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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

POSITIONING INDIA IN THE GLOBAL ECONOMY: AN OVERVIEW

DR. JAYA PALIWAL
ASST. PROFESSOR
MIT SCHOOL OF MANAGEMENT
KOTHRUD

ABSTRACT

The financial reforms in India in 1991 have not only given way to the plethora of new opportunities but have also brought new challenges and responsibilities. It means that the global economy can no longer be viewed from a spectator's standpoint. This paper is the recognition of the fact that whatever happens in the globe has large implications for India. In addition, the rise and fall of India's growth rate has also an impact on global growth and thus, India is required to take this responsibility seriously. This paper also examines the state of the global economy and India's position therein. It analyses the current global slowdown and euro zone crisis, and its meaning for India and the policy challenges that these international matters give rise to on domestic soil.

KEYWORDS

GDP, Euro Crisis, Manufacturing Value Added, Foreign Exchange.

INTRODUCTION

The Indian markets are swaying to the ripple effect of developments across the globe. The domestic economy, growth and inflation numbers are struggling to cope with the consequences of terrorism, political, social and economic crisis of nations miles away. A slump in domestic industrial growth, unaddressed agricultural woes, rising interest rates and escalating fuel costs have compounded the global factors. A series of scandals emerging from under the carpet have diluted the faith of foreign investors. After the American subprime crisis, the Euro zone crisis is the next big cause of concern for global economies. The current Euro zone crisis threatens to impact economies of nations even with a robust domestic growth. The severe debt crisis in Euro zone nations could spill over, affecting the financial health of developed economies and impeding the economic recovery of developing nations like India. The continuing problems in the euro zone will further dampen global markets and adversely affect India's own economic growth.

LITERATURE REVIEW

In the recent past, there have been dramatic transformations in the international perceptions about the Indian economy. The growing global interests in India and the perceptions of the global community towards India are reflected through the numerous reports published by international financial institutions and private corporate entities alike. These reports vindicate India's growing economic potential as it integrates into the global economy. Mr. Raghuram Rajan, Economic Counsellor and Director of the Research Department of the International Monetary Fund highlighted, "The stars are well aligned for India to become a hub of globalization". The McKinsey Quarterly in a Report titled 'A richer future for India' says, "India's competitive intensity could give it a better position than China to serve as a global low-cost auto-manufacturing base". Rakshit **(**2009) dwells on the idea that there were palpable signs of the Indian economy losing steam long before the outbreak of the global crisis. But there is little doubt that the global meltdown has seriously aggravated the problem and made the task of reversing the domestic downturn much more difficult.

Several studies have put forwards that economic and trade liberalization has not succeeded in bringing far-reaching changes in the commodity structure of Indian foreign trade, which strongly reflects the pre-reforms strategy. The inward-oriented and heavy industrialization strategy followed by India for quite a long time has resulted in a large and diverse industrial sector. Over time this sector has accumulated impressive technological capabilities, but these were accompanied by widespread technical lags and inefficiencies due to inadequate access to new technologies and capital goods, restricted inward investment, controls on the growth of large private domestic firms *(Lall, 1999; Tendulkar, 2000)*. Changes occurred after 1992 with the free up of trade. Trade liberalization had a stimulating effect mainly in the immediate post reform period. Manufactured exports accelerated and the share of traditional exports like textile tended to decline whereas new sectors emerged, such as chemical and pharmaceutical products, engineering products (linked to outsourcing strategy of firms from industrial countries). However, the export structure is not diversified and is still dominated by simple and undifferentiated products with low levels of skill and simple technologies, and for which India's competitive advantage lies in cheap labour. Due to this specialization, India exports mainly products for which international demand is growing slowly *(Srinivisan, 2001)*. Fernandes and Ignatius (2006) assert that India will be able to sustain these growth rates in the long run. First, there has been a shift in the structure of the Indian economy, with the share of agriculture declining to 19.9% in 2005-06 and a corresponding increase in the shares of industry and services. Second, the industry sector has moved up to a higher share of 26.1% in 2005-06. According to a recent paper by Professor T N Srinivasan, in terms of Gross National Income at purchasing power parity exchange rates, India stands at the fourth place, after the US and China and just below Japan. India's share of global GDP in PPP terms was 5.9% in 2005, the fourth highest in the world. Singh. S (2010) says that the crisis confronted India with daunting macroeconomic challenges like a contraction in trade, a net outflow of foreign capital, fall in stock market, a large reduction in foreign reserves, slowdown in domestic demand, slowdown in exports, sudden fall in growth rate and rise in unemployment. The government of India has been highly proactive in managing this ongoing crisis with a slew of monetary and fiscal measures to stabilize the financial sector, ensure adequate liquidity and stimulate domestic demand. As a result of this combining with many several structural factors that have come to India's aid, India's economic slowdown unexpectedly eased in the first quarter of 2009. A close coordination and integration between government of India, financial institutions and organizations is needed to deal with the crisis and restore the growth momentum.

