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# **Globalisation Emerging Markets: The case of India**

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## *Globalisation & Emerging Markets: The case of India*

### ABSTRACT

Globalisation is the primary mechanism behind the increased competitive pressures put on international businesses that has become a fundamental practice to enable cost reduction measures, by choosing how and where to capture gains (Amaral et al 2006, Venture outsource.com 2007). Globalisation is characterised as the accelerating process in economic, political and cultural integration in a cross border scheme (Wells, Shuey and Kiely 2001). Its significance can impact both negative and positive consequences, resulting in the free flow of imports and wide scale competition (Wall and Rees 2004, Paul 2004).

The Indian market is characterised by an immense potential with a population that ranks second across the world. In spite of the global economic conditions, the country marked an average growth of six percent, with the shares of middle class forecast to treble over the 15 years next. Opportunities for many industries are cast with the level of disposable income that has raised domestic demand at 9.2 percent. These present the raised country integration and internationalisation capabilities. Internationalisation highlights the ability to take in a complete set of company functions across borders for labour arbitrage gain. This entails the transfer and management of day-to-day business activities to emerging markets in cross border locations, as the Globalisation phenomenon (Bengtsson et al 2009, Windrum et al 2009, Browne and Wilson 2005).

This report construes the evaluation process of defining foreign market attractiveness alongside the outlined risks in doing business: India, as part of the BRIC block. The work looks, globalisation and international trade in the context of the socio-cultural environment.

# PESTLE

Thakur (2010) suggests that an effective frame of reference in the study of the external environment is the PESTLE. The origin of PESTLE is ETPS, crafted for the examination of macro environments, initially pursued by Frances Aguilar in 1967. Arnold Brown redefined ETPS to establish the importance of the strategic intentions in the analysis of indicators. The new tool which was recalled at PEST (Salvá 2011, Thaku 2010), was remodelled by Ketels (2006) in the context of the macroeconomic and in the lens of competitiveness of Porter (2008).

The full PESTLE framework looks are the critical factors in the environment "political, social, technical, economic, regulatory and environmental factors" (Salvá 2011), and the influence of these factors on each strategic option (Johnson et. al. 2008).

The variables as regards Politics looks at Governments position in a number of current issues, the variables on economics evaluates the indicators of trade, currency volatility and GDP growth disparity and trends. Social variables are focused on the influence of culture, tradition and demographic changes. In the category of Technology, the variables point out the level of innovation, while Legal parameters define regulatory and policy constraints. Matters on the Environment consider the ecological footprint and preservation of habitat (Johnson et. al. 2006).

Table 1: Factors influencing internalisation (Bengstsson 2009)

	EU Countries	Asia
Achieve lower cost	6.19	6.34
Focus on own core competencies	5.54	5.17
Gain access to resources & competencies	3.47	3.11
Entry to new markets	3.11	3.32
Networking new suppliers	3.71	4.28
Competition	5.52	5.72
Turn deficits to surplus	3.39	3.17

# THE LOCAL BUSINESS ENVIRONMENT

Since the seed of economic liberalisation in the early 1990s, India has in turn developed into a key player in the world economy, with raised levels of foreign direct investments in particular sectors. Privatisation is encouraged under the well-developed taxation system and through a variety of programs. India has recently supported a multi-brand approach to encourage new innovations in agriculture, cold chain logistics, retail and infrastructure.

This has resulted in the steady growth of domestic business and has attracted many companies to expand operations in India. Centrally located in South Asia, India enjoys a strategic advantage of location for trade routes across Africa, Australia, Far East, Middle East and South

Asian countries. Then combined with well-educated youth and a large local market, India positions as a hub across the region (Chakraborty and Nunnenkamp 2006; IMF 2007).

India is a complex market given the cultural diversity and large divide between rural and urban areas. Each locality is described with a dominant unorganized market and multiple legal and administrative systems (Athreye and Kapur 2001). The market is extremely price sensitive that an apt market and segment forms the core element of business decisions. Rural markets must not be ignored although these are very hard to penetrate (Bajpai and Sachs 2000).

