Abstract

In 2003, Goldman Sachs, brought out a report stating the largest growth will come from four emerging economies in Brazil, Russia, India and China (so called BRIC countries) and that by 2030 India will be amongst three largest economies of the world (other two being USA and China). There have been several positive developments in the Indian economy that promises India will surpass the G6 nations by 2025. India’s vision is to be a developed nation by the year 2020, i.e. to have a per capita income of about $9000 per annum. The backup of envelope calculation states that with a consistent growth rate of about 6-8 percent per annum, India will take almost 25 years to reach this aspiration, however given the size of the country; this growth rate means that the gigantic market opportunities exist in almost every sector of the economy. With risks receding and most sector expanding, our 2014 forecast calls for 5.2 percent GDP growth will accelerate towards 6.5 percent by the end of 2015. It said downside risks had receded around the external sector and fiscal deficit, but inflation remains elevated. This paper highlights the strategic choice of Indian economy with a mixed picture of problems and opportunities.

1. Introduction

Global competitiveness report 2010 ranks India as the No 1 country among 117 countries on two parameters viz; access to credit and availability of scientific and technical workforce, and No 7 on prevalence of foreign technology licensing. Furthermore a majority of India’s population is young (of the age of below 25 years) and therefore the country is well positioned to supply technical and educated workforce, with quality higher education. India’s science technology and management institutions offer, the same productive workforce with a vast pool of knowledge – workers ie
attracting foreign direct investment in diverse areas off R&D, Engineering design and knowledge – intensive business. The sheer, size and good quality of professionally qualified people has meant that “brain – drain” which was a major concern till the 1980s is no longer an issue, Indian economy on purchase power parity (PPP) basis is already almost equal to that of Japan and USA and china are ahead of it, India has just began its accelerated march upwards upwards economic prosperity and this cycle may last for next two or three decades.

2. Objectives of the study

- To discuss the factors contributing to economic growth in India.
- To discuss the impact of Multinationals in contributing to economic growth.
- To analyze the impact of large consumerism in attracting FDI.
- To illustrate the role played by IT& communication services& the challenges in achieving economic growth.

3. Research Methodology

The study is based on secondary sources of data. The main source of data are various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletin, online data base of Indian Economy, journals, articles, newspapers, etc.

4. Review of Literature

During the last decades, the relation between FDI and economic growth has been extensively discussed in the economic literature. The positions range from an unreserved optimistic view (based on the neo-classical theory or, more recently, on the new theory of economic growth) to a systematic pessimism (namely among ‘radical’ economists). There is a widespread belief among researchers and policymakers that FDI boosts growth for host countries through different channels. They increase the capital stock and employment; stimulate technological change through the adoption of foreign technology and know-how and technological spill overs, which can happen via licensing agreements, imitation, International Business Research January, 2010 53 employee training, and the introduction of new expected to increase and improve the existing stock of knowledge in the recipient economy through labor training, skill acquisition and diffusion. It contributes to introduce new management practices and a more efficient organization of the production process.

As a consequence, FDI can play an important role in modernizing a national economy and promoting economic development. Starting with the pioneering work of Caves (1974), his country case studies and industry level cross sectional studies led him to conclude that there exists a positive correlation between the productivity of a multinational enterprise (MNE) and average value added per worker of the domestic firms within the same sector. Later, in 1996, Caves has observed several positive effects of FDI that has brought about increasing efforts to attract more of it. Among these were productivity gains, technology transfers, and the introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks and access to markets.
Findlay (1978) has postulated that FDI, through a “contagion” effect, increased the rate of technical progress in host country from the more advanced technology, management practices, etc., used by foreign firms. In addition, FDI may contribute to economic growth where the transfer of technology raised the stock of knowledge in host country through labor training and skill acquisition, new management practices and organizational arrangements (De Mello, 1999).

Borensztein et al. (1998) pointed out that FDI, an important vehicle for the transfer of technology, has contributed to growth in larger measure than domestic investment. According to Rappaport (2000), FDI may improve the productivity not only of the firms receiving investments, but also of all firms of the host countries as a consequence of technological spillovers. These spillover effects were generated from both intra-industry (or horizontal, i.e.: within the same sector) externalities and inter-industries (or vertical) externalities through forward or/and backward linkages (Javorcik, 2004;).