NEED OF THE STUDY

India has emerged as the fourth largest economy globally with a high growth rate and has also improved its global ranking in terms of per capita income. Falling growth, rising inflation, deprecation of rupee, rising current account deficit, foreign funds outflow, political instability are the buzzword that hallmark the Indian economy now a days. Nevertheless, India has a diverse set of factors, domestic as well as external that could drive growth well into the future. India is already too much a part of the global economy and polity; developments in the world undoubtedly affect India deeply and what India does affects the world. There is, therefore, a need to analyse the state of the global economy and India's position therein. The study is also significant because it identifies the current economic slowdown across the globe, its meaning for India.

STATEMENT OF THE PROBLEM

With the increasing integration of the Indian economy and its financial markets with rest of the world, there is recognition that the country's macroeconomic position does change because of these international developments which in turn affects its overall position in the world economy. The paper identifies all these indicators and examines the implications of changing configuration of India in the world economy.

OBJECTIVES

1. To assess the state of the global economy and India's position therein
2. To analyze the current global slowdown and euro zone crisis and its meaning for India
3. To examine the change in the configuration of the world economy and its implication on Indian economy

HYPOTHESIS

The rise and fall of global growth rate has an impact on India and vice versa.

RESEARCH METHODOLOGY

Though most estimates in this paper are based on secondary data, databases have also been created for the Gross Domestic Product, Manufacturing Value Added, Revenue, Expenditure, Balance, and Debt as Percentage of GDP, Current Account Balance and Foreign Exchange Reserves across the nations for various decades. Besides, in order to present the statistics of the key variables of interest viz. the growth in Gross Domestic Product, Share and Growth in World GDP, Manufacturing Value Added as percentage of World MVA.

FINDINGS AND RESULT

1. STATE OF THE GLOBAL ECONOMY

The global economic scenario is quite evident though not very welcoming. The developments over the last year in major economies of the world have not been encouraging. There is recession in Europe, anaemic growth is at best in the United States, and there is a sharp slowdown in China and in most emerging-market economies. Asian economies are exposed to China. Latin America is exposed to lower commodity prices (as both China and the advanced economies slow). Central and Eastern Europe are exposed to the euro zone. In addition, turmoil in the Middle East is causing serious economic risks – both there and elsewhere – as geopolitical risk remains high and thus high oil prices will constrain global growth.At this point, a euro zone recession is certain. While its depth and length cannot be predicted, a continued credit crunch, sovereign-debt problems, lack of competitiveness, and fiscal austerity imply a serious downturn. . There is an apprehension that the process of global economic recovery that began after the financial crisis of the 2008 is beginning to stall and the sovereign debt crisis in the euro zone area may persist for a while. The US – growth has been quite sluggish since 2010 facing considerable downside risks from the euro zone crisis. The US economy has shown some improvement but economic growth remains slow despite extensive use of both fiscal and monetary policy tools.

TABLE 1: GROWTH OF GDP

	World	Advanced Economies	US	Eurozone	Emerging Economies	B	R	I#	C	S
2010	5.2	3.2	3.0	1.8	7.3	7.5	4.0	9.9	10.4	2.9
2011	3.8	1.6	1.8	1.5	6.1	2.9	4.1	7.4	9.2	3.1
2012 (P)	3.3	1.2	1.8	-0.5	5.4	3.0	3.3	7.0	8.2	2.5

Source: Organization for Economic Cooperation and Development (OECD) Principal Global indicators and IMF WEO.

Notes: P Projection from IMF World Economic outlook January 2012 update.
na: not available. Growth rates may not necessarily correspond to country sources.
B,R,I,C,S stand for the separate countries of the BRICS grouping, i.e. Brazil, Russia, India, China, and South Africa.
Aggregations for World and Advanced Economies use purchasing power parity weights.
India's GDP growth is in terms of factor cost whereas for other countries it is in terms of market prices.

