GLOBAL COMPETITIVENESS FOR INDIAN BUSINESS

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Abstract

Liberalization aims at freeing business, trade and industry from the clutches of control Entire world has been converted into global village. The term "Business" implies "Global Business "and nothing else survival and developments of Indian business depend on its ability to compete with other Indian firms and multinationals. Ability to maintain high quality and maximize productivity determines the competitive ability of Indian firms competitive advantage ultimately depends on quality and commitment of human resources. Global competitiveness is achieved by increased productivity, focused direction and increased pace of innovation and growth. Innovation implies something new, something different and something better. India ranked 39th in the list of 138 countries under the global competitiveness index (GCI) in Nov.2016.

The present study is divided in four sections.

i. Essentials for global competitiveness Index.
ii. India's Global Competitiveness Index
iii. Most Problematic Factors for doing Business in India
iv. Building strategies and conclusion

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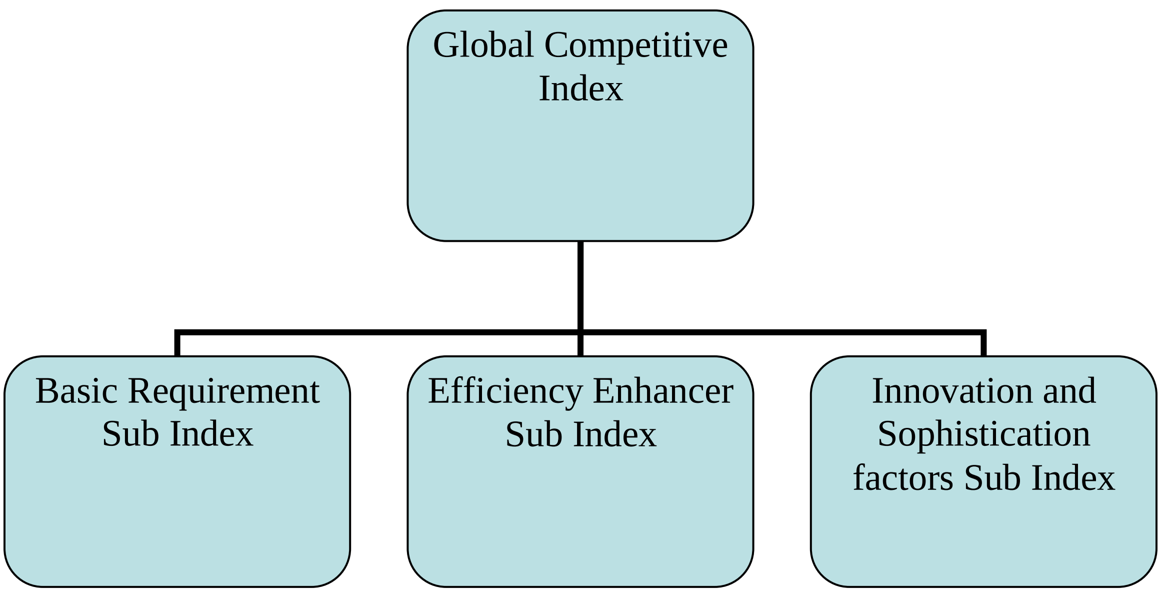
Section I

ESSENTIALS FOR GLOBAL COMPETITIVENESS

We define *competitiveness* as the *set of institutions, policies, and factors that determine the level of productivity of a country*. The level of productivity, in turn, sets the level of prosperity that can be reached by an economy. The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. In other words, a more competitive economy is one that is likely to grow faster over time.

The Global Competitiveness Index released by the World Economic Forum is one of the major studies which indicate how a country scores in the scale of global competitiveness. The Index is calculated by aggregating indicators across 12 pillars which again are clubbed together in three broad sub indices, namely basic requirements, efficiency enhancers and innovation and sophistication factors. The report covers both business and social indicators which, directly or indirectly, impacts the competitiveness of the country in the global arena. The 12 pillars underlying GCI include Institutions, Infrastructure, Macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication and innovation.



First pillar: Institutions

The institutional environment is determined by the legal and administrative framework within which individuals, firms, and governments interact to generate wealth. The importance of a sound and fair institutional environment has become all the more apparent during the recent economic and financial crisis and is especially crucial for further solidifying the fragile recovery, given the increasing role played by the state at the international level and for the economies of many countries.

The quality of institutions has a strong bearing on competitiveness and growth. It influences investment decisions and the organization of production and plays a key role in the ways in which societies distribute the benefits and bear the costs of development strategies and policies.

