THE CONCEPT OF EMERGING MARKETS WITH SPECIAL REFERENCE TO INDIA

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ABSTRACT

In the last few decades with the advent of globalization and liberalization there has been a notable change in the share of the emerging economies. An emerging economy can be defined as a nation’s economy that is progressing towards becoming more advanced, generally through rapid growth and industrialization. India is a classic example.

India has followed a diverse development strategy over the years. From a Protectionist Policy in the earlier days India has liberalized her economy. This has had both positive and negative impact on the economy. The benefits include spurt in growth rate, increase in foreign exchange reserves, increase in foreign investment and increasing role played by the service sector.

The sectors which have benefitted include Information and Technology, Telecommunication and retail. India has a lot to learn from her competitor and neighbor China. We however cannot deny the fact that our country has certain advantages in terms of endowment of natural resources, large educated and enterprising young population, a well-developed financial system with healthy competition among private and public banks for business and a predominant service sector.

It is imperative that India has to take stern and stringent measures to make her mark in the international arena. The need arises for massive investments for which would cater to the needs of the masses. After all India has a heterogeneous population, and therefore the issue of caste, region and gender cannot be neglected.

Keywords: Emerging economy, Liberalization, Development Strategy

INTRODUCTION

Over the last two decades, along with globalization there has been a notable change in the growing share of the rapidly developing economies – also called as emerging economies. One such example is our own country India. Even though the term was coined by the World Bank more than a quarter century back it gained popularity only in the 1990s. In this Paper an attempt has been made to look into the concept of Emerging Economy, discuss its characteristics and growing importance and discuss the progress of India in the last decade.

CONCEPT OF EMERGING ECONOMIES

An emerging market economy can simply be defined as a nation’s economy that is progressing towards becoming more advanced, generally through rapid growth and industrialization. These economies promise huge potential for growth while simultaneously being subject to political, monetary and social risks. The four largest emerging economies are the BRIC Countries namely
Brazil, Russia, India and China followed by South Korea, Mexico, Indonesia, Turkey and Saudi Arabia.

In the Seventies these countries were termed as less developed countries as compared to USA, Western Europe and Japan. As the term was found to be incorrect in post 80s the term emerging economies was brought into fashion by World Bank economist Antoine Van Agtmael. Classic examples of emerging economies are the two Asian Superpowers China and India. Despite following different growth paths they are being acknowledged as the two fastest growing economies – post reform period.

CHARACTERISTICS OF EMERGING ECONOMIES

The following are the characteristics of Emerging Economy:

1. **The Per Capita Income**: in these countries is low as compared to developed countries. It is estimated that the Per Capita Income of these countries ranged between 10% to 75% that of the European Union;

2. **Accelerated Growth Rate**: Empirical evidence during the last decade shows that they have experienced a brisk growth rate that has narrowed down of late. Thus it is apparent that they are driven by the incentive of growth;

3. **High Volatility**: They tend to have high volatility which could be caused by factors such as natural calamities, external price shocks and unstable domestic policy. In addition they tend to be easily affected by volatile currency swings like dollar and fluctuations in global prices of oil and food items;

4. **Lesser mature capital markets**: as compared to the developed countries: Capital markets: play an important role in economic development. Even though the capital markets are growing in these emerging economies they are not matched by growth of market liquidity. It is imperative that they have to finance the rapid growth they are experiencing if they want to move ahead;

5. **Higher average rate of returns**: The adoption of export promotion policy by these economies has led to greater than average rate of returns to the investors;

6. **Domination of disparities**: These economies suffer from urban rural divide, wide gaps between the wealthy and the poor, caste and class discrimination. In addition they face the problem of inadequate and lesser developed infrastructure. The problem is more pronounced in case of rural areas.

INDIA AS AN EMERGING ECONOMY

A BRIEF HISTORY OF STRATEGY OF GROWTH ADOPTED BY INDIA

After gaining independence in 1947 India adopted protectionism and accordingly laid emphasis on import substitution. Looking at her close ally the erstwhile USSR, as a Role model India adopted socialism, giving importance to rapid industrialization, dominance of the public sector and introduction of five year planning. Accordingly the period witnessed the setting of three steel plants in Rourkela, Bhilai and Durgapur.

Keeping in mind the poor performance of the economy, importance was also being given to agriculture. In 1966 Indian agrarian sector was characterized by the Green Revolution. The yield increased due to adoption of agronomic technology which included high yielding variety of seeds and fertilizers. Several critics were of the view that this was a Wheat Revolution as it favored wheat and encouraged capitalist farming.

However, it was soon realized that it was essential to open up the economy if India was to be considered as a fast growing economy. This encompassed two aspects namely gradual reduction of
state control and financial liberalization. Earlier attempts were made to liberalize the economy in the 80s when the then Prime Minister late Shri Rajiv Gandhi initiated several restructuring measures.

In 1991 India was going through a financial crisis. Unfortunately this period coincided with the disintegration of the erstwhile USSR and the Gulf War. She had to approach the IMF for financial assistance and was compelled to introduce reforms. The Reforms process was initiated to accelerate the pace of economic growth and eradication of poverty. This marked a systematic shift to a more open economy with stress on market forces, a larger role of the private sector including foreign investment and restructuring of the role of the government.

