SWAYS OF GLOBALIZATION ON INDIAN ENTREPRENEURS

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ABSTRACT

Entrepreneurs are the backbone of any economy. Whenever any major change occurs at national economic policy, it brings direct impact on entrepreneurs. In Indian perspective, the adaptation of new economic policy (LPG model i.e. Liberalization, Privatization and Globalization) brought huge competition for Indian entrepreneurs due to entrance of multinational companies in Indian domestic market. The change in national economic policy also brought colossal opportunities for Indian entrepreneurs as the multinational companies require high quality vendor support and ancillarization. Hitherto, the sways of increased level of globalization on Indian entrepreneurs remain an unexplored area within the domain of international business. Against this backdrop, the present paper is an attempt to unfold the opportunities before the Indian entrepreneurs by overcoming the challenges emerged under the globalised regime.

Keywords : International Business, Entrepreneurship, Globalization

INTRODUCTION

Indian economy had experienced a major policy change in 1991 through adaptation of new economic reform, popularly known as, *Liberalization, Privatization* and *Globalization* (LPG model), aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient. This era of reforms has also ushered in a remarkable change in the Indian mindset, as it deviates from the traditional values believed since independence in 1947, such as self reliance and socialistic policies of economic development, which mainly due to the inward looking restrictive form of governance, resulted in the isolation, overall backwardness and inefficiency of the economy, amongst a multitude of other problems. Now that India is in the process of restructuring her economy, with aspirations of elevating herself from her present desolate position in the world, the need to speed up her economic development is even more imperative. Having witnessed the positive role that Foreign Direct Investment (FDI) has played in the rapid economic growth of most of the Southeast Asian countries and most notably China, India has embarked on an ambitious plan to emulate the successes of her neighbours to the east and is trying to sell herself as a safe and profitable destination for FDI. Under the changed circumstances, Indian domestic industries are facing a mounting competition as well as huge opportunities due to entry of large number of multinationals which requires high quality vendor support and ancillarization. So far, the sways of increased level of globalization on Indian entrepreneurs remain an unexplored area within the domain of international business. Against this backdrop, the present paper is an attempt to unfold the opportunities before the Indian entrepreneurs by overcoming the challenges emerged under the globalised regime.

GLOBALIZATION

The term 'globalization' means integration of economies and societies through cross country flows of information, ideas, technologies, goods, services, capital, finance and people. Cross border integration can have several dimensions – cultural, social, political and economic. In fact, some people fear cultural and social integration even more than economic integration. The fear of '*cultural hegemony*' haunts many. Limiting the present discussion to economic integration, it can be seen that it happen through the three channels of (i) trade in goods and services, (ii) movement of capital and (iii) flow of finance. Besides, there is also the channel through movement of human resource.

Globalization has been a historical process with ebbs and flows. During the Pre-World War I period of 1870 to 1914, there was rapid integration of the economies in terms of trade flows, movement of capital and migration of people. The growth of globalization was mainly led by the technological forces in the fields of transport and communication. There were less barriers to flow of trade and people across the geographical boundaries. Indeed there were no passports and visa requirements and very few non-tariff barriers and restrictions on fund flows. The pace of globalization, however, decelerated between the First and the Second World War. The inter-war period witnessed the erection of various barriers to restrict free movement of goods and services. Most economies thought that they could flourish better under high protective walls. After World War II, all the leading countries resolved not to repeat the mistakes they had committed previously by opting for isolation. Although after 1945, there was a drive to increased integration; it took a long time to reach the Pre-World War I level. In terms of percentage of exports and imports to total output, the US could reach the pre-World War level of 11 per cent only around 1970. Most of the developing countries which gained Independence from the colonial rule in the immediate Post-World War II period followed an import substitution industrialization regime. The Soviet bloc countries were also shielded from the process of global economic integration. However, times have changed. In the last two decades, the process of globalization has proceeded with greater vigour. The former Soviet bloc countries are getting integrated with the global economy. More and more developing countries are turning towards outward oriented policy of growth. Yet, studies point out that trade and capital markets are no more globalized today than they were at the end of the 19^{th} century. Nevertheless, there are more concerns about globalization now than before because of the nature and speed of transformation. What is striking in the current episode is not only the rapid pace but also the enormous impact of new information technologies on market integration, efficiency and industrial organization. Globalization of financial markets has far outpaced the integration of product markets.