The global economy is expected to grow by 3.3 per cent in 2012 compared to 3.8 per cent in 2011 as per the International Monetary Fund's (IMF) January 2012 update of the World Economic Outlook (WEO). Gross domestic product (GDP) growth in advanced economies declined to 1.6 per cent in 2011 compared to 3.2 per cent in 2010 and is expected to be even lower at 1.2 per cent in 2012. Growth in emerging economies slowed to 6.2 per cent in 2011 compared to 7.3 per cent in 2010 and is projected to be 5.4 per cent in 2012. Volatility in capital flows resulting from the spillover effects of monetary policy choices and other uncertainties in the advanced financial markets further impacted exchange rates and made the task of macroeconomic management difficult in many emerging economies. The US economy seems to have revived somewhat and is projected to maintain its growth rate at 1.8 per cent for 2012. The euro zone is expected to contract by 0.5 per cent in 2012. (Table 1)

In the short run, many multiple shocks emanating from various sources, economic, social, and geopolitical hit the global economy. The lower global growth forecast by the IMF for most countries in 2012 reflects the repeated bouts of uncertainty arising from these diverse sets of factors. Nevertheless, India is projected to be the second-fastest-growing major economy (7 per cent) after China (8.2 per cent) as per the IMF. In the medium term, challenges for the global economy continue to emanate from the way the euro zone crisis is addressed. The high deficits and debts in Japan and the United States and slow growth in high-income countries in general, have not been resolved. The looming risk to the global outlook is also because of the geopolitical tensions centred on Iran that could disrupt oil supply, result in a sharp increase in oil prices, and even disrupt supply routes.

TABLE 2: SHARE IN WORLD GDP

	Advanced Economies	US	Eurozone	B	R	I	C	S
1980	76.2	26.0	NA	1.5	NA	1.7	1.9	0.8
1990	79.7	26.1	NA	2.3	NA	1.5	1.8	0.5
2000	79.7	30.9	19.4	2.0	0.8	1.5	3.7	0.4
2005	76.1	27.7	22.3	2.0	1.7	1.8	5.0	0.5
2010	65.8	23.1	19.3	3.3	2.4	2.6	9.3	0.6
1980	69.0	24.6	NA	3.9	NA	2.5	2.2	1.0
1990	69.2	24.7	NA	3.3	NA	3.2	3.9	0.9
2000	62.8	23.5	18.3	2.9	2.7	3.7	7.1	0.7
2005	58.6	22.3	16.5	2.8	3.0	4.3	9.5	0.7
2010	52.1	19.5	14.6	2.9	3.0	5.5	13.6	0.7

Source: IMF, WEO database.

Note: PPP is purchasing power parit

While the current crisis is important for anticipating outcomes in the short to medium term, the current global situation is also a manifestation of certain long-term developments and changes in the relative positions of the major economies that have now perhaps reached certain critical proportions.

2. CHANGING CONFIGURATION OF THE GLOBAL ECONOMY

The global crisis, uneven trade recovery, shares of major economies in global GDP, manufacturing, and trade suggest that there has been a marked change in the contour of the world economy, especially over the last decade. The latest development also reinforces the ongoing shift in balance in the world economy, featuring the changing distribution of exports by destination, marked by the rising importance of trade among developing countries. While developing countries as a whole have become the key driving force behind global trade dynamics in the 2000s, performance varies considerably between regions and countries. Commodity price developments since 2002 came along with sizeable changes to terms of trade. Over the last 20 years sustained growth of a number of large emerging economies, especially the BRICS economies, has resulted in an increase in their share in the global GDP (Table 2). As a consequence, the value addition in the world economy has been moving away from advanced countries towards what have been termed emerging economies. The decline in share is particularly marked in the case of the EU. The shift towards Asia has been significant and, within Asia, away from Japan to China and India. The fivefold increase in share of China in the global GDP has placed it as the second largest economy in the world. The increase in share of India, though less dramatic, is nevertheless of an order that places her as the fourth largest economy in PPP terms (Table 2).

3. CHANGING POSITION OF INDIA IN THE GLOBAL ECONOMY

As far as India is concerned, it has achieved faster growth from the 1980s. Not only was this growth higher compared to its own past, it was also much faster than that achieved by a large number of countries. Between 1980 and 2010, India achieved a growth of 6.2 per cent, while the world as a whole registered a growth rate of 3.3 per cent. As a result, India's share in global GDP, (measured in terms of constant 2005 PPP international dollars) more than doubled from 2.5 per cent in 1980 to 5.5 per cent in 2010 (Figure 1). Consequently, India's rank in per capita GDP showed an improvement from 117 in 1990 to 101 in 2000 and further to 94 in 2009, out of 131 countries for which comparable data are available for all points in time (Table 3).

