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BORDERLESS WORLD – INDIA'S OPPORTUNITY

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Introduction

In early 1990, the Indian economy faced a grim situation due to serious foreign exchange crises. In mid 1991, the balance of payment situation had badly deteriorated, the foreign exchange reserve was dwindling, the overall fiscal deficit had sharply increased, contributing to large scale money supply and increases in interest payments. The economic credibility of the nation was at stake. The situation had to be remedied urgently and it was sought to be remedied by means of many reforms. These reforms marked the birth of economic liberalization, leading to globalization and privatization in varying degrees. To enable this, a new economic policy was introduced in 1991.

The new economic policy of 1991 brought about a changing order in business, government and market. The thrust was towards creating a more competitive environment in the **'economy'** as a means to improving the **productivity** and **efficiency** of various systems through liberalization. With the growing trend towards liberalization and transformation of more and more of the regulated or guided economies into market economies, '**Borderless World**' is no longer a distant dream but is fast becoming a reality.

The Industrial Policy-1991

On July 24, 1991, Union Government announced in parliament a New Industrial Policy. It introduced major changes to liberalise Indian Economy.

Objectives

- To attain technological dynamism and international competitiveness.
- To maintain a sustained growth in productivity and gainful employment.
- To accelerate the industrial growth by removing administrative controls.

The net effect of the reform measures was undoubtedly positive and clearly manifested by a 5.1 percent growth in 1992 – 93.

Globalization

India has joined the world economy after the reforms. The fact that India has a middle class population of about 250 million people and they have their needs mostly unmet, is what attracts the world brokers, bankers, tradesmen, industrialist, multinationals to Indian market.

India also has the second largest technically trained man power, highly skilled and cheap labour. The world business communities feel that India provides a good playfield for business. India has become a preferred destination for investment in industry.

The world development report of the world bank indicates that the world is becoming increasingly interdependent for its economic progress.

Earlier we were talking about international trade which consists of exports and imports whereas international business is a broader concept which include international trade and foreign production. But now, we frequently use terms such as **global market,**

global competition, global technology. Companies operating in emerging economies make inroads into the market around the world.

Now the entire world is treated as a **single market**. The proliferation of e - Commerce on the internet accelerates such global marketing opportunities.

Globalisation involves developing a global perspective which requires globally thinking managers.

It is well to note at this stage that words ‘international’, “multinational” or “global” are now rather out dated descriptions. Communications and transport are shrinking the global market place.Global Marketing emphasizes the following.

- Improving cost effectiveness
- Creation of opportunities for transfer of brands i.e ideas across subsidiaries.
- Identifying or creating a global customer
- Improving national marketing infrastructure, to take it to the level of a global marketing infrastructure.

Globalization – Emerging Opportunities and Challenges

Under the impact of globalization, more and more of the national economies are being integrated with the global economy. Markets are becoming global not only for goods but also for many services.

Financial markets are getting increasingly interconnected. Information technology has become a powerful force and is shaping the new **knowledge economy**. An increasing number of developing countries are removing trade barriers, dismantling capital controls, encouraging foreign investment and opening up their economies.

These developments have drastically altered the land scape. Economic boundaries are being redrawn and a **borderless world** is fast emerging, with the presence of transitional companies in domestic markets and competition getting intensified.

Global branding and advertising and cross border buying and selling have more or less merged. To meet the challenges of global competition, large, medium and small companies are entering into strategic alliances with corporate giants to exploit jointly the global market by offering superior quality products and services. It is increasingly realized that in future only those companies which have developed products of **global standards,** will be able to retain their market share and achieve growth and profits.

Today’s global market is not what it was a decade ago. In fact, the prevailing varied environment and consumer behaviour are turning out to be challenging to the business community.

Globalisation and the reform process have altered the context in which the domestic business operates. Interdependence and integration with the **global economy** have become the commonly accepted terminology in business.

India’s Foreign Trade

Indian exports grew by 25.55% during the first eight month of 2004 - 2005 while the imports registered a rise of 34.72% compared to the same period of previous year.

India's Foreign Trade Trends (April - January)

(in $ million)

	2003-04	2004-05	% Growth
Exports	48,389.85	60,754.46	25.55
Imports	61,937.79	83,441.55	34.72
Trade Deficit	-13,547.94	-22,687.09	-

Source: Business Line February 15, 2004

Indian Economy: Fourth largest competitor

According to year end review of **The Washington Post** published on December 28, 2004, India with a 5.7% share of the world GDP has become the fourth largest global economy.