The gains from globalization can be analyzed in the context of the three types of channels of economic globalization mentioned above.

i) *Trade in Goods and Services:* According to the standard theory, international trade leads to allocation of resources that is consistent with comparative advantage. This results in specialization which enhances productivity. It is accepted that international trade, in general, is beneficial and that restrictive trade practices impede growth. That is the reason why many of the emerging economies, which originally depended on a growth model of import substitution, have moved over to a policy of outward orientation. However, in relation to trade in goods and services, there is one major concern. Emerging economies will reap the benefits of international trade only if they reach the full potential of their resource availability. This will probably require time. That is why international trade agreements make exceptions by allowing longer time to developing economies in terms of reduction in tariff and non-tariff barriers. "Special and differentiated treatment", as it is very often called has become an accepted principle.

ii) *Movement of Capital:* Capital flows across countries have played an important role in enhancing the production base. This was very much true in 19^{th} and 20^{th} centuries. Capital mobility enables the total savings of the world to be distributed among countries which have the highest investment potential. Under these circumstances, one country's growth is not constrained by its own domestic savings. The inflow of foreign capital has played a significant role in the development in the recent period of the East Asian countries. The current account deficit of some of these countries had exceeded 5 per cent of the GDP in most of the period when growth was rapid. Capital flows can take either the form of foreign direct investment or portfolio investment. For developing countries the preferred alternative is foreign direct investment. Portfolio investment does not directly lead to expansion of productive capacity. It may do so, however, at one step removed. Portfolio investment can be volatile particularly in times of loss of confidence. That is why countries want to put restrictions on portfolio investment. However, in an open system such restrictions cannot work easily.

iii) *Financial Flows:* The rapid development of the capital market has been one of the important features of the current process of globalization. While the growth in capital and foreign exchange markets have facilitated the transfer of resources across borders, the gross turnover in foreign exchange markets has been extremely large. It is estimated that the gross turnover is around $ 1.5 trillion per day worldwide (Frankel, 2000). This is of the order of hundred times greater than the volume of trade in goods and services. Currency trade has become an end in itself. The expansion in foreign exchange markets and capital markets is a necessary pre-requisite for international transfer of capital. However, the volatility in the foreign exchange market and the ease with which funds can be withdrawn from countries have created often times panic situations. The most recent example of this was the East Asian crisis. Contagion of financial crises is a worrying phenomenon. When one country faces a crisis, it affects others. It is not as if financial crises are solely caused by foreign exchange traders. What the financial markets tend to do is to exaggerate weaknesses. Herd instinct is not uncommon in financial markets. When an economy becomes more open to capital and financial flows, there is even greater compulsion to ensure that factors relating to macro-economic stability are not ignored. This is a lesson all developing countries have to learn from East Asian crisis. As one commentator aptly said "The trigger was sentiment, but vulnerability was due to fundamentals".

GLOBALIZATION AND ENTREPRENEURSHIP

Entrepreneurship being the backbone of economy of any country has directly influenced by any change in the national economic policy. As such, introduction of World Trade Organization (WTO) has direct influence on global entrepreneurs including Indian entrepreneurs. As the entrepreneurs are basically owner of micro, small and medium size enterprises (MSMEs), WTO has huge impact on MSMEs. The current WTO negotiations provide a unique opportunity to engage the largest business community i.e. MSMEs – in a process that could lead to their expanded international growth. In this context, it becomes all the more important to examine the topical issues confronting the MSME sector and issues such as impact of WTO on MSME's access to markets and technologies, strategies and policies to be adopted in the linkages with focusing on developing strategies and policies to help guide MSME's in today's globalised economy.

MSMEs need to adapt, revitalise and reposition themselves in order to seize the opportunities thrown open in the new globalised world. Small industry world wide is extending the frontiers of business by using the internet. It is the internet that is fundamentally changing the rules of business because of its cost effectiveness and vast reach. It is, therefore, necessary that MSMEs adopt e-commerce as an important tool and avail of the new opportunities. Sensitising MSMEs to the realities of the World Trade Organisation (WTO) regime is more important than debating on reservation or otherwise of the small-scale sector.