Second pillar: Infrastructure

A well-developed transport and communications infrastructure network is a prerequisite for the access of less-developed communities to core economic activities and services. Extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor in determining the location of economic activity and the kinds of activities or sectors that can develop within a country. Well-developed infrastructure reduces the effect of distance between regions, integrating the national market and connecting it at low cost to markets in other countries and regions. In addition, the quality and extensiveness of infrastructure networks significantly impact economic growth and reduce income inequalities and poverty in a variety of ways

Third pillar: Macroeconomic environment

The stability of the macroeconomic environment is important for business and, therefore, is significant for the overall competitiveness of a country. Although it is certainly true that macroeconomic stability alone cannot increase the productivity of a nation, it is also recognized that macroeconomic disarray harms the economy, as we have seen in recent years, conspicuously in the European context. The government cannot provide services efficiently if it has to make high-interest payments on its past debts. Running fiscal deficits limits the government’s future ability to react to business cycles. Firms cannot operate efficiently when inflation rates are out of hand. In sum, the economy cannot grow in a sustainable manner unless the macro environment is stable. Macroeconomic stability captured the attention of the public most recently when some advanced economies, notably the United States and some European countries, needed to take urgent action to prevent macroeconomic instability when their public debt reached unsustainable levels in the wake of the global financial crisis.

Fourth pillar: Health and primary education

A healthy workforce is vital to a country’s competitiveness and productivity. Workers who are ill cannot function to their potential and will be less productive. Poor health leads to significant costs to business, as sick workers are often absent or operate at lower levels of efficiency. Investment in the provision of health services is thus critical for clear economic, as well as moral, considerations.

In addition to health, this pillar takes into account the quantity and quality of the basic education received by the population, which is increasingly important in today's economy. Basic education increases the efficiency of each individual worker.

Fifth pillar: Higher education and training

Quality higher education and training is crucial for economies that want to move up the value chain beyond simple production processes and products. In particular, today's globalizing economy requires countries to nurture pools of well-educated workers who are able to perform complex tasks and adapt rapidly to their changing environment and the evolving needs of the production system. This pillar measures secondary and tertiary enrollment rates as well as the quality of education as evaluated by business leaders. The extent of staff training is also taken into consideration because of the importance of vocational and continuous on-the-job training—which is neglected in many economies—for ensuring a constant upgrading of workers' skills.

Sixth pillar: Goods market efficiency

Countries with efficient goods markets are well positioned to produce the right mix of products and services given their particular supply-and-demand conditions, as well as to ensure that these goods can be most effectively traded in the economy. Healthy market competition, both domestic and foreign, is important in driving market efficiency, and thus business productivity, by ensuring that the most efficient firms, producing goods demanded by the market, are those that thrive. Market efficiency also depends on demand conditions such as customer orientation and buyer sophistication.

Seventh pillar: Labour market efficiency

Efficient labor markets must also ensure clear strong incentives for employees and efforts to promote meritocracy at the workplace, and they must provide equity in the business environment between women and men. Taken together these factors have a positive effect on worker performance and the attractiveness of the country for talent, two aspects that are growing more important as talent shortages loom on the horizon.

Eighth pillar: Financial market development

The financial and economic crisis has highlighted the central role of a sound and well-functioning financial sector for economic activities. An efficient financial sector allocates the resources saved by a nation's citizens, as well as those entering the economy from abroad, to their most productive uses. It channels resources to those entrepreneurial or investment projects with the highest expected rates of return rather than to the politically connected. A thorough and proper assessment of risk is therefore a key ingredient of a sound financial market.

Ninth pillar: Technological readiness

In today's globalized world, technology is increasingly essential for firms to compete and prosper. The technological readiness pillar measures the agility with which an economy adopts existing technologies to enhance the productivity of its industries, with specific emphasis on its capacity to fully leverage information and communication technologies (ICTs) in daily activities and production processes for increased efficiency and enabling innovation for competitiveness.

Tenth pillar: Market size

The size of the market affects productivity since large markets allow firms to exploit economies of scale. Traditionally, the markets available to firms have been constrained by national borders. In the era of globalization, international markets have become a substitute for domestic markets, especially for small countries. Vast empirical evidence shows that trade openness is positively associated with growth. Even if some recent research casts doubts on the robustness of this relationship, there is a general sense that trade has a positive effect on growth, especially for countries with small domestic markets.

