Future of indian economy

[Countries](), [India]()

1. Introduction:

India has abundant labor force both in skilled and unskilled as it has population of 1. 1 million which makes it second largest populated nation in the world. India’s GDP is $ 3. 720 billions USD which makes it as the fifth largest economy of the World. (Fig 2005) and it has abundant capital and is also attracting Foreign Direct Investments in large quantity in recent years. India is the second largest democratic country of the world.

Indian economy has witnessed an abnormal growth in recent years due to its leadership in [information technology] outsourcing industry in the world. India is witnessing an unparalleled economic growth and this has made many developed countries not only to envy on India but also makes them to concern.

Is really Indian economy is strong and robust? Whether India will be the economic super power in near future? These are the research questions which this essay is going to focus on.

2. Analysis:

India has witnessed a double-digit economic growth consecutively for the last three years and it is to be observed that this is a potentially a dangerous indicator as inflationary spiral have started to surface. Economists are very cautious as they feel that sustainability of India’s economic growth is only a short phenomenon. According to certain economic observers, India’s economic growth is rather cynical and not of structural in nature.

Economist do agree that India’s recent economic growth is unparallel in nature but they only questions about the path that India has pursued to attain that economic development . It is to be remembered that the path that is being pursued by the India has not been adopted by another country in the world. Further, they were of the opinion that there exists no previous proven economic model to substantiate this phenomenon.

The India’s present economic growth is based on two fundamentals namely its domestic consumption and its competitive advantage in services industry. There is a sharp difference between Indian economy and other developed economy as developed economy is built on its exports growth and its strength in manufacturing process. Hence, Indian economy is strikingly different as it is based on its domestic consumption and its competitive advantage in services industry and this factor makes concerns for many economists.

According to study made by IMF economist in 2006 , India has begun to behave like the industrial countries at nearly when its income is at one-fifth level and has shifted to servicing sector thereby skipping manufacturing sector and this is in stark contrast to the development path pursued by the East Asian Countries in the late 1960 and 1970.

It is to be noted that Chinese economy is more industry specific and manufacturing oriented. In contrast, India has shifted suddenly from intensive industries in the last two decades and fastly focusing on skill intensive industries. Service industry has become the driving force of Indian economy as it contributes about 2/3 of its total GDP whereas only just 25% of Indian population is dependent on it. India’s agriculture sector contributes about one-fifth of the GDP and about two-third of its population is dependent on it.

Unemployment in India’s agricultural sector is ranking high and this camouflage unemployment in agricultural sector will potentially pave the way to retardation in its economical growth in near future. Thus, the million dollar question is how the small base of Indian service sector will ostensibly forge a structural change in the Indian economy without any upheaval in its primary sector like manufacturing, agricultural and exports. Will the present surge in Indian economy will last for ever or is it only a hallucination as it lacks a strong fundamentals as past economical indicators of the industrialized countries suggest that their economic development was built on their accomplishment in the agricultural sector on first for the attainment of long lasting sustainability of economic development

India has already liberalized its markets. Further it is adopting liberal trade policies thereby removing trading blocks thereby encouraging competition. Further India can able to offer high quality technical standards like transferable marketing thereby inviting the global customers. According to Varma, Pavan K in his book “ Being Indian” recalls an observation made by Robert Blackwell, then U. S ambassador to India, “ Human resources and intellectual capital is the greatest asset of India and as a nation, India is having great DNA”.

Further there are cost advantages for outsourcing jobs to India and thereby a corporation can maximise its revenues. Thus an UK or U. S based corporation can reduce labour cost up to 40% and save in short term competing on price in commodity product / service market. Thus there exist a tight pressure on competitiveness of any corporation and they have to be more competitive else they can loose their market share. Country specific costs are playing pivotal role in deciding to outsource the same from India. The routine tasks like call centers are being outsourced from India. It is to be noted that 15% of UK's FTSE 100 use call centers are located in India. About UK's 50. 000 out of total 600, 000 call centers jobs have been relocated to India. Further, more than UK's 100, 000 call center jobs are being planned to move to India. It is anticipated that more than 1. 5 million service jobs will be off shored by 2015.

As per A. T Kearney's 2006 offshore location attractiveness Index, [1] India retains as the top performer in 2006 offshore index by securing five stars mainly due to its human resources strength. The strength of India in outsourcing industry is mainly due to its deepest experience in business process outsourcing and availability of large skilled labour force. India remains as favourable offshore destination for more than a decade. India's labour force is mainly preferred due to its work ethic and quality, technically qualification and productivity aspiration of the global clients. According to Gartner, India is currently holding about 80% to 90% of the offshore market. India is currently earning about $ 18 billion in IT and BPO annually. Further three out of five of the world's CMM Level 5 companies are in India.