The WTO system has served U.S. MSMEs well over the last decade. The most recent U.S. Department of Commerce data shows that MSMEs have grown steadily in international trade. The vast potential MSMEs possess for the global marketplace, however, remains largely untapped. For the ten year period ending in 1997, the number of U.S. firms exporting goods tripled to a total of 209,455. The bulk of that growth are MSME merchandise exporters who account for 96.5 percent of the total (202,185 firms) and very small companies (those with less than 20 employees) make up nearly two-thirds of all U.S. exporting firms in 1997. But in terms of the value of U.S. exports, MSMEs account for only 30.6 percent of merchandise exports in 1997, just a slight increase from 26.4 percent in 1987.MSMEs are the mainstay enterprises in most economies, yet they have not begun to reach their international market potential for their goods or services. That is why the WTO negotiations are a key opportunity to better facilitate expanded MSME growth in the numbers of participants, the value of merchandise, and the range of markets they enter.

The smart MSME's are recognising the changing environment that surrounds them, they are adding more value and adapting and embracing overseas competition. Gone or going are the traders who add little value. Enter the smart players finding more innovative ways to maintain and build on a unique cultural and geographical advantage, something that may however, also fade over time. Many are starting to merge with foreign companies and work in partnerships and alliances, while others are closing, unable to adapt to the combination of tough times and a different set of business models. As these direct cross-strait relationships evolve, MSME's companies across the world will need to re-tune their activities and find ways to capitalise on their strengths. China's entry into the WTO was seen as dramatically reducing market access barriers currently imposed on exports of goods and services, including those exported by MSMEs. The Chinese Market Is Increasingly Important to Small Businesses. Dominant and growing shares of U.S. exporters to China are MSMEs:

Demand for supporting services is one area that provides growth opportunities for experienced service providers from across the world. Both China and Taiwan will need assistance in financial and legal services, logistics, testing and regulatory services and so on. Small businesses were expected to benefit in many ways from China's implementation of its WTO commitments:

- The significant reduction of tariffs may help MSMEs exporting to other countries to compete on a more level playing field with companies located there.
- Paperwork costs for MSMEs will be reduced significantly as customs and licensing procedures will be simplified and made uniform throughout.
- Easier access to and more control over distribution systems will allow MSME companies to oversee commission agents' services, franchising services, transportation, wholesaling, repairs, and retailing of their products.
- MSME exporters will receive uniform treatment with regard to tariffs and the same treatment as domestic firms for taxes. The streamlining of requirements for trading is particularly valuable to MSMEs, which typically have fewer resources than larger businesses to deal with often complex and costly regulations.
- Each Member country will be required to confirm its standards and inspection procedures to WTO norms, eliminating excessive testing requirements and other barriers that are especially disadvantageous for MSMEs.
- Stronger enforcement of intellectual property rights through the WTO will benefit MSME's. Companies making "cutting-edge" products that involve unique technologies or processes.

So how do MSME's from across the world capitalize on this state of flux? Proven products technologies, methods and systems from developed countries are always welcome by companies that are in a position to apply them or add value in some other way. Establishing a relationship with the right company and undertaking appropriate due diligence in a framework of open co-operation (or in some cases competition) can facilitate entry into a lucrative market that would otherwise not be possible.
Reservations from certain quarters have been expressed over the impact of WTO on MSMEs in India, especially in matters of patents, copyrights and trademarks, the country's drugs and pharmaceutical industry could be the worst sufferers. The cost of medicines has been said to go up exorbitantly once the TRIPS (Trade Related Intellectual Property) agreement comes into force from January 1, 2005. The Trade Ministers meeting, held recently at Sydney, has agreed on a formula giving developing countries access to cheap medicines for virulent diseases like Malaria, Tuberculosis and HIV – AIDS. The deal allays concerns that developing countries could side-step intellectual property protection regimes and export the medicines they make to developed nations. The MSMEs will lose the benefits of subsidies enjoyed so far and be forced to compete with multinationals. The country has invested huge amounts in these enterprises. Once the provisions of TRIPS become operative they may lose significance. While there is a responsibility on the part of the State and the Centre to help the industry whenever they run into problems, the industry should be geared to help itself. The `spirit of dependence' should go, the National Competition Policy and the National Competition Commission in the place of the MRTP Commission, abolition of the post of the Comptroller of Capital Issues, etc, signals the end of controls. Competition is essential, unavoidable and inevitable. With the WTO regime aiming at almost every item becoming freely importable, the only way out is by safe-guarding duties. Protection to the small-scale sector can be best ensured if the QRs (quantitative restrictions) on imports are maintained, to some extent, by classifying these as a matter related to TRIMs (Trade-Related Investment Measures), and not just trade.

