Domestic and International Trade Liberalisation of the Indian Economy: Domestic firms & MNCs response

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Abstract
Over the past two decades trade liberalisation has become an important part of many countries development strategies. Winters L. A. (2004) describes trade liberalisation is the elimination of or reduction in the trade rules that prevent free flow of products or services from one country to another. It may contain dismantling of fare for example duties, surcharges, and export subsidies as well as nontariff barriers like licensing regulations, quotas, arbitrary standards etc. With the start of improvements and liberalisation the Indian economy in the month of July, 1991, a new period has emerged for India and its billion plus inhabitants. This era of economic shift has had a remarkable influence on the overall economic growth of almost all the major areas of the economy, and its effects over the last decade cannot be overlooked. Further, it also results the initiation of the actual integration of the Indian economy into the global context. Objective of this paper is to find what has been the response to this challenge from the domestic corporations of India and implications for the MNCs which are seeking opportunities for locating or relocating their subsidiaries over there.
Key Words: Trade Liberalisation, Multinational Company (MNC), Domestic Corporations, PESTLE analysis, Global Economic Challenge, Foreign Direct Investment (FDI), Economic Structure, GDP.

1.0 Introduction
In spite of being some economic reforms in the Rajiv Gandhi government (1985-89), we must say it was Narasimha Rao and his Government that gave a certain shape and start to the new economic improvements of globalisation of the Indian economy. Finance Minister of that term and as well as todays Prime Minister Dr. Manmohan Singh said: “After four decades of planning for industrialisation, we have now reached a stage where we should welcome, rather fear, foreign investment. Direct foreign investment would provide access to capital, technology and market.” (Bhushan, K, Katyal, G). That is what exactly we can see if we look at the Indian economy now-a-days. Details we will see in the later part of this paper.

2.0 Literature Review
Trade liberalisation has been a significant topic for the researchers in many different periods. Winters L. A. (2004) discusses the important factors of growth through liberalisation of trade on the other hand Krueger O.A (2001) discusses about the importance of trade liberalisation for economic growth. Trade liberalisation has been an important topic from age old time and researchers are in favour of this for a long time, as we can see Balassa B (1965) discusses about the Competitive advantages from trade liberalisation. Now if we focus in emerging economies like India, Brazil, China, Bangladesh, Sri Lanka, Pakistan etc. we will see that trade liberalisation has given them the opportunity to attracted MNCs to establish their subsidiaries there. As Meyer, K.E (2004) discusses the effect of MNCs going to emerging economies and FDI welcoming of those countries. FDI inflow in the emerging economies as an effect of establishing MNC subsidiaries has been an important issue for the international business and economics researchers of all around the world. Many journals and books have been published regarding this issue. If we go through the book of Caves R E (2007) we can clearly understand that more and more FDI inflow is going towards the emerging economies which are making the economy of those emerging countries stronger day by day.

3.0 International Business Environmental Analysis of India
In this part of the paper we will see the business environmental analysis of India after the trade liberalisation which is very much important for MNCs to know before establishing their business in Indian Market. This analysis will also show the reasons for which India has moved from closed economy to open economy and also it gives some important factors for which other multinational companies were interested to make some FDI in India. Here PESTLE analysis has been used to do the International business environment analysis of India.

3.1 Political factors

Before 1991, the Indian government was very strict about the trade liberalisation due to Mahamta Gandhi's Swadeshi Movement which involved boycotting British products and increasing national productivity. After independence some people and societies like Rajiv Dixit, Swami Ramdev and Swadeshi Jagaran Manch, a part of the Sangh Parivar, are scattering the idea of 'Swadeshi' in modern India. In 1991, the former Prime Minister Narshima Rao opened up the Indian economy to participate in global competition. They made International trade regulations very flexible for foreign trade. By reducing political interference in the management of enterprises; they have ensured improved efficiency and productivity. Government stability has attracted the foreign investors to make some industrial investment in India.

3.2 Economical Factors

Economic condition of a country depends on interest rates, exchange rates, taxation changes, economic growth and inflation. For doing the economic restructurings, the Government of India declared a fresh industrial policy in July 1991. The broad structures of this plan as includes: reducing the number of industries sunder compulsory licensing to six, Disinvestment, permitting 100% foreign direct investment, granting automatic permission for technological agreements with foreign companies and setting up Foreign Direct Promotion Board (FIPB) to promote FDI in India. Foreign direct investment rose in the fiscal year ended September 2009 to about US$ 10.532 billion.

3.3 Social Factors

Here I am going to discuss and describe the features of the society in which the business units have to survive. Social environment includes literacy rate, customs, values, lifestyle, beliefs, demographic features and movement of population. This is vital for managers to notice the path in which the public is moving and frame rational policies agreeing to the shifting social scenario. India being a developing country it is easy to get skilled but cheap labours. Preferences and attitude towards foreign brands is changing. As the purchasing power is increasing Indian consumers are becoming more fascinated towards foreign brands.