INDIA AS ONE OF THE FASTEST GROWING ECONOMIES IN THE POST REFORM PERIOD

It is a well-accepted fact that India is one of the fastest growing economies. She has the credit of being the biggest democracy, boasting of the largest young population and being a major representative of the ‘Emerging Market’. The entire issue warrants a discussion on the impact of liberalization on the strategic sectors. As always there are two sides – positive and negative. Let us examine them:

Positive Side

**Growth Rate:** It is estimated that India’s growth rate in the two decade period increased from 5.6% in the period 1980-91 to 6.4% in the time 1992-2001. It reached its peak in 2010-11 by growing at 9.3%, but subsequently slowed down to 5% in 2012-13 on account of global factors. However, it is expected to grow between 7-7.5%

**Foreign Investment:** In the pre liberalization period, in view of the protectionist policy followed by the Government, adequate foreign investment was sadly lacking in India. Liberalization and Privatization saw a spurt in Foreign Investment which increased from 129 million US Dollars in 1991-92 to above 1,00,000 million US Dollars in 2010 and further to 21.6 billion US Dollars in September 2016.

**Foreign Exchange Reserves:** With the introduction of reforms and the inflow of more foreign capital our reserves increased from 6 Billion US Dollars in 1990-91 to 125 Billion US Dollars in 2004-05 to 292.33 Billion US dollars in February 2014 and further to 368.231 Billion US Dollars in November 2016.

**High Growth of Service Sector:** The Service sector is the key driver of economic growth, besides being a major contributor to the National Income. The share of the Service Sector has increased substantially to 57.9% of GDP in 2014. Several factors could be responsible for this such as: demographic trend and availability of cheap man power; improved agricultural productivity, improved literacy level, and possession of skilled Brainpower.

Negative side

**Increasing Unemployment:** The problem of unemployment has always plagued the Indian economy. In a labor abundant country like ours introduction of capital intensive techniques and automation which accompanies liberalization and opening of doors to foreigners will not generated sufficient employment. This will only aggravated the problem. The need is therefore for creation of a favorable environment for generation of employment.

**Omnipresent Poverty:** There is a paradox of sorts. While on one hand while India is one of the fastest growing economies of the world, she is also one of the poorest. There is a big gap between the rich and the poor. While we are one of the most industrialized countries in the world having a high technology sector particularly the IT sector, at the same time we have the traditional sector characterized by use of primitive techniques of production like plough and bullock.
Problems related to poverty, inequality of income, poor quality of health and public education services confront the country, this is more so in rural areas.

Sectors which have been the key to India’s progress in recent years

Information and Technology: India’s prowess in the IT industry is well-known. In fact this sector is largely responsible for India’s march towards growth and development. Keeping in mind her software expertise India has moved on from being a slow developing economy to being a global player in the provision of world class technical solutions;

Telecommunication: Rural and urban penetration has led to the growth of enterprise mobility in India. Today even the remotest areas have mobile and internet access. The end result is a new era of enterprise mobility.

Healthcare: Healthcare: is a major sector that encourages economic growth and contributes to employment. The healthier and robust the population the greater would be the capacity to work. What is more heartening is that public intervention has also improved in reaching out to the masses. In addition Indian healthcare has the advantage of becoming the global hub for medical tourism. This being because medical treatment and education services are available, in our country, at a very low rate as compared to the developed countries.

Infrastructure: On account of the infrastructure in India being highly fragmented, it is difficult to gauge its exact size and the job it generates. However, in terms of roads and highways, railways, aviation, shipping, energy India seems to be making rapid progress. This has resulted in significant generation of employment.

Retail: Retail Sector will have to play a greater role generation of employment, despite the fact that only a small part of Retail is organized.

One can say that China and India are the two emerging giants in the current global world, having been on the path to be considered as two fastest growing economies. Their approaches however have been different. While India as mentioned earlier, had followed a more integrated approach, China has laid emphasis on promoting its manufacturing sector for garnering exports the world over.

The progress of China no doubt has been more stupendous but India has succeeded in several industries ranging from petrochemicals to textile and software. But there are several lessons which India can learn from her neighbor namely:

a) While laying stress on manufacturing China did not underplay the role of agriculture and rural reforms. India no doubt introduced the Green Revolution in 1966 but did not pay sufficient attention to pricing and public intervention. This calls for greater coordination between the agrarian and the industrial sector to further march ahead.

b) China has made her mark in international trade and in luring foreigners resulting in greater employment. India has to learn how best domestic markets can be thrown to foreign competition and the ways in which the government policies could develop manufacture and thereby promote employment.

c) While China has invested in infrastructure India is sadly lacking behind. India’s infrastructure is inadequate. This is more so because of lack of coordination between the private and public sector. Improvements are underway.

We however cannot deny the fact that our country has certain advantages in terms of endowment of natural resources, large educated and enterprising young population, a well-developed financial system with healthy competition among private and public banks for business and a predominant service sector.

On comparing China and India one could feel that it is quite likely that bad governance has affected our country. This necessitates the government to work harder and help foster a conducive environment
for business. China and India have no doubt come a long way despite adopting different paths. However, it is essential that they take lessons from each other, which would help them in charting the next phase of their remarkable development.

CONCLUSION

From the above study, it is imperative that India takes stern and stringent measures to make her mark in the international arena. The need arises for massive investments for which would cater to the needs of the masses. We have to remember that India has a heterogeneous population, and the issue of caste, region and gender cannot be neglected.

Majority of India lives in the villages and efforts have to be made, for all round development with special emphasis on infrastructure. The need therefore arises for improving the quality of life and laying the foundation of a prosperous and better tomorrow, which will augur well for the future.

The point is that India has an enormous potential. We boast of a young dynamic population with over 234 million in the age group of 15 and 24 years. Despite her Per Capita GDP being less than half of China, she has great potential for catching up growth. While our macroeconomic management is good her microeconomic record displays forward momentum. Helped by a good monsoon and hopefully accompanied by a favorable financial cycle, we truly have the makings and potential of being a Global Superpower by 2020.

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