Eleventh pillar: Business sophistication

There is no doubt that sophisticated business practices are conducive to higher efficiency in the production of goods and services. Business sophistication concerns two elements that are intricately linked: the quality of a country's overall business networks and the quality of individual firms' operations and strategies. These factors are especially important for countries at an advanced stage of development when, to a large extent, the more basic sources of productivity improvements have been exhausted. The quality of a country's business networks and supporting industries, as measured by the quantity and quality of local suppliers and the extent of their interaction, is important for a variety of reasons. When companies and suppliers from a particular sector are interconnected in geographically proximate groups, called *clusters*, efficiency is heightened, greater opportunities for innovation in processes and products are created, and barriers to entry for new firms are reduced.

Twelfth pillar: Innovation

Innovation can emerge from new technological and non-technological knowledge. Non-technological innovations are closely related to the know-how, skills, and working conditions that are embedded in organizations and are therefore largely covered by the eleventh pillar of the GCI. The final pillar of competitiveness focuses on technological innovation. Although substantial gains can be obtained by improving institutions, building infrastructure, reducing macroeconomic instability, or improving human capital, all these factors eventually run into diminishing returns. Innovation is particularly important for economies as they approach the frontiers of knowledge, and the possibility of generating more value by merely integrating and adapting exogenous technologies tends to disappear.

The interrelation of the 12 pillars

It is important to keep in mind that they are not independent: they tend to reinforce each other, and a weakness in one area often has a negative impact in others. For example, a strong innovation capacity (pillar 12) will be very difficult to achieve without a healthy, well-educated and trained workforce (pillars 4 and 5) that is adept at absorbing new technologies (pillar 9), and without sufficient financing (pillar 8) for R&D or an efficient goods market that makes it possible to take new innovations to market (pillar 6). Although the pillars are aggregated into a single index, measures are reported for the 12 pillars separately because such details provide a sense of the specific areas in which a particular country needs to improve.

Section II

India's Global Competitiveness Index

India jumped 16 places in the World Economic Forum's (WEF) 2016-17 Global Competitiveness Index (GCI) to emerge as the highest rising economy due to improvement in goods market efficiency, business sophistication and innovation.

India was ranked 39 out of 138 countries which were reviewed. This is the second year in a row that the country has climbed 16 places in the ranking, according to WEF.

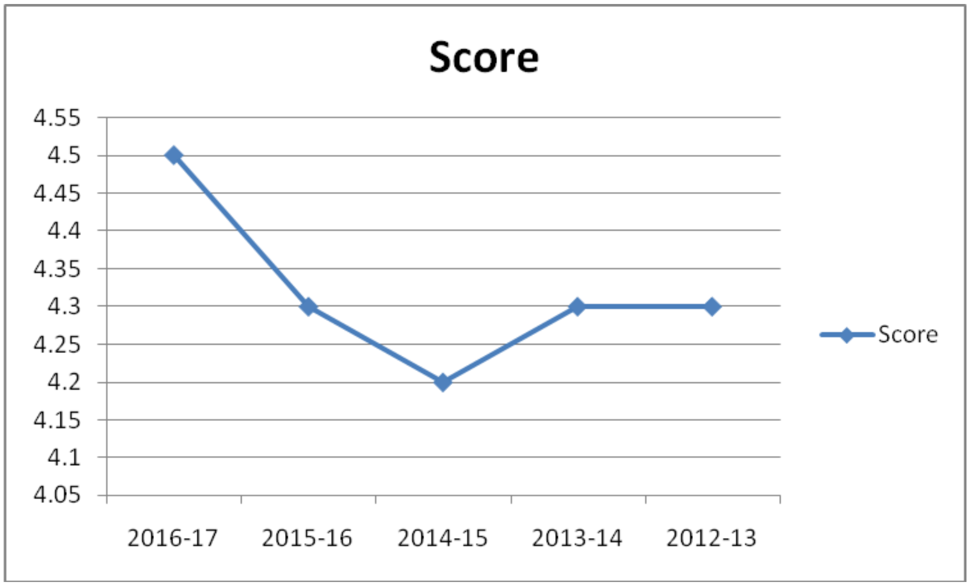
Switzerland, Singapore and the US remain as the world's most competitive economies. China ranks 28 in the index. Among the other BRICS countries, Russia is ranked 43rd, South Africa at 47, while Brazil declined six notches to end up at 81.

"Thanks to improved monetary and fiscal policies, as well as lower oil prices, the Indian economy has stabilized and now boasts the highest growth among G20 economies," according to the GCI report. It measures 12 areas which include institutions, infrastructure, macro-economic environment, health and primary education, higher education and training, goods and market efficiency, labour market efficiency among others. Table 1 shows the performance of India from 2012-13 to 2016-17.