Table 2 India Real GDP Growth in Percent (Science & Technology Delhi 2013)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
5.8	3.8	8.5	7.5	9.4	9.6	9.3	6.7	8.4	8.4	6.9	5.5

The political landscape of India presents stability with after the re-election of Prime Minister Manmohan Singh and continuity of same ruling party, the Indian National Congress. India functions on a diversified federal Government structure (Kumar 1998).

The governance framework intertwines the central and state structures, with frequent legislative revisions following exercises on each Government level. Particularly with the exercise of vote, this is practiced in three election levels: state level, municipal level and panchayat or village level. Both local and foreign anti-corruption legislations are severely set with India ranking 92nd out of 159 countries perceptions about corruption, and yet investors can be challenged dealing with rampant bureaucracy at federal, state and local Government levels.

The local business culture is characterised with lengthy procedures and complicated regulations (Thakurta and Shankar 2004). It is sufficient to state that the political environment is influenced by diverse ideologies with India as the world largest democratic nation sharing power between the central and state Governments (Chakrabarthy 2006).

Freedom of expression is deeply rooted in democratic principles, and depicted in the 2012 country ranking in the World Bank governance indicators of 58.29 percentile in voice and accountability (WB 2012). Following the determination of Telengana as a new state in the southern region of India, more demands in relation to cultural and ethnic matters have surfaced, aside from a higher degree than, for better administration. Political tensions associated with religion, caste and linguistic differences are alongside the tension.

Occurrences of terrorism with neighbouring countries are a continuing dilemma, particularly with Pakistan. Examples of such clashes are—in 1992 Babri Masjid, in 2002 Godhra, in 2012 along the southern cities the massive exodus of migrants from the north-eastern side, and in 2013 the Muzaffarnagar riots amongst Muslims and Hindus (Bennett, Coleman and Co 2014).

What curtails further economic advancement in India is the poor infrastructure with slowed capital investments on ports, railways, and roads. Distribution of electricity, water and other utilities are taken care of by local Government bodies. Bottlenecks in the level of the LGU are the unreliable supply of electricity and difficulties in customs clearance processes in product movements (Chakrabarthy 2006).





Image credit: CNN Travel

## GLOBALISATION AND INTERNATIONAL TRADE

Economic advancement presents notable significance through the introduction of several industrial reforms on matters on the formation of the FIBP, licensing for industry and liberalisation. Growth remained above 7 percent throughout the Global economic recession, but national deficit grew as Government expenditures are raised, registering a public debt at 57 percent of GDP. The country ranks 6th in the world for its reserves of foreign exchange and gold, and has its concentration of exports in apparel, chemicals, iron, machinery, petroleum, precious stones, steel vehicles to China with 5 percent, Hong Kong, 4.1 percent, Singapore 5 percent, US, 12.7 percent and UAE, 12.3 percent. Import values are USD 500.4 billion for typical commodities in chemicals, crude oil, fertilizer, iron, machinery, precious stones, and steel. Import partners include China 11 percent, Saudi Arabia 6.7 percent, Switzerland 5.9 percent, US 4.9 percent, UAE 7.7 percent; including Australia and Germany. The services sector dominates country economy, estimated to contribute 69 percent of 2013 GDP. 23 percent of country economy is attributed to wholesale and retail, and financial institution and real estate contribute 17 percent (Bennett, Coleman and Co 2014).

Between 2013 and 2014 there is a noticeable moderate slowdown in growth in the domestic market demand and decline for exports; although services continues to grow and support the economy, particularly in high-technology segments. The rupee is up by 14 percent and increases in disposable household income are forecasted, alongside the health system and housing subsidies. Reforms of the new Government tackle economic development and governance. Government procurement is focused on improvements in energy infrastructure programmes

and the environment. Inflation slowed with lower prices on manufactured commodities and tightening of the monetary policy but warped with the poor harvests (Coface 2014).

Technology is a strong contributor to the success of India. R&D is a Government priority support category since the demand continues to outpace the number of qualified degree holders in sciences and engineering. The country is home to over 3 million technical and scientific professionals with university graduates, 50,000 of which in computer science and 360,000 in engineering expertise, annually. Technology is critical in product development and in the introduction of novel cost-cutting methodologies. India is one of the world's strongest IT sectors in software development and other advancements. While the country budget is less than one percent utilised in R&D and occupies last place compared across the BRIC countries, India has successfully launched satellites into space (Athreye and Kapur 2001, UNCTAD 2000).