4. INDIA'S SHARE IN WORLD MERCHANDISE EXPORTS

India's share in world trade has gone up significantly since 1980. According to the latest information published in the World Trade Statistics by the World Trade Organisation (WTO), India's share in total world trade (which includes trade in both merchandise and services sector) has gone up from 0.4 per cent to 1.1% in 2004 -- i.e., the initial year of the Foreign Trade Policy (2004-09) – to 1.5% in 2010.

FIGURE 1: INDIA'S SHARE IN GLOBAL GDP (CONSTANT 2005 PPP INTERNATIONAL DOLLAR)

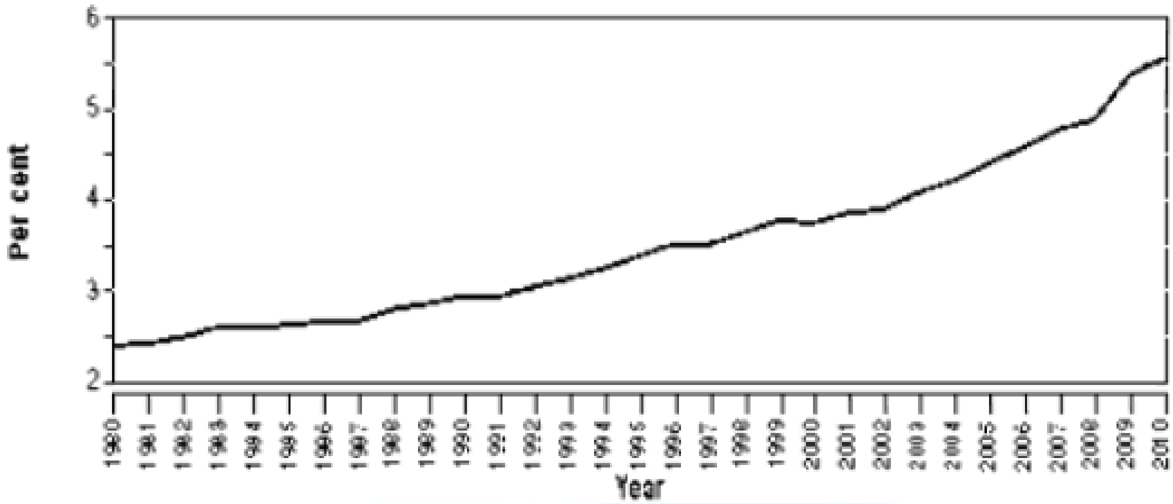


TABLE 3: MANUFACTURING VALUE ADDED AS PERCENTAGE OF WORLD MVA (TOP 15 IN 2009)

S.No.	Country	2000	2009
1	Unites States	25.6	18.7
2	China	6.7	18.1
3	Japan	18.0	10.1
4	Germany	6.8	6.4
5	Italy	3.6	3.5
6	France	3.3	2.8
7	UK	4.0	2.4
8	Russian Fedration	NA	1.7
9	Brazil	1.7	2.4
10	Korea, Rep	2.3	2.3
11	Spain	1.7	1.9
12	Mexico	1.9	1.6
13	Canada (for 2007)	2.3	2.0
14	India	1.1	2.1
15	Indonesia	0.8	1.6

Source: World Bank database.

Notes: MVA is manufacturing value added in terms of current US dollar

Exports during May 2012 were valued at US $ 25681.38 million (Rs. 139895.48 crore) which was 4.16 per cent lower in Dollar terms (16.26 per cent higher in Rupee terms) than the level of US $ 26796.54 million (Rs. 120328.54 crore) during May 2011. Cumulative value of exports for the period April-May 2012 -13 was US $ 50136.76 million (Rs 266603.94 crore) as against US $ 50486.91 million (Rs 225442.71 crore) registering a negative growth of 0.69 per cent in Dollar terms and growth of 18.26 per cent in Rupee terms over the same period last year. Yet India's share remains miniscule and it ranks 19th in the global order of exporting countries (Table 4).

