



## GLOBAL ECONOMIC SITUATION: CHALLENGES & PROSPECTS FOR THE INDIAN ECONOMY

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Our Indian economy was a closed economy till 1990. The World's economies lately realised that integration was very necessary for attaining the overall development and prosperity of any country. Thus, the New Economic policy was launched in 1991 thereby paving the way for Liberalisation. The wave of Liberalisation that swept the world in the last decade has increased the 'Openness' of almost every nation in the world. The global environment has become much more relevant in the last two decades.

Globalisation on the one hand has given rise to the new opportunities and on the other has brought along new challenges and responsibilities too. The process is becoming such an enormous transition that one cannot remain a silent spectator in this scenario. The economy should feel and respond according to the progress and changes.

The American recession has cast its shadow all over the world and India was not an exception to this process. Many Indian companies or IT professionals suffered from this recession. The recession has also compelled job cuts in various corporate giants too. The Indian policymakers have reacted proactively by introducing numerous measures to reduce the impact of crisis but it is quite apparent that India has been affected by this global development with the reason being integration of the country with the world economies.

It is not feasible for India to wait out for such global developments, adopting a passive stance. But it should now realise that now it is a part of the global economy and polity and the global changes would affect India deeply and what India does would affect the world. The Indian economy has to learn to enhance their competitiveness and exploit to their advantage these Global Changes offer. *'Adapt Or Perish' Is The Message.*

### ***FULL ARTICLE***

Every nation has to go through unpredictable phases throughout its journey. In the event of some catastrophe, the nation changes its course of action which eventually influences its destiny. The Indian history has two important hallmarks to recall namely – Indian Political Freedom in the year 1947 and the Indian Economic Freedom in the year 1991. The historical realities of the rise and fall of nations can very well be observed and the history of human civilisation has proved that innovations had lead to the overall growth of the economy. It is evident that those who had the ability to innovate have always won the day.

Way back in the 18<sup>th</sup> century India has witnessed various stories of missed opportunities in the waves of industrial revolution. India's share in the world production at



that time accounted for 22.6 per cent. The other super power at that time was China and its share was better than India at 23.1 per cent. The US had no prominent share in world trade. In 1880, China's share has gone up to 32.4 per cent, while India's share began to come down to 15.7 per cent while the USA emerged with a share of just 1.8 per cent. So India's share that time was larger than the USA but after that there was progressive deterioration in our share till 1995. As per the latest data, China accounts for 11 per cent whereas India is less than 5 per cent and USA with 21 per cent.

India had in 1700 a proportion of global production, which was larger than the USA's share of global production today. So it is quite evident that globalisation is not a new concept in India. In fact, the Indian share in the world's production was as large as the USA at a time when India was a highly globalised nation. India was our best among nations when we were fully globalised and what happened to the position of India when we closed ourselves.

The Indian economy was in major crisis in 1991 with 15 per cent of the world population, 7.5 per cent of the world's land but with a mere contribution to the world trade of even less than half a per cent, when foreign currency reserves went down to 1 billion dollar. The American recession had cast its shadow all over the world. India was not an exception to this process. Many Indian companies and IT professionals suffered from this recession. The recession has compelled job retrenchment in many companies in various corporate giants.

Globalization had even affected various other sectors including Agricultural, Industrial, Financial, Health sector and many others. It was only after the LPG policy i.e. Liberalization, Privatization and Globalization launched by the then Finance Minister Man Mohan Singh that led to the development in various sectors. In addition, the most important thing that happened in 1991 is that we started increasingly integrating into the world economy. This gave the developing pace to India, and now India certainly will not be left out in the way side in the industrial revolution of our time. Surely, India has emerged at the forefront of Information Technology, which is beginning to change our lives dramatically. Tom Peters has argued that the technological facilities have offered a wide range of facilities and availability of easy credits and other services just by switching on computer and information technology. This business outsourcing is now giving a new dimension to the global business operation. Several new features like new markets, new technologies, new rules and norms characterize the current phase of globalisation. Globalisation is just a mindset, which views the entire world as a single market.

The globalisation process has revolutionised the economic systems and their working. But the phenomenon of international propagation of trade cycle has increased quite substantially. According to the World Investment Report, Transnational corporations shape the process of economic change in a big way right now. The global environment is highly dominated by their action and presence. The global economy is affected in a way that there is increased emphasis on market forces, greater role of private sector, and reduction of public sector.



## Initiatives of the Government to Face the Global Changes

According to the latest forecast of the International Monetary Fund (IMF), in the coming future India is set to become the world's fastest-growing major economy by 2016 ahead of China. India is expected to grow at 6.3 per cent in 2015, and 6.5 per cent in 2016 defeating the China's projected growth rate (IMF latest update of its World Economic Outlook).

India's macro-economic prospects have strengthened and the country is best positioned among emerging market economies, gaining global investor's attention, according to the report by ICICI Bank. The improvement in India's economic fundamentals has accelerated in FY2015 with the combined impact of a strong Government mandate, RBI's inflation focus supported by benign global commodity prices.

India has become a promising investment destination for foreign companies now. The present Prime Minister of India Mr. Narendra Modi, has launched the 'Make in India' initiative with the aim to give the Indian economy global recognition. This initiative is expected to increase the purchasing power of the common man, which would further boost demand, and hence spur development, in addition to benefiting investors. The steps taken by the government in recent times have shown positive results in India's gross domestic product (GDP).

Based on the recommendations of the Foreign Investment Promotion Board (FIPB), the Government of India has approved 14 proposals of FDI amounting to Rs 1,528.38 crore (US\$ 246.42 million) approximately.

According to Organisation for Economic Cooperation and Development (OECD) it is anticipated that India will witness better growth momentum among the BRIC bloc whereas other member countries are expected to see stable growth momentum. India is expected to become the world's seventh biggest nation in terms of private wealth, with a 150 per cent increase in total, from US\$ 2 trillion in 2013 to US\$ 5 trillion in 2018, as per a recent study by the Boston Consulting Group (BCG).

Furthermore, the new 'Make in India' initiative is expected to be a vital component in India's quest for achieving wholesome economic development.

## CONCLUSION

The Indian policymakers have reacted proactively by introducing numerous measures to reduce the impact of the crisis but it was quite apparent that India has been affected by the global crisis with the reason being integration of the country with the other world economies. Factors responsible for the crisis were expanded leverages, liquidity and complexities. Even those economies that were financially sound also failed to deal with the crisis. All this had a very negative effect on employment, capital formation, poverty and import-export. The solution to this that the state should adopt strong policy regime and neo-liberalisation



approach. A host of reforms are required in the agricultural sector to face the economic and fiscal crisis and become self-sufficient. The government should also stress emphasis by incurring expenditure on rural and urban infrastructure and should not depend on private spending for the economic and social developments of the country.

The Indian policy makers are also required to maintain the domestic demand and make efforts to work against investor's confidence. Few other governance reforms are also required in other sectors for maintaining growth and making our Indian economy competitive.

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