## THE LEGAL ENVIRONMENT

Of the entire world history, one of the oldest legislative structures is the Indian legal system, altered and developed to absorb inferences from the international legal systems. India has a single hierarchy of courts. The Constitution fountainhead illustrates characteristic of the Anglo-Saxon judicial principles extracted from the legal system of Great Britain. Typical policy in India depicts substantial European and American influence, particularly from Ireland, the US, Britain, and France. Human rights law, intellectual property and environmental law are drawn from these legislative systems (Thakurta and Shankar 2004, Glenn 2000).

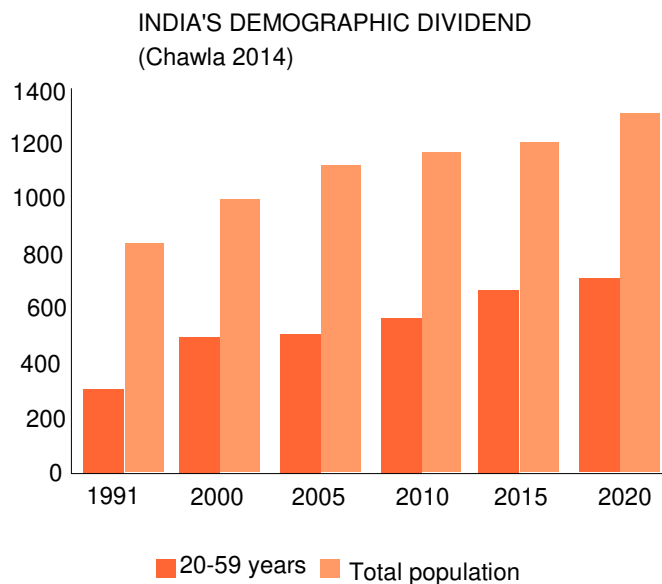
GDP	USD 5.07t in 2013
Current account balance	(-) USD 80.15b
FDI Investments	USD 27.3b
GDP per capita	USD 3900

Among the developing countries, India is one of the first to stipulate competition policies in the form of the 1969 MRTP defined as "Monopolies and Restrictive Trade Practices". This rendered as a counter measure to the high concentration in several sectors due to industrial licensing. Policy served to counteract and prohibit restrictive or unfair trade practices, let alone banish monopolies. In 2009 the Indian Competition Law was authored to embody the same principles of international competition laws that are intended to eradicate cartels and anti-competitive agreements, or the exertion of position. Mergers and Acquisitions are also thereby regulated (Bennett, Coleman and Co 2014). But even though dialogue and cooperation among competition agencies is necessitated by the forces of economic globalisation; the regulatory measures in India that are still buried in natural monopolies, tend to curtail the competition across various cultural segments in economy. As a transitioning economy, India is faced with a number of challenges which are historical in nature. First is the weak competition culture, second

is the inadequate business awareness, third is the attitude for exemption seeking by some sectors, fourth pursues strategic focus, and fifth is raising capacity and strengthening the institution (Chawla 2014).

The structure and form of the judiciary is characterised as impartial, reasonable, and translucent, but result the huge accumulation in litigations because of limited resources and abilities. Backlog root in government officials high on corruption and political battles focused on religion and the caste system. In the category of business, all agreements are renegotiable; signatures have no weight, most especially in a slow legal enforcement process (Singh 2008).

In the context of labour, worker rights are well articulated but barely put in force. This suggests the derisory impact of the age in bondage in spite the Bonded Labour System Abolition Act of 1976 which mandates for Government enforcement and the monitoring of labour violations. A rather pervasive non enforcement is explained by caste bias, empathy, corruption, and lack of accountability. Bonded labour, described as the life-long employer-employee relationship frequently established in the form of owing, is thought to be convolutedly entwined in the Indian socio-economic culture that has developed from class stature combined with colonisation and widespread scarcity. The redress of bonded labour particularly in the agricultural necessitates a mind-set change in the orientation of class stature. "The Western notion of social responsibility outside of family loyalties does not exist in India." (Arnold 1967, Bardhan 1983, Finn 2014).