Table1: Global Competitiveness Index of India

Global Competitiveness Index	No. of Countries	Rank	Score
2016-17	138	39	4.5
2015-16	140	55	4.3
2014-15	144	71	4.2
2013-14	148	60	4.3
2012-13	144	59	4.3

Source: The Global Competitiveness Report 2016-17, World Economic Forum



As per table 1 and chart it is clear that India has improved score as well as ranking among 138 countries. If we see in 2012-13 it was 59 among 144 countries and score was 4.3. in 2014-15 it was lowest 71among 144 countries and score was 4.2but in 2015-16 it was improved 55 among 140 countries and in 2016-17 it was jumped to 39 and score is 4.5.

Table 2: Components of Global Competitiveness Index of India

Components	%	Rank	Score
Basic Requirement Sub Index	60%	63	4.6
Efficiency Enhancer Sub Index	35%	46	4.4
Innovation and Sophistication Factor	5%	30	4.2

Source: The Global Competitiveness Report 2016-17, World Economic Forum

Table 2 shows the components of global competitiveness Index of India and their percentage, rank and score. It is clear from the Table that basic requirement sub index carry 60% among the three components while efficiency enhancer sun index carry 35 % and lowest 5% is carry by Innovation and sophistication factor. India is basically a factor driven economy which carries highest score i.e. 4.6.

Table3: Components of Global Competitiveness Index of India in Detail

INDICATOR	Rank	Score
India overall	**39**	**4.5**
Basic Requirement Sub Index	**63**	**4.6**
Institution	42	4.4
Infrastructure	68	4.0
Macroeconomic environment	75	4.5
Health and Primary Education	85	5.5
Efficiency Enhancer Sub Index	**46**	**4.4**
Higher Education and Training	81	4.1
Goods Market Efficiency	60	4.4
Labor Market Efficiency	84	4.1
Financial Market Development	38	4.4
Technological Readiness	110	3.0
Market Size	3	6.4
Innovation and Sophistication Factor	**30**	**4.2**
Business Sophistication	35	4.4
Innovation	29	4.0

Source: The Global Competitiveness Report 2016-17, World Economic Forum

Table 3 shows that India ranks the last in "basic requirements" (63^{rd}) compared to "efficiency enhancers" (46^{th}) and "innovation and sophistication factors" (30^{th}), although its basic requirements score (4.6) is more than those of efficiency enhancers (4.4) and innovation factors (4.2).

This suggests that India lags other nations in basic requirements, especially health and education, which should otherwise form the base of economic competence.

Section-III

Most Problematic Factors for doing Business in India

India is in consequence of the structural reforms and policy initiatives taken

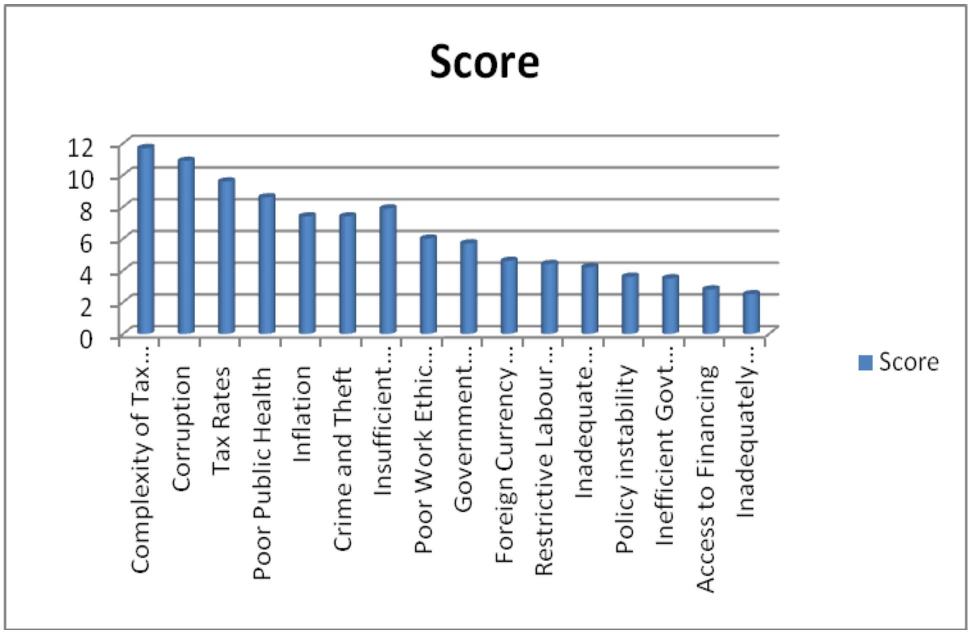
by GOI in the last two years and should be viewed as an encouragement to us to continue with the agenda of reforms which would further streamline economic decision making and help us move up on the index of global competitiveness.
India climbs for the second year in a row, to 39th. Its 16-place improvement is the largest this year. India's competitiveness has improved across the board, in particular in goods market efficiency, business sophistication, and innovation. Recent reform efforts have concentrated on improving public institutions (up 16), opening the economy to foreign investors and international trade (up four), and increasing transparency in the financial system (up 15). But still there are some factors which create problem in doing business in India.