Alfaro and Rodriguez-Clare, 2004). De Gregorio (2003) has noted that technologies and knowledge that are not readily available to host country investors may be brought along with FDI, and in this way led to productivity growth throughout the economies. FDI may also bring in expertise that the country does not possess, and foreign investors may have access to global markets. In fact, through empirical studies he found that increasing aggregate investment by 1 percentage point of GDP increased economic growth of Latin American countries by 0.1% to 0.2% a year, but increasing FDI by the same amount increased growth by approximately 0.6% a year during the period 1950–1985, thus indicating that FDI is three times more efficient than domestic investment. Furthermore, the advocator of FDI have argued that FDI could help promote economic growth through technology diffusion and human capital development (Van Loo 1977; Borensztein, De Gregorio and Lee1998; de Mello 1999; Shan 2002a; Liu, Burridge and Sinclair 2002; and Kim and Seo 2003).

When multinational corporations have vertical inter-firm linkages with domestic firms or have subregional clusters of inter-related activities, through formal or informal links or social contacts among the employees, multinational corporations could diffuse technology and management know-how to local firms. Moreover, as Noorzoy put forward in 1979, FDI could help host countries overcome capital shortage and complement domestic investment when FDI flowed to high risk areas or new industries where domestic investment is limited. When FDI is attracted for resource industries, for instance petroleum, domestic investment in related industries may be stimulated. Also, FDI may boost exports for the host countries. Empirical studies supporting these arguments include Sun (1998) and Shan (2002).

Using the conventional regression model and panel data, Sun (1998) has found out a high and significantly positive correlation between FDI and domestic investment in China. Shan (2002) have used a VAR model to examine the inter-relationships between FDI, industrial output growth and other variables in China. He has concluded that FDI has a dramatically beneficial impact on the Chinese economy when the ratio of FDI to industrial output rose. Nevertheless, some macroeconomic studies, using aggregate FDI flows for a broad cross section of countries,
generally have suggest a positive role of FDI in generating economic growth under particular environments.

For instance, Blomstrom, Lipsey, and Zejan (1994) believed that FDI had a positive growth effect when the country was sufficiently wealthy, that is, FDI could exert a positive effect on economic growth, but that there seemed to be a threshold level of income above which FDI had positive effect on economic growth and below which it did not. This was because only those countries that had reached a certain income level could absorb new technologies and thus benefit from technology diffusion, reaping the extra advantages that FDI could offer.

Besides, Alfaro et al. (2003) has argued that FDI promoted economic growth in economies with sufficiently developed financial markets; while Balasubramanyam, Salisu, and Sapsford (1996) have stressed that trade openness was crucial for obtaining the growth effects of FDI. However, the positive effects of FDI on economic growth have not won unanimous support recently. This pessimist view, having risen during the 50s and the 60s, is still now defended by several recent firm or industry level studies which emphasize poor absorptive capacity, crowding out effect on domestic investment, external vulnerability and dependence, a possible deterioration of the balance of payments as profits are repatriated and negative, destructive competition of foreign affiliates with domestic firms and “market-stealing effect”.


Liberalization and globalization has made companies to great up to global competition with almost every Fortune 500 company having a presence in the country. Competition within companies is
intense with customers more knowledgeable and choosy about what is offered by whom. The business environment has changed drastically. The mobile telephony market in India is one of the largest and most dynamic in the world, with rapidly expanding penetration and the presence of competing technologies (such as CDMA, GSM) and private sector players competing with government-owned service providers. There is rapid increase in the number of mobile phone users (according to an estimate there are almost 50 million mobile owners in the country). Telecom companies have slashed phone prices and are offering lifetime free incoming calls to attract more customers. Giant discounting superstores and multiplexes are major attractions for this population to make their purchase in and to have pleasant outing. Companies that were dominating the Bombay stock exchange sensitive index (SENSEX) twenty years ago are all gone. Instead a whole lot of knowledge intensive (technology and marketing) companies have taken their place. The Sensex, which during the year 2003, hovered around 3200, has shot almost three times at 9600 at the end of the year 2005, much of this surge has come from mutual investments and the presence of foreign institutional buyers for whom India is an attractive investment opportunity in the equity market.

6. Factors Contributing To Growth & Grabbing The One Crore Million Opportunity

Indian firms are successfully competing across entire value chain spanning sectors. With more millionaires living in rural areas than in urban companies are realizing the existence of a huge untapped market. Appropriately several banking, Fast moving consumer goods, health care – automobiles, consumer durable companies (even the MNC’s) have launched innovative strategies and products tailored for them, among these are Unilever, ITC, ICICI bank, state Bank of India, P&G, LG, Samsung, Hero Honda, Akai TV, Maruti Suzuki etc. The transformation in India in the early years of the 21st century is remarkable! Wherever one goes, in remote villages or urban townships, one can see thousands of self-employed young men and women trying to learn more of the new skills for employability in modern – day complex businesses. A typical success story is of the ‘AMUL’ brand of diary – related products by the national dairy development board.