## THE CULTURAL AND SOCIAL ENVIRONMENT

Given a population over 1.21 billion, the middle class is forecast to swell from 31.7 million households to 53.3 million households by 2015-16. This strong demographic advantage with disposable incomes and growing acceptance of western lifestyles, can fuel economic growth in years to come. India is becoming the largest work force to the global economy with 31 percent





of the population are below 15 years of age, and 600 million young people at the median age of 25 years of age. Indicators show a highly skilled labour force with good language abilities in English, and particularly knowledgeable in western culture and society. As an example, international firms benefit from the young Indian educated population through the different R&D facilities. Indians are often described with a “No problem” mind-set and depend on the concept of solutions (Credendo Group 2014).

Over the recent years, the disparity of yearly earnings has become more pronounced between higher income groups and lower income groups, at the same time regional development gaps are more apparent. Considerations include the absence of a functional healthcare system, sufficient access to drinking water, methods for infection prevention, and improving literacy rates at 73 percent for men and 48 percent for women. Social unrest and militant activities remain well pronounced in disputed states of Kashmir and Jammu, indicating that the social landscape continues to show signs of neglect (Chawla 2014, Jaspal 2014).

The legal system of India is quite comprehensive, with taxation policies that specifically boost foreign direct investment. Rule of law is based on enactments authored by state legislatures and a secondary source is judgement of courts. Recent legal reforms are related to



recycling, minimum wage increase and disability. Protection of environment is weak particularly in noise control and waste disposal as a result of urbanisation, and posing a threat on health (Basu 2007, Jain 2006).

## THE ENVIRONMENT AND ECOLOGICAL ISSUES

Policy is in place to meet the intended goals in the context of environmental protection but little improvement is seen with the lack of enforcement. Environmental issues differ across regions with the stage of urbanisation, economic structure, extent of production technologies utilisation and environmental policies. To some extent the issues related to sanitation and health root in the stagnation of economy while other are related to the particular economic activity. In the case of India, poverty presents more sensitive concerns given the dense population and limited resources.

The Majority of the land area presents levels of degradation that impede on the economic productive resource base. Of 329 million hectares of geographic area, 175 million hectares are degraded (State of Environment 2008). Air pollution is rampant with high levels of Suspended Particulate Matter or SPM in 20 percent of the cities, with high concentration levels of sulphur dioxide from home usage of coal or bio-mass fuel (Asia-Pacific Environmental Outlook 1997).

Noise levels present mostly in the big cities to exceed prescribed standards in "Bhopal, Bangalore, Calcutta, Chennai, Delhi, Dehradun, Hyderabad, Jaipur, Kanpur, Kochi, Lucknow, Mumbai, Varansi and Vizag." Local authorities endeavour to enforce noise control measures over audio speakers, construction activities, diesel generator sets, and vehicles (Central Pollution Control Board 2008).

Poor water quality results from the pollutants discharged from household sewerage, effluents of industry and run-off land based activities. Solid wastes disposal is largely unregulated without services and adequate collection facilities, raising the health hazard. About 48 million tonnes of waste from paper, plastic, cloth, metal, glass, and organic matter is recorded in 1997 is estimated and the basic mode of waste disposal uses land filling (World Resources 1998). The coastal areas of India exposed to environmental stress from land based pollutants, prawn culture activities and aqua culture farms, unplanned development activities and shipping based activities (State of Environment 2008).

## DISCUSSION ON COUNTRY RISK

Risk and risk analysis is an exercise to be performed throughout the investment life, from the conceptual stages to its decommissioning. The goal is to determine risk abatement measures and bring down the level of risk to acceptable levels, abolish constraints and reduce ambiguities (Yusuff 2006). The two components of risk are exposure and uncertainty (Holton 2004), which is examined to qualify exposure, the level of loss and the probability of its occurrence (Gough 1988).

The roles and responses to various forms of risks form a crucial component of the evaluation of investments, all the more since a planned project might not be delivered exactly (Dixon 2000). The wealth of knowledge on a macro and micro level of risk in the context of the different sectors and the adaptation of techniques, present with varying equations and degrees of freedom (Chadbourne 1999). Risk management approaches intend to identify and apprise risk such to achieve decision superiority (Greenfield 2000).