In fact, Indian economy is being driven by its domestic consumption growth. There is an unmatched surge in consumption in India in recent years as India is having high disposable income with its middle class population and India's consumption as a percentage of GDP positions it as second level in the world next to U. S.

One another area which makes economist worry is the fact that India's low rate of savings which is approximately about 30% of its GDP whereas majority of the developed economies and China is having a greater rate of savings which is about 50% of their GDP.

India has to address some of the basic issues like primary education, health services and to rectify the present bad infrastructure to maintain its present growth rate. Economist worry how India is going to address the issue of required skill level of its future working force? Though, India has abundant working population and it is estimated that India will have the largest working population in the world by 2040 . However, the basic question which remains unreciprocated is the required and relative skill level of the future working population. Development of skill and offering quality education to its population is to be given more priority as India is dependent on its service sector. Despite of the fact that large turnout of graduates from Indian university annually, the number of graduates with the required skills to be employed in industry or service sector is comparatively inadequate. If this is not addressed properly, then India may be witnessing a great economic turmoil in the near future as it will affect both its export and service industry drastically.

Is Indian economy is a “ bubble economy” longing to disintegrate? A bubble is created by inflow of foreign investments in an unprecedented way which in turn would lead to excessive creation to businesses and consumers. When the flow of foreign investment slows down or stops abruptly, business is forced to slash their prices for their survival. This could be established by evaluating the quantum of foreign inflows as a percentage of its GDP versus what it stood for the bubble economies before they disintegrated.

It is to be observed that India's foreign investment flows have leaped sharply from $ 6 billion in 2003 to $ 20 billion in 2006 and these comprises of 2. 5% of India's $ 800 billion GDP. According to Reserve Bank of India, India's retail loan attained a growth of 48% as compared to 28% and 38% of agriculture and business respectively and commercial real estate loan have surged to a whooping figure of 105% The earlier bubble economies such as Thailand and Japan had different story to tell. It is to be noted that Thailand domestic credit growth in the years proceeding to it's economic crash was about 35%. However, it is consoling factor to note that India's credit to GDP ration ranges at a moderately low 45% as compared to the staggering 300% that Japan had before its economic crash in 1990.

The status quo of Indian economic growth largely depends upon its exports to U. S. It is to be observed that Indian economy may bubble at any time if there is a devaluation of the U. S dollar and substantial reduction in trade deficit. At present India is having only a marginal trade surplus with U. S.

' Being an Indian' a book written by Pavan K Varma offers a comprehensive and more balanced glimpse of modern India and its economic growth. Further, India's poverty alleviation can only be resolved by more development based on liberalization and trade with the outside world. There is a further need to liberalize trade in India mainly to unleash the innovative and entrepreneurial energies of its citizens bound by the corrupt bureaucratic socialism in the past four decades after Indian independence. [Gurcharan Dass, 2000].

India definitely won't be a developed economy by 2020 as predicted by many economists. However by 2040, it may reach the developed economy stage roughly where Malaysia is today. To become a developed economy, India has to do a lot of ground exercises on the following sectors; minimizing the wasteful subsidies, investments in rural infrastructure, tax and legal reforms, the provision of social infrastructure and thrusting more significant on commodity exports. [Bibek Debroy. 2004]. If these measures are introduced, rural India will then be benefited much more than the elites and skilled workers of urban India and ensures a uniform development in India. One recent study premises that inequalities in India has given rise to three different economies such as business class economy which constitutes about just 2% of its population ; the motor bike economy which comprises about 16% of its population and the poor bullock cart economy which forms as high as 82% of the population. [2]

3. Conclusion:

To sustain its economic growth, India needs to introduce more reforms by investing heavily on its primary sector and also in primary and specialized education for developing skilled work force in the near future on which the present Indian economy rests. India needs to brace itself a lot of social stirring as people not just for searching jobs but also is in hunt of acquiring the human capital to become employable. How India is going to react to it and moulds these forces may well be the greatest economic issue which India is going to face over the ensuing decades. India’s economic bubble may at any time explode as it heavily relies on strong U. S dollar. It is to be noted that axe is just lingering to fall at any time and how India is going to handle such issue is a million dollar question that lingers on economist minds.