While action under the WTO Rules on a safeguard mechanism to stop a predictable import surge in a non-QR scenario may be warranted, industry should stop depending on the authorities, and instead, seek to educate itself on the future trade scenario. There is a need to rebuild confidence, as the coming years are bound to trigger a trade war, and wrest the initiative by working out a thinking mechanism. The Safeguards agreement under WTO is independent of the anti-dumping mechanism and has to be understood clearly by the industry, particularly the MSME's.

Industry is too state-dependent on a sensitive subject like QRs. The business community, by and large, has failed miserably to understand the implications of the new world trade regime for the country's small and medium enterprises. Agreed bound rates of duty structure, to which industry was never a party, are denouncible but the damage can still be undone through re-modified rates. The State Governments can take recourse to the high sales tax route to discourage indiscriminate imports, in a bid to protect domestic industry.

The most important step to help MSMEs, following the removal of QRs, would be to empower them to compete with imports as well as the products of large domestic enterprises. Seeking such support in different forms like capital, high technology, marketing and advertisement resources, there is need to devise a short-time protective barrier for some of the critical items.

A matter of deep concern for India and other developing countries is the virtual reluctance of the EU and the US to allow meaningful access to their products and creation of non-tariff barriers in various forms. Although QRs are not overtly applied, the developed countries are resorting to other methods of curbing imports from India such as standards, subsidies, sanitary and physto-sanitary grounds and anti-dumping proceedings. While it may not be possible to afford effective tariff protection to domestic producers facing competition from imports on account of India's commitment to bring down tariff levels in due course, the import duties can, at best, somewhat alleviate price competition and provide breathing time to MSMEs for adjusting to the new market realities.

In the services sector also, while the US and EU have called for greater market access for their service providers in the markets of developing countries, the EU is now launching a wide public consultation on the Requests from other WTO Members for improved access to the EU services market. Further, the new Bill moved in New Jeresy State Senate, seeking to introduce a clause that all State Govt. contracts or sub contracts of services can be performed only by US citizens or non-citizens legally resident in US, clearly demonstrates the double standards being employed by the US in sharp contrast to its own Request to other Member States of WTO for liberalising global trade in services. This move by the US is a clear attack on the supply of services under Mode 1 for cross border supply through domestic regulations and would curtail the Business Process Outsourcing (BPO) contracts being awarded to India/ Indian service providers, mainly the MSME's. As the US Govt. is understood to be keen on instituting such legislation, the other States are also expected to follow suit, and, once this happens, there is a great apprehension that the same would also have to be made applicable, under pressure from various agencies, on private sector also.

IMPACT OF GLOBALIZATION

The implications of globalization for a national economy are many. Globalization has intensified interdependence and competition between economies in the world market. These economic reforms have yielded the following significant benefits:

Globalization in India had a favorable impact on the overall growth rate of the economy. This is major improvement given that India's growth rate in the 1970's was very low at 3% and GDP growth in countries like Brazil, Indonesia, Korea, and Mexico was more than twice that of India. Though India's average annual growth rate almost doubled in the eighties to 5.9%, it was still lower than the growth rate in China, Korea and Indonesia. The pick up in GDP growth has helped improve India's global position. Consequently India's position in the global economy has improved from the 8th position in 1991 to 4th place in 2001; when GDP is calculated on a purchasing power parity basis. During 1991-92 the first year of Rao's reforms program, the Indian economy grew by 0.9% only. However the Gross Domestic Product (GDP) growth accelerated to 5.3 % in 1992-93, and 6.2% 1993-94. A growth rate of above 8% was an achievement by the Indian economy during the year 2003-04.