3.4 Technological Factors

Technology can lessen prices, advance quality and lead to innovation. Innovation is one of the most important issues now-a-days. So technological support is much needed in innovation and supporting the business. These technological developments can be useful for clients as well as the organisations providing products and services. Foreign technology and products is facing a huge competition because of huge growth in IT sector of India.

3.5 Environmental Factors

Environmental factors include the weather and climate. Climate change can affect many industries like agriculture, tourism and insurance. Pollution free industrial activity is the necessary condition for establishing industrial organisation in India.

3.6 Legal Factors

Recently there have been a lot changes in the legal process of India especially in the industrial section. For examples of such regulation exactly aimed at business actions include the trade mark act 1969, Employment act, Standards of weight and Measures act 1969 and Consumer protection act 1969. It is necessary to follow all these kinds of legal bindings for any kind of foreign investment to establish a business in Indian economy.

4.0 Impact of trade liberalisation and the response of India's domestic industry to this challenge

Liberalisation has influenced the Indian economy to a great extent and prepared it as a huge consumer market. Now-a-days most of the economic changes in India are based on various economic factors.

4.1 Positive impacts of Trade Liberalisation

After trade liberalisation, within few years the Gross Domestic Product (GDP) of India increased significantly. GDP of India increased from 5.6% during 1980-90 to 9.2% in the 2003-2007 periods. Also because of trade liberalisation the foreign exchange reserves of India increased considerably.

Trade liberalisation also had a positive impact on Foreign Direct Investment inflows. The growing FDI inflows in India from July 1991 to September 2006 were $ 43.29 billion. The segments that engrossed maximum FDI inflows are electrical equipment containing computer software and electronics (18%), service sector (13%), telecommunications (10%), transportation industry (9%), etc. During this time in the inflow of FDI, India surpassed South Korea and became the fourth largest recipient. Also, because of their significant development in the telecommunication sector they controlled 45 per cent of the global subcontract market with a projected income of $ 50 billion.

If I talk about market capitalisation, India holds the fourth position ($ 894 billion). The only three countries ahead of India are: USA ($ 17,000.00 B), Japan ($ 4800.00 B) and the China ($ 1000.00 B) becoming the first second and third respectably. Forbes list (2007) says: the number of billionaires in India has increased to 40. That was more than those of Japan (24), France (14), China (17) and the Italy (14). Furthermore, the combined wealth of the Indian billionaires enlarged by 60% from $ 106 billion (2006) to $ 170 billion (2007). (Foreign Investment Promotion Board, India under Ministry of Finance, 2011)

4.2 Negative impacts of Trade Liberalisation

Trade Liberalisation also had some negative impacts on the Indian economy. The various negative effects of trade liberalisation on Indian business are that it increased struggles in the Indian market concerning the both foreign and domestic corporations. With the overseas goods being improved than the local goods, the users preferred the overseas goods. Thus the amount of profit reduced with in the Indian corporations. This occurred mainly in the manufacturing, pharmaceutical, steel and chemical industries. Another negative effect of this was the local corporations' approaching towards technology the amount of labour required reduced and this caused the unemployment in the economy. These happened mostly in the technology based industries like manufacturing, pharmaceutical, cement and chemical, industries in India.

The sector that suffered the most because of trade liberalisation was Agriculture which is still the backbone of Indian economy. Besides providing food and nutrition, it also supplies the raw materials of different industries. In 1951, 72% of the Indian population depended on agriculture and they contributed 59% of the GDP. Conversely, in the year 2001 the population depending on agriculture decreased to 58% whereas the contribution of agriculture in the GDP declined drastically to 22% during the 2006-07 periods. As a consequence the per capita income of the farmers' declined the rural obligation went up.

The reasons for the slowing of the agricultural development are given in the government economic survey 2006-07: low investment, low seeds replacement rate, disproportion in fertiliser use, low post-harvest value addition and a distorted inducement system continued to be a strain on the sectors performance. As substantial portion of the inhabitants directly depended on this sector, deceleration in the agricultural development had severe consequences for the inclusiveness of development.

Moreover, around 60 % people in India depend on agriculture, whereas the comparable to the UK (2 %), USA (2 %) and Japan (3 %) it is much higher. Since, in the developed countries a low proportion of population depends on agriculture, they have willingly adopted globalisation which favours the growth of the service and manufacturing sectors. (Hand Book of Statistics of Indian economy, Reserve Bank of India)

5.0 Implications for multinationals seeking new opportunities for location or relocation in India

For quite a long period, India had a preventive policy in terms of Foreign Direct Investment (FDI). Therefore, there was smaller number of corporations that showed concern in investing in Indian economy. Nevertheless, the consequence changed during the financial liberalisation of the nation, especially 1991 afterward. Indian government now-a-days makes hard efforts to attract foreign direct investments by reducing many of its obligations and relaxing some of the closed economic policies. After that, a number of global corporations have shown certain amount of interest in the Indian market. As the simple economic data shows that after the liberalisation in 1991, it has carried in hosts of foreign corporations in India and the share of U.S was the maximum. It was almost 37% of the total turnover from top 20 both local and multi-national corporations those operate in India. Other than the 'Big Boss', there are some other corporations invested from France, Britain, Italy, Netherlands, Belgium, Germany and Finland that made a solid footing in India as well. They are well booming, successful and earning the maximum profit as well. If you look at India's economy right now they all the big fishes like IBM, DELL, Reebok, Nokia and many more establishing their factories and offices over there.