TABLE 4: SHARE IN WORLD MERCHANDISE EXPORTS (%)

Year	Advanced Economies	US	Euro Zone	B	R	I	C	S
1980	66.3	11.1	30.8	1.0	-	0.4	0.9	1.3
1990	72.4	11.3	35.2	0.9	-	0.5	1.8	0.7
2000	65.7	12.1	29.7	0.9	1.6	0.7	3.9	0.5
2005	60.4	8.6	30.3	1.1	2.3	0.9	7.3	0.5
2010	54.2	8.4	26.4	1.3	2.6	1.5	10.4	0.6

Source: United Nations Conference on Trade and Development (UNCTAD)

5. SHARE IN WORLD SERVICE EXPORTS

India's share in the world export of services was quite small at 0.7 percent in 1980. The share fluctuated in the range of 0.53 percent to 0.89 percent right until 1998. In 1999, for the very first time India's share in the total world exports touched 1 percent. This period falls under the Ninth Five-Year Plan (1997-2002) which commenced on April 1, 1997. India's services trade has recorded an even higher growth performance resulting in an increase in the share in world services trade from 2% in 2004 to 2.7% in 2006. Even in service exports, the high-income countries have witnessed a declining share but they continue to account for an overwhelming 79 per cent of global service exports. While India, by virtue of its information technology (IT) industry, has seen its share of service exports rise to 3.3 per cent in 2010, China has moved in from behind and now accounts for 4.5 per cent (Table 5).

TABLE 5: SHARE IN WORLD SERVICE EXPORTS (%)

Year	Advanced Economies	US	Euro Zone	B	R	I	C	S
1980	86.9	11.7	41.6	0.4	NA	0.7	0.0	0.6
1990	87.8	17.0	39.7	0.4	NA	0.5	0.7	0.4
2000	84.8	18.4	31.0	0.6	0.2	1.1	2.0	0.3
2010	78.8	14.3	30.5	0.8	0.6	3.3	4.5	0.4

Source: World Bank Database

6. PUBLIC DEBT AND DEFICITS

While demographic changes are incremental, the cumulative change in demographic structure has started to impinge on the fiscal capacity of many developed economies, particularly in Europe. With an increase in share of retirees, existing social compacts in many developed countries have come under strain as their capacity to service public debt has diminished and private debt has risen. The recourse to automatic stabilizers during the financial crisis has stretched their fiscal capacity as public debt in relation to GDP has reached close to or exceeded the benchmark of 100 per cent of GDP and, in case of Japan, touched a whopping 220 per cent of GDP. An interesting point to note is that as compared to most of the major economies, expenditure of the general government in India is much lower as is the case in respect of revenue (Table 6).

TABLE 6: GENERAL GOVERNMENT: REVENUE, EXPENDITURE, BALANCE, AND DEBT AS PERCENTAGE OF GDP - 2010

	Advanced Economies	US	Euro Zone	B	R	I	C	S
Revenue	35.9	30.9	44.6	37.5	35.0	17.6	20.4	27.0
Expenditure	43.3	41.3	50.6	40.4	38.5	26.0	2.7	32.0
Balance	-7.6	-10.5	-6.3	-2.8	-3.5	-8.9	-2.3	-5.1
Debt	100.0	94.4	85.8	66.8	11.7	64.1	33.8	33.8

Source: IMF, WEO Database, September 2011/ Fiscal Monitor Update 12 January.

Note: AE is Advanced Economies and EA is Euro Area.

7. CURRENT ACCOUNT BALANCES AND RESERVES

In response to a series of financial crises, especially after the East Asian crisis of 1997, many emerging and developing economies adopted new strategies for managing their external economy. These involved greater reliance on exports (resulting in current account surpluses) and the accumulation of foreign exchange reserves, in part to check currency appreciation and as self-insurance against capital flow reversals.

FIGURE 2: CURRENT ACCOUNT BALANCE (2010)