Due to globalization not only the GDP has increased but also the direction of growth in the sectors has also been changed. Earlier the maximum part of the GDP in the economy was generated from the primary sector but now the service industry is devoting the maximum part of the GDP. The services sector remains the growth driver of the economy with a contribution of more than 57 per cent of GDP. India is ranked 18th among the world's leading exporters of services with a share of 1.3 per cent in world exports. The services sector is expected to benefit from the ongoing liberalization of the foreign investment regime into the sector. Software and the ITES-BPO sectors have recorded an exponential growth in recent years.

- The current account deficit has hovered at less than 1 per cent of GDP in recent years.
- The strength of the external sector was reflected in a sizeable accumulation of India's foreign exchange reserves comprising foreign currency assets, gold, SDRs and the reserve position with the IMF which touched US $ 141.5 billion as on March 31, 2005. These were about then US$1 billion during the 1990–91 balance of payments crises.
- The composition of debt is also favorable. Short-term debt amounts to 3.5 per cent of external debt and concessional debt amounts to 36.5 per cent of total debt.
- The external debt burden looks sustainable according to a range of measures of indebtedness. Both debt service payments as a proportion of current receipts, and the external debt-to-GDP ratio have been falling steadily during the 1990s, and currently stand at around 17 per cent and 22 per cent, respectively.

India's imports in 2004-05 stood at US$ 107 billion recording an increase of 35.62 percent compared with US$ 79 billion in the previous fiscal. Export also increased by 24 percent as compared to previous year. It stood at US $ 79 billion in 2004-05 compared with US $ 63 billion in the previous year. Oil imports zoomed by 19 percent with the import bill being US $ 29.08 billion against USD 20.59 billion 170 in the corresponding period last year. Non-oil imports during 2004-05 are estimated at USD 77.036 billion, which is 33.62 percent higher than previous year's imports of US $ 57.651 billion in 2003-04.

Thus it may be said that the economic reforms in the Indian economy initiated since July 1991 have led to fiscal consolidation, control of inflation to some extent, increase in foreign exchange reserve and greater foreign investment and technology towards India. This has helped the Indian economy to grow at a faster rate. Presently more than 100 of the 500 fortune companies have a presence in India as compared to 33 in China. In this context, a comparison with other developing countries is as follows:

- India's share of world merchandise exports increased from .05% to .07% over the past 20 years. Over the same period China's share has tripled to almost 4%.
- India's share of global trade is similar to that of the Philippines, an economy 6 times smaller according to IMF estimates.
- Over the past decade FDI flows into India have averaged around 0.5% of GDP against 5% for China and 5.5% for Brazil. FDI inflows to China now exceed US $ 50 billion annually. It is only US $ 4 billion in the case of India.

Following are the future challenges before Indian economy under globalized regime.

- Sustaining the growth momentum and achieving an annual average growth of 9-10 % in the coming years.
- Simplifying procedures and relaxing entry barriers for business activities and providing investor friendly laws and tax system.
- Checking the growth of population; India is the second highest populated country in the world after China. However in terms of density India exceeds China as India's land area is almost half of China's total land. Due to a high population growth, GNI per capita remains very poor. It was only $ 2880 in 2003 *(World Bank figures).*
- Boosting agricultural growth through diversification and development of agro processing.

- Expanding industry fast, by at least 10% per year to integrate not only the surplus labour in agriculture but also the unprecedented number of women and teenagers joining the labour force every year.
- Developing world-class infrastructure for sustaining growth in all the sectors of the economy
- Allowing foreign direct investment (FDI) in more areas.
- Effecting fiscal consolidation and eliminating the revenue deficit through revenue enhancement and expenditure management.
- Some regard globalization as the spread of western culture and influence at the expense of local culture. Protecting domestic culture is also a challenge.
- Global corporations are responsible for global warming, the depletion of natural resources, and the production of harmful chemicals and the destruction of organic agriculture.
- The government should reduce its budget deficit through proper pricing mechanisms and better direction of subsidies. It should develop infrastructure with what Finance Minister P Chidambaram of India called "ruthless efficiency" and reduce bureaucracy by streamlining government procedures to make them more transparent and effective.
- Empowering the population through universal education and health care, India must maximize the benefits of its youthful demographics and turn itself into the knowledge hub of the world through the application of information and communications technology (ICT) in all aspects of Indian life although, the government is committed to furthering economic reforms and developing basic infrastructure to improve lives of the rural poor and boost economic performance. Government had reduced its controls on foreign trade and investment in some areas and has indicated more liberalization in civil aviation, telecom and insurance sector in the future.