5.1 Profits for MNC are in India

This is clear that the multi-national corporations come and set up their factories or operation units in India to maximise their profit. According to Ball D A, McCulloch W H, Geringer J M, Minor M, McNett J M (2009) "A company enlarges its jurisdiction of work beyond its native place when they get a wide scope to earn a profit" and such is the case of the MNCs that have prospered in India. Again India itself has wide market for new and quality products and services having a huge population and the changing of consumer taste. The Indian government policies regarding FDI have benefited those MNCs a lot and attracted to establish their operations there too. The preventive policies those use to stop the foreign corporations' investment are however withdrawn. India has given enough attention to get in foreign direct investments there.

On the other hand, other than the 'foreign directive policies' the labour competitive market, less market competition, buying power of the consumers, changing test of consumers and the macro-economic stability were some of the main issues that attracted the MNCs to go there.

The reasons MNCs considering India one of the preferred destinations for business operations are the following:

5.2 Huge market potential of the country

India is the 4^{th} largest economy in the world. The economic growth of this country for past two decades has been very attractive for the biggest multinationals of the world. Moreover, the increasing purchasing power of the consumers and the changing attitude towards foreign goods and services has forced the multinationals to establish their organisation in India.

5.3 FDI attractiveness

After the trade liberalisation in 1991, allowing FDI inflows was a major step of globalisation for the Indian Economy. The foreign investment of that time has been quite strong and thus the economy was getting boosted up. Several sectors were opened up for liberalising the FDI regime. Now, the multinationals can invest in India without the inference of the government if they have fulfilled the pre-requisite legal procedures before.

5.4 Labour competitiveness

India's growth has been marvellous but still they have a huge problem of unemployment and poverty. For these reasons it is very much possible to get skilled but cheap labour in India. Cost reduction in labour payrolls becomes a competitive advantage for the multinationals that are willing to relocate in India.

5.5 Macro-economic stability

According to Barro, R (2008) "Macroeconomic Stability" defines a national economy that has reduced vulnerability to external shocks, which in turn raises its prospects for sustained growth. Low and stable inflation rate, low long term interest rate, low long term debt to GDP, low deficits and currency stability of India has indicated the multinational that it is going through a macro-economic stability phase.

6.0 Advantages of growing MNCs' in India

There are some advantages that the developing countries such as India derive out the foreign MNCs that establish. These are some important factors below:

6.1 Initiating a higher level of investment

The multinationals are initiating huge investment in India which is helping India to increase their GDP and purchasing power of consumers. It is also introducing some employment facilities with higher level employee benefits which is actually changing the Indian Human Resource Management concept to a better one specially in the corporate sectors.

6.2 Reducing the technological gap

To compete with those international and modern technologies of multinationals, the domestic industries are also trying some innovations for producing their goods and services by using contemporary technology. As a result these domestic corporations are improving a lot and sometimes they are becoming multinationals as well.

6.3 The natural resources are utilised in true sense

India is a huge country with full of natural resources. It was very hard for India to utilise these resources without the help of multinationals. The MNC's helped them with technology and money for the proper utilisation of these resources.

6.4 The foreign exchange gap is reduced

Day by day Indian currency is appreciating because of economic growth. There is a huge contribution of multinationals behind this growth. The appreciation of Indian currency 'Rupe' against the US Dollar has been quite significant in the last decade.

6.5 Boosts up the basic economic structure

After the trade liberalisation India has become a strong economy of the world because of the huge inflow of foreign direct investment. Now, India is in the verge of defeating Japan as an economic power. India is one the countries of BRIC which are going to be the best economies in the next decade and MNCs of India has a great effect on that which has been possible only because of trade liberalisation in 1991.

7.0 Conclusion

Nothing in this world is an unmixed blessing, so as trade liberalisation. On one hand trade liberalisation caused a phenomenal growth of information technology in India, on the other hand it caused a major deceleration in the agricultural growth of the country. So, the government of India should take necessary actions to increase the agricultural development and create more employment opportunities in the rural areas, to reduce the growing disparity between urban and rural areas. They should keep in mind that without a sustainable growth in the agricultural sector of India, the other forms of growth in any sector will not be effective.

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