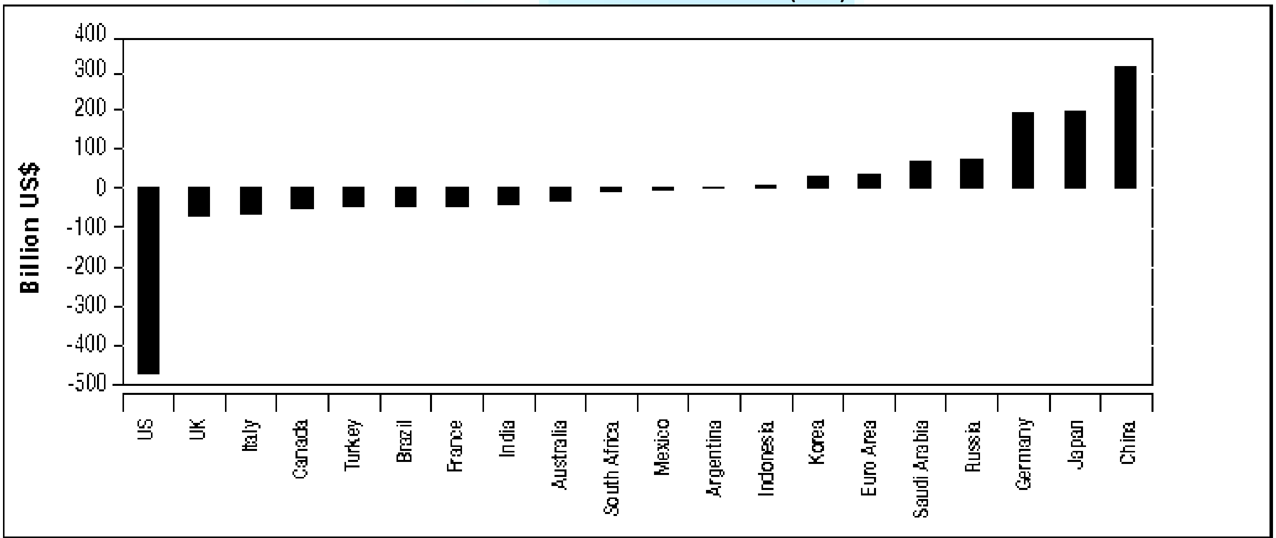
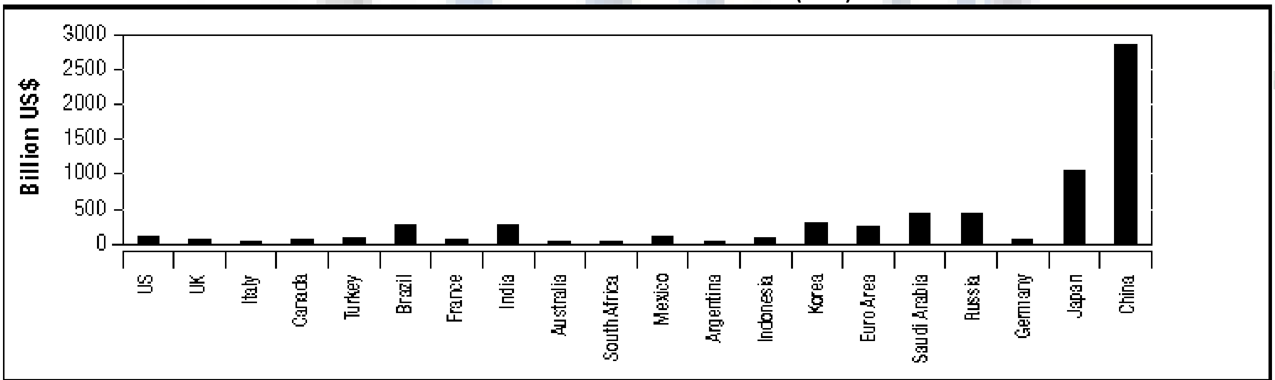


FIGURE 3: FOREIGN EXCHANGE RESERVES (2010)



These strategies led to a shift from being net importers of financial capital to net exporters. As reserves were invested in developed economies, it led to a contradictory phenomenon of capital flowing from emerging countries to capital-rich countries (especially the US). In an accounting sense, this was equated to high saving rates in the emerging market economies (EMEs), especially China. The position of current account balances and reserves for the major G-20 economies is shown in Figures 2 and 3 India, in this regard, is somewhat of an outlier as even while holding substantial reserves, it has essentially had a structural current account deficit and is therefore not a contributor to global imbalances in the foregoing sense.

CONCLUSION

India has emerged as a large and systemically important economy on the global stage. Indian economy has been hurt by the global financial recession, but India is still in better position with quick recovery and for future growth than many of the other economies of the world. Given its size and its profile in the global economy, India will inevitably need to play an active role at global level, not just in debates about how to resolve the continuing crisis and prevent the recurrence of similar crises in the future, but in influencing the rules for the global economy on overarching macroeconomic issues such as trade, capital flows, financial regulation, climate change, and governance of global financial institutions. India, even while carefully responding to the immediate economic challenges emanating from domestic and global sources, will also have to craft and calibrate its policies keeping both outcomes in view.

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