CHALLENGES BEFORE INDIAN ENTREPRENEURS

Globalization brought both challenges and opportunities for Indian entrepreneurs. Following are the different challenges before Indian entrepreneurs under globalized regime.

- Prior to 1991, Indian entrepreneurs were working in an environment where they have to face hardly any global competition in the domestic market. They had less threat towards their survival. But now due to adaptation of LPG policy, large number of multinational companies (MNCs) started their operation in India's domestic market. Resultantly, local entrepreneurs are facing huge competition.
- To become globally competitive, Indian entrepreneurs entail state of the art technologies. In most of the cases, such technologies need to be imported from other countries which requires fare amount of pecuniary involvement.
- Successes in entrepreneurial ventures are directly influenced by the availability of infrastructural facilities which largely includes financial infrastructure, social infrastructure, transport and communication infrastructure, energy infrastructure, information technology infrastructure, etc. The development of such infrastructural facilities are largely depends on ability to attract FDI. In this context, India is facing huge competition from China.
- Despite of huge entrepreneurial potentiality, India is far lagging in entrepreneurial activities in comparison to developed countries due to its un-entrepreneurial environment and culture. There is a basic assumption in India that on completion of education, people will go for employment rather than creating his/ her own business. But in globalized regime such perceptions need to be reversed.
- General education level of Indians is very low in comparison to developed countries. To become innovative and globally competitive entrepreneurs, both proper education and skill is very important factors and requires enhancement.

OPPORTUNITIES BEFORE INDIAN ENTREPRENEURS

Globalization not only brought challenges abut also brought some opportunities for Indian entrepreneurs. The various opportunities that Indian entrepreneurs need to pursue in the coming decades are as follows:

- Globalization brought the opportunities for Indian entrepreneurs to extend their business in other countries and to become world sourced companies.
- Globalization brought the scope for Indian entrepreneurs to hire required human resources through global talent sourcing.
- Transfer of technology became much easier under globalized regime.
- The possibility of FDI in Indian economy has been increased a lot.
- Due to globalization, Indian entrepreneurs are now capable of marketing their products and services in the global market easily.
- Accessibility on global resource had also been increased.
- The prevailing poor community of India may be utilized as low cost labourer. This will act as double edged weapon. In one hand it will bring bread and butter for the hungers and on the other hand entrepreneurs will be able to reduce their production cost and thereby be competitive in the global market.
- Under the globalized regime, various multinational companies are started operating in Indian domestic market. They require high quality vendor support and ancillarization. This is a huge opportunity for Indian entrepreneurs to flourish themselves.

CONCLUSION

Entrepreneurs are the integral part of any country's social and economic fabric. Virtually, entrepreneurship injects vitality and a competitive spirit into the economic landscape which is not readily available from large business. In India, under the globalized regime, since 1991, entrepreneurs are facing enormous challenges for their survival due to increased competition from multinational companies. It is fact that globalization brought huge challenges for Indian entrepreneurs but it also brought many opportunities for them. The multinational companies those began to operate in Indian domestic market require high quality vendor supports and ancillarization. This is the gate way for Indian entrepreneurs. Besides these, globalization also brought huge opportunities for Indian big giants to operate in other countries and to start working as world source companies. Globalization increased healthy competition at global market but as a result of that competition, now companies are providing value based products and services to capture global market share at an increased level. It is believed that if Indian entrepreneurs are able to explore the prevailing opportunities of globalization at optimal level overcoming the challenges of globalization, India is going to be the dominant ruler of world economy in coming decades.

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