of industry has been increasing slower getting intensified during the same period from almost 15 percent to more than 27 percent (ustr.gov, bea.doc.gov, census.gov, 2016)

The share of agricultural production has reduced from 57 percent to around 22 percent. The high share of services in gross domestic product is a guarantee of stable economic growth. Balaz (2014) argues that this is in contrast to China, where the growth is signed by massive foreign investment driven by domestic sources. On a global scale Indian firms are now able to compete with Western companies in information technologies, pharmaceuticals and biotechnology. For example, every third employee in the field of information technology now comes from India. India is rapidly developing into a modern economy, and the country has become a major player in information technology sector, pharmaceutical and automotive industries. Obadi (2010) highlighted the country's problems, especially in the social sphere. So far the economic development is not able to be split by the country evenly.

Lipkova (1999) argues that compared with China, India also has a better-functioning and transparent capital market, more developed, although still slow, judicial system and banking system is much healthier. A functioning democracy in the second most populated country in the world is also a distinct advantage. There are no restrictions for businesses and residents similar to ones in communist China, country does not restrict and censor the media. Thus India and people there are able to respond to the changes brought by a transformation to modern economy much better.

Slow reforms appears to be the crucial and determining factor of Indian economy development but also are acting as a disincentive to it. Sustainable development and projected rates of economic growth at eight to ten per cent per annum tie down slow reforms. According to U.S. Dept. of Commerce (2016) in the future Indian government wants to sell the strategic stakes in state oil companies, and the shares in the largest aluminum producer in country, and also to privatize another fifteen companies. Because of upcoming elections government put aside the adoption of a law enabling to reduce stakes in state firms to 33 percent. The privatization of large companies would bring money into state budget, but also the necessary know-how that could push forward the companies in global competition.

To increase the limit of foreign investment in key sectors such as telecommunications or insurance has been also scheduled. In insurance companies foreign investor may have only 26-percent stake however the government would like to increase it up to 49 percent. In telecommunications sector investors could acquire 74 % instead of 49 percent at present times (bea.doc.gov, 2016). In transportation field India plans to allow private airlines to enter the air market area for international flights. Foreign investors might be also allowed to buy 49 percent stake in domestic airlines companies.

India's status in international environment

India is no longer reliant to demonstrate the international status or nuclear weapons possession by pointing out the importance of its own status as a U.S. ally in the fight against terrorism. However both factors are increasing the country‘s international reputation. The strength of India could also be demonstrating to Western countries at the WTO negotiations in Cancun in 2003. Together with Brazil India led a group of developing countries, whose demands eventually led to negotiations collapse. India has extended its global opportunities by signing several agreements with Brazil. Among others they have signed a framework agreement on preferential tariff covering the South American Mercosur. Staab (2013) argues that India and Brazil can work together to create a political force capable of changing global trade geography so as it to be better suited to the interests of the developing countries. Agreement could be the cornerstone while creating a free trade zone between the G20 countries in the future; the countries of which the WTO negotiations in Cancun were led by Brazil and India.

Krugman, et.al. (2015) states that in 2003, India also signed an agreement with the Association of Southeast Asian countries on investment and trade. Furthermore India is a member of regional association of seven South Asian countries - SAARC. This association is trying to create a free trade zone with 1.4 billion inhabitants. The SAARC also include members such as Pakistan, Bangladesh, Bhutan, Maldives, Sri Lanka and Nepal.

Conclusion

In the past few years India´s economy has got economic growth 5 percent a year. Despite that the country´s economic view is unpredictable. On one hand India has strong economic growth and healthy market. On the other hand the country´s development is being complicated by insufficient infrastructure, higher budget deficit, low foreign direct investments flow and slow employment growth. The second most populated country of the world with huge amount of natural resources has the potential to come back in world economic development where it used to be. Thus the main aim of this paper was by means of analysis of status and development of India´s economy at present times and in the past to determine its future position and leeway in the international economics system.

India´s economy and its position in international economics system is determined not only by internal country´s potential given by the extent of natural resources and number of inhabitants but also by using the possibilities of current global economy within the economic partnership development within integration and regional groups such as BRICS countries, South-American group Mercosur, ASEAN and so on. The determining issue will be the grade of possibility how to utilize those factors of economic growth by means of their integration along with economic transformation processes of India´s economy, continuing restructuralization processes, effective foreign direct investments exploitation and labor force qualifying structure enhancement.

To invest into the BRICS countries (Brazil, Russia, India, China and South Africa) is considered to be an excellent investment opportunity. To those who have got high tendency to taking a risk and ruminate on investing in long term period, the stock exchanges of BRICS countries might pay off their daring to do so. We have to underlie the very long time, several decades, when it is possible to await the recoverability. As by making prognosis it is necessary the initial data to be excessed the examined data three or five times at least. By taking such a long period of time it is appropriate to take into account the science; its task is to pursue the events in the past - history.

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