## POLITICAL RISK

Indian politics is characterised with uncertainty mangled in a series of corruption scandals on ruling Congress party. Political inaction is dampened further by smaller and instable coalition allies across provinces. A prediction on the next general election outcome is uncertain. An optimistic scenario sees no alternative but to implement ambitious reforms to feed the economy. Historical conflicts raise the security and terrorism risks, frequently violent between Muslims and Hindus, aside tensions with Pakistan over Kashmir (Chakraborty and Nunnenkamp 2006, Glenn 2000, Thakurta and Shankar 2004).

Law enforcement is weak, legislative action is slow and costly, and Indian politics is tough and murky (Jain 2006, Basu 2007).

## FINANCIAL RISK

Risk factors in doing business in India can be characterized by the following. A continuing economic slowdown in India presents risky outlook. Although GDP growth averages are stable, this trend is on a progressive decline. Between 2000 and 2010 the 7.5 percent average GDP growth plunged into a decade-low of 5 percent. Capital flight caused the decline in the Rupee has in return raised the risk levels on a macroeconomic scale. It is to note that in a span of a decade India worst cycle is thought as home-grown resulting structural deficiencies.

For some time already, India presents with a comparatively higher sovereign risk having state balance of payments are under pressure but not yet a crisis, current account deficit reaches 5 percent of GDP from an earlier average of 2.7 percent; subsequently, registering volatile FDI flows. Curtailed by weak public finances, some economic reforms remain stagnant. Meanwhile, monetary policy can offer limited growth alternatives with the Indian government bogged down (Chakraborty and Nunnenkamp 2006, Thakurta and Shankar 2004).

## OPERATING RISK

The overall business environment is much weaker alongside infrastructure bottlenecks, corruption and bureaucracy, and structural impediments. The Indian market and consumer demands vary widely from other developed nations, such as the slight difference in food and drinks across a single country. India's preferences are peculiar as to states, and even at times





within states. The staple food of northern parts is wheat, and of southern regions it is rice. Diverse religion, culture, language, weather and infrastructure, influences largely on demand that rural commodities ought to be localised to fit consumer tastes. Multinationals are on the lookout for focused markets (Chawla 2014, Credendo Group 2014).

Large portions of the population of India are residents of the rural areas plus high percentage urban residents are self-employed. Effectually the English-speaking workforce is below a fourth of the urban population. Rigorous labour policy sits the manufacturing sector blue-collar employees in contrast the service sector white-collar employees. "India is a traditionally male dominated society with women holding an inferior position." It is to note that "India is the 4th unsafe place in the world for women" (Chawla 2014, Credendo Group 2014).

## NATURAL RISK

Between 2005 and 2014, the natural calamities occurrence in India has had the largest impact by typhoons. The death toll in extreme temperature is 886 people, the death toll by earthquake of 1309 people and a death toll in typhoons of 11,117 people. The share of population affected by flood is 78.54 million and those affected by storm are 18.33 million. Of the ten deadliest natural calamities in India, damage is valued in USD15 billion for floods, USD 1 billion for earthquakes and USD 0.63 billion for storms. Resulting floods are the most damaging of all the natural calamities among cyclones, earthquakes, heat waves and tropical storms are the natural disasters expected in India. Flood havoc includes roads, bridges, schools and even



state infrastructure; apart from the cost to deploy 300,000 of military personnel for relief and rescue efforts (Mondal 2014, Dutta 2014).

## CONCLUSION AND RECOMMENDATION

India promises tremendous growth opportunities to multinational companies on the premise that risk variables are apparent on the onset. Consumption alone by the sheer size of the population can offer sizeable margins if the local markets are understood. Developing business strategy requires due diligence and risk analysis and mitigation strategies.

By 2025 the forecast population of India is to exceed the population of China, by then Europe and Japan are forecast to have an ageing population. Effectually, India is to be recognised as the largest worker population with 700 million in workforce. Sheer size of the nation can shape lifestyle and sweep consumption trends.

On a country level the three top priorities, first off is the need to rationalise the use of groundwater, which includes factors of waste management and development planning. Second is the reorientation of institutions such to influence the way people view technology resources and development—and most importantly the abolition of caste system.

On the level of company, it is suggested that suitable local partners are identified before market entry, then manage a long term relationship. Leverage on consumer market, identify the target niche and determine the reach. Understand the culture of doing business and establish good communication channels. Be receptive on new techniques.

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