6.1 Global power in information technology software and services

The world knows about the Indian prowess in IT software industry, from nowhere in early 1990s, India has become the back office of the world. Most global companies are outsourcing their business in India either through own backed offices or through third parties, the trend has caught up within the country, bank, Financial Institutions, Airlines, Consumer durable firms etc, are outsourcing routine services through dedicated all centres. The rate of growth of some of the IT companies has been stupendous. In 1995-96 the turnover of Infosys technologies was about 90 crore ($20 million). In year 2005 it had crossed the $ 1 billion mark1 The IT and IT enabled service industry has been growing rapidly at a rate of over 40% in India for past three years.

As a result of the booming economy, manufacturing and production units in all industries are running full and companies are investing heavily in to fresh capacities. Real estate prices have climbed and are on of the highest in Asia, now innovation and design work has begun to work offshore, to India, More than 100 fortune 500 companies including Delphi, dell, Eli Lilly, General electric, Hewlett Packard and Daimler Chrysler have put R&D Facilities in India GE’S John F. Welch technology centre in Bangalore is the company’s largest such facility outside the Us with an investment of $ 60 million. The Daimler Chrysler research centre in Bangalore is involved with fundamental and applied research in avionics simulation and software development.

6.2 Companies Transforming And Reinvesting Themselves
Fifteen years ago, Reliance was a company predominantly in to synthetic fibre which accounted to percent of the group turnover. The company current operations are dominated by oil and gas exploration, Energy, Information and communications Technology, Life science research, Retail and other knowledge and marketing intensive industries. Fibre now account for just 15 percent of its turnover.

ITC is an example of transformation by moving away from the commodities cluster in to hotels, high quality paper, packaging and printing, Life style, retailing, Information technology, and ready to eat cuisine . ITC is now the second largest exporter of agricultural produce soyabeans, wheat, sesame, pepper, shrimp and coffee. The company has gone in to rural extension and marketing and runs 3000 e – chaupas across 18,000 villages in five of the largest state in India.

The Tata Group has transformed itself from the old economy to the requirements of the new Economy (even through its old economy businesses are alive and kicking) The group encompasses more than 90 companies in diverse sectors – Automotive engineering products, metals, commodities, energy, telecommunications, information technology, control systems, chemicals, hotels and property developments, financial services – consumer products and several others, the list of their international collaborations and tie-ups in impressively long

6.3 Constrains that pull back

The fast growing enormous size of the Indian population has given rise to a number of serious problems. The number of families in India without satisfactory housing is larger than the total number of households in many countries. To solve the basic problem, of household in many countries. To solve the basic problem, the additional employment opportunities to be created, the additional houses to be built, the additional number of people is to provide with health sanitation facilities, water supply etc. While all these highlight the gigantic challenges faced by a poor nation, they also indicate the enormous investment band business potentials. While it is true that the number of Indians’ below the poverty line is larger than the total population of many countries, it is also a fact that the total number of well to do Indians is larger than the total population of many nations. The size of the Indian middle class is larger than the total population of most countries.

According to the estimates of World Bank, India would be the fourth largest in 2020.the real per capita income of the Indians is expected to quadruple by 2020, but poverty will remain. The percentage of population below poverty line is expected to halve to 13% from the present level 26% growing at a rate of 10 %to 15% every year for the next 25 years, India has a good chance of becoming a superpower, not the richest nation in the world , but because of our awesome size among the most influential.

7. Conclusion

The Indian economy very grow at a rate of 5.6% in 2014 while developing economies as a whole will see between 4.5% and 5% rise in economic expansion, as per report by United Nations Conference On Trade And Development (UNCTAD). The report forecasts that developing economies as a whole are likely to repeat the performance of previous years. Growing at between 4.5% and 5%. It forecasts china’s economy to grow by 7.5 percent in 2014. Improve performance of mining, manufacturing and service sector pushed India’s economic growth rate to two and half percent. The recent (domestic GDP) growth has 7% Or 8 %. The report forecasts that growth will exceed 5.5 % percent in Asian and sub saran countries, but will remain 2 % in North Africa and Latin America and the carob-bean. Meanwhile, transition economies are expected to further dip to around 1 percent, from an already weak performance in 2013.
India is emerging as one of the largest markets and vibrant players in global economy. The nation presents a mixed picture of strengths, prospects, Weaknesses and problems. In the last half century, while the Indian economy has grown fairly well- faster than the average growth of the developing countries- the growth has lagged behind the newly industrializing countries of south Asia, India is indeed regarded as one of the largest growth markets of the near future. The Indian market today is profound global competition and the Indian industry has been waking up to the challenges of globalization. Several Indian firms have been on an overseas acquisition spree. India which is expected to be one of the fastest growing economies in the world in future too, would significantly improve its position in the global economy.

8. References
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