Top Ten

S.No	Country	% share in World GDP in 2004
1.	USA	21.1
2.	China	12.6
3.	Japan	7.0
4.	India	5.7
5.	Germany	4.5
6.	France	3.2
7.	UK	3.2
8.	Italy	3.0
9.	Brazil	2.8
10.	Canada	1.9

Source: CSR, February 2005

Technology- An Integrating Force

The world economy of the new millennium as it progresses will be shaped greatly by technological developments. The rapid technological advances in transport and communication and the emergence of several key industries like microelectronics, biotechnology, telecommunication, robotics and computers would continue to play a major role in integrating the world economy. Internet is now a reality. According to Forrester Research, e-commerce has grown from $4.8 billion in 1998 to $327 billion in 2002 in the United States alone. In the case of India, there are over 1.5 million users while the volume of business done on e-commerce exceeds Rs. 2,500 crores. According to a NASSCOM forecast, the business will grow to over Rs.10,000 crores by 2020.

India is Becoming Production Base For Global Companies

Indian manufacturing is becoming robust. India is becoming a world- manufacturing base and an export hub for diverse goods, from agricultural products to automobile components to high-end services. Indian firms are now part of global production chains - importing sub-assemblies, adding value to them and re exporting them. Indian enterprises are reaching global scales in quality and output.

"Today, India's $5 billion auto industry is expanding by 15% a year - one of the world's fastest automotive industry growth rates and produces 13 times more cars than it did in 1983. Tata Motors has already entered into agreement to export to UK 20,000 cars to be sold under the MG Rover brand — a feat no one would even have dreamed of just a decade ago, given the quality of India's cars at the time. In view of the greater competitive intensity in the market, India may be better positioned than China to become a global low-cost auto-manufacturing base. None of this would have been possible had India's car makers remained isolated from the wor1d .

Bharath Forge of India is now the world's second largest forging company and number one in commercial chassis manufacturing globally. MNC auto companies like Toyota and Hyundai already find their Indian plants cost effective. Hyundai motor's largest plant outside Korea is near Chennai and the company plans to invest more into it to make it a hub for Hyundai Asia.

Tata Steel is today one of the lowest cost manufacturers of steel in the world. Hindalco of Adhitya Birla group and even NALCO, a government owned company are among the top ten low cost manufacturers in the world. The Delhi based Moser Baer holds 20% of the world market for CD ROMs and other media. Reliance Industries are known for producing their high quality polyesters and polymers at competitive cost globally.

Several foreign companies are launching their new and complex projects. In Hyderabad, a South Korean company will soon build India's first semiconductor plant. Korea's LG is investing $150 million in a new factory to make and export televisions and refrigerators. Finland's Elcoteq Network, which makes cell phones for companies such as NOKIA, will begin assembling handsets in Bangalore. Ericsson plans to manufacture radio transmitters and receivers for cell phones in Jaipur.. Hyundai Motor is using India as a manufacturing and export base for its company to Europe. Toyota Motor Co has started exporting 150,000 transmittors to other Toyota plants in South East Asia.

Indian MNC Investing Overseas

Not only Indian companies have improved their manufacturing capability but several of them have gone overseas to establish their plants and acquire new units abroad to demonstrate their ability to face the challenges of competition with other multinationals.

During 2002-03, Indian companies invested nearly $1,048 million abroad. By the end of March 2004, this rose to $6,592 million. More than 400 Indian firms have investment or joint ventures in the UK and nearly 1400 firms in Singapore. Such a growth was made possible because of the decision of the Government to remove $100 million cap and raising it to the net worth of the companies investing abroad. The firms realize that outward investments and acquisitions are essential to expand capacity and improve their global competitive performance.

Adhitya Birla group has presence in ten countries - China, Canada, Australia, Egypt, Thailand, Malaysia, Indonesia, Mexico, Chile and Brazil.

Tata Group : Tata Tea acquired Tetley of the U.K in 2000, which was one of the world's biggest teamakers, for $430 million. With this acquisition, it got control of the full value chain in tea processing and established market presence worldwide. In 2004 ,Tata Motors bought out the Korean Daewoo Commercial Vehicle Company Ltd for Rs 456 crores. The company has assembly operations in Malaysia, Bangladesh, Kenya, South Africa, Ukraine and Russia. Tata motors are planning to enter European and African markets with Indica. In UK it sells India under Rover banner. It plans to sell Indica to other European countries taking advantage of Rover distribution network. Incidentally, three other auto manufacturers, Viz, Mahindra and Mahindra, TVS and Kinetic are planning to use their technological capability for establishing their presence in several foreign markets. Similarly auto component manufacturers , notably Sundaram Fasteners, Bharath Forge etc are undertaking acquisitions abroad.

Tata Steel bought Singapore steel firm Natsteel. This acquisition gives the Indian company a foothold in seven countries including Australia.. Titan Industries has emerged as a world-class watchmaker and it plans to set up a network of subsidiaries in Europe and Asia to promote its products globally.

Sundaram Fasteners became the first Indian engineering company in 2004 to establish a manufacturing unit in China. Ashok Leyland has already got a foothold in Thailand, making vehicles with Tai Summit Auto parts Industry. Godrej, Mahendra & Mahendra are establishing assembly plant to manufacture trucks in Canada. VSNL have established joint ventures in Malaysia. Asian Paints acquired Berger International and thus got a foothold in 22 countries.

Reliance : Rs 99,000 crore Indian MNC bought out German specialty polyster manufacturer Trevira to become world's largest polyester producer in terms of capacity. Reliance Gateway, a wholly owned subsidiary of Reliance Infocomm, acquired 100 per cent equity in Nasdaq listed Flag Telecom Group for $ 207 million

Ranbaxy : The Company's products are sold in over 100 countries with manufacturing operations in seven countries and offices in over 34 countries.

Candico : Rs 125 crore Candico is the first Indian confectionary company going global with an investment of $1 million in Africa.

Even the State owned companies are globalising their operations. ONGC has recently taken a decision to target stakes in Russian oilfields, IOC is planning to set up retail outlets in Srilanka while MTNL is tapping Nepal and Mauritius aggressively.

Already there are signs of growing business in retail, healthcare, knowledge, R & D and food sectors. More and more companies are looking beyond IT services and many technology firms are likely to acquire software products or will make products under their own brands.

India- Global Center Services

India is a country more than half of whose GDP is contributed by the service sector. The services sector has been consistently growing at a rate of 7 percent per annum. Export revenues from the sector is expected to grow from $8 billion in 2004 to $11 billion in 2008.

Indian software and services industry grew by 28.2% in 2003-04 registering revenues of US$ 15.9 billion. It is projected to cross the US$20 billion mark by next year (NASSCOM). The Industry today exports software and services to more than 112 countries around the world. Indian companies are aggressively exploring new markets in geographies like Japan, Germany and France. They have earned a name for their quality, productivity and reliability around the world.

India has already achieved excellence as world-class player in business process outsourcing. Cost effective high skill manpower, competitive billing and low development costs - had helped the country emerge as a key IT services outsourcing destination. Fifty percent of Fortune 500 companies have moved to India for outsourcing. 100 of them have already setup R & D centers in India. Indian companies are now expanding their customer base by tapping not only Fortune 500 companies but also global 2000 companies. ITES exports are to the tune of $3.6 billion a year at a phenomenal growth of 54%, giving employment to over 300,000.By 2008 the number will increase to 1.1 million and by then it will generate revenues of $21-24 billion.

The Software sector is slowly graduating into high-end research. Several Indian companies are now engaged in R & D work, product design and developing high end software and embedded products for Microsoft, Hewlett Packard, GE, Bell Labs, Honeywell and several other leading global companies which have already set up their R & D centers in Bangalore and Hyderabad. According to Frost and Sullivan report, R & D outsourcing market for IT in India is estimated to grow to US$ 9.1 billion by 2010. Similarly another study done by Ernest and Young, the Indian hardware industry has the potential to become a $62 billion sector by 2010 with the domestic market valued at $37 billion and exports to the tune of $25 billion.

INDIA INC. GOING GLOBAL - 2003 (COMPANY DETAILS)

S.No	Name of the Company	Sales in Cr.	Overseas Revenue in Cr.	Manufacturing facilities abroad
1.	Ranbaxy	4516	2487	Ireland, Nigeria, Vietnam, China, USA, Malaysia
2.	Infosys	4761	4694	Argentina, US, UAE, Canda, Singapore, UK, France, Sweeden
3.	Sundaram Fasteners	519	96	China, Malaysia
4.	Sterlite	5950	233	London and Australia
5.	Asian Paints	1323	232	24 Countries

Source: Business Week - Oct 18, 2004.

India's Competitive Advantage

India has several inherent advantages for achieving and sustaining high rates of growth and integrating with the global economy as a dominant member.

Stable macro fundamentals with modest inflation, high foreign exchange reserves, rising services sector, India has tremendous advantage since it has a well developed structure growth rate in industry, sustained growth of services sector and self sufficiency in food grains.

Estimated 7% of the one billion people speak English which is the largest in the world after USA. An external sector, which is robust and contributing to the confidence of foreign investors, is the fact that the country calibrates its movement towards full convertibility, based on fiscal consolidation and improved financial intermediation.

Large and growing market of 1 billion people of which 250 million are middle class consumer is an advantage. India offers a vibrant market of youth and vigour with 54% of population below 25 years age.

India's Opportunity

- More than 1 billion consumers
- Growing Disposable Income
- Young Population of which 54% is less than 25 years
- Strong GDP growth
- High Forex Reserves
- Growing Exports
- Focus on Rural and Infrastructure
- Well developed capital market
- Strong hub for manufacturing components and services.

Conclusion

At the present rate of population growth, India is expected to be the most populous country in the world by the year 2025. To support such a vast population, India will have to utilize its resources judiciously. India can excel in the world trade creating world class brands and attracting more foreign direct investment.

It is time that we revamp our export strategy and remove the various obstacles to rapid export growth . A stable exchange rate, removal of procedural hurdles and improving infrastructure facilities are all required for creating an environment conducive to accelerated export growth.

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