Table 4 shows most problematic factors for doing business in India.

Table 4: Most Problematic Factors for doing Business

S.No.	Factors	Score
1	Complexity of Tax Regulations	11.7
2	Corruption	10.9
3	Tax Rates	9.6
4	Poor Public Health	8.6
5	Inflation	7.4
6	Crime and Theft	7.4
7	Insufficient Capacity to Innovate	7.9
8	Poor Work Ethic in Labour Force	6.0
9	Government Instability	5.7
10	Foreign Currency Regulations	4.6
11	Restrictive Labour Regulations	4.4
12	Inadequate Supply of Infrastructure	4.2
13	Policy instability	3.6
14	Inefficient Govt Bureaucracy	3.5
15	Access to Financing	2.8
16	Inadequately Educated Workforce	2.5

Source: The Global Competitiveness Report 2016-17, World Economic Forum



As per above table it is clear that among 16 factors complexities of tax regulations has highest score which is 11.7 and corruption carry 10.9.access to financing and inadequately educated workforce has 2.8 and 2.5 score which is lowest score.

Section IV

Building Strategy

India is now on the threshold of a major transformation. The policy reforms announced so far, and the further opening up of the economy in the years to come, will present us with opportunities along with challenges to be overcome. We are not, however, the only nation undertaking this tremendous qualitative change. The global economic scene is undergoing a major change.

Recent reform efforts have concentrated on improving public institutions, opening the economy to foreign investors and international trade and increasing transparency in the financial system,. India is seen as a bright spot by several multilateral agencies robust economic growth. The economy is expected to grow by 7.6% in the current fiscal year and the revival in rural demand due to solid monsoon rains is expected to add to overall growth.

The government has also taken a string of reform measures such as getting the Insolvency and Bankruptcy code in place, liberalization of the foreign direct investment regime, the passage of the Aadhar bill as well as parliament's approval to the Constitution amendment bill for the Goods and Services Tax (GST). India’s rank has steadily improved from 71 in 2014-15 to55 in 2015-16 and to 39 in the latest report. With this improvement in its ranking, India has covered a long distance and is well on its way to emerge as a major player in the global economy.

Still , there are several areas which need to be improved.

- ✓ The labor market is segmented between workers protected by rigid regulations and centralized wage determination (112th), especially in the manufacturing sector, and millions of unprotected and informal workers.
- ✓ The efficiency of the domestic market (81st) is hindered by fiscal regulations that allow federal states to levy different levels of value-added taxes; large, publicly owned enterprises further reduce the overall efficiency of the economy, especially in the utilities sector and the financial market, where there is growing concern about the incidence of non-performing loans.
- ✓ Lack of infrastructure (68th) and ICT use (120th) remain bottlenecks.
- ✓ Improvement has been slowing recent years
- ✓ Further investment will be necessary; especially to connect rural areas and make sure they can equally benefit from and contribute to the country's development.
- ✓ Need for globally relevant and competitive higher education system

Economists said the government's push to plug gaps in the economy had helped. "Relative to other economies, the Narendra Modi government has focused on repair and reform of the economy which is pushing up India's competitiveness," said D K Joshi, chief economist at ratings agency Crisil. "India's ranking in the World Bank's Ease of Doing Business is also likely to go up."

He said India's ranking has improved in the WEF's Global Competitive Index, The World Bank's Ease of Doing index, Index of Transparency International showing corruption situation was improving and the World Bank' logistics index.

Conclusion:

To operate successfully in an increasingly interdependent multipolar world, business and industry have to move fast in innovation, manufacturing, marketing, distribution and service. In addition to changes in govt. policies and programmes, a new commitment to quality has to be ensured to meet the competitive challenges in the changing world markets.

In nutshell, the future is indeed promising, but there are real challenges to be met before the goal is realized. As a nation, India cannot let go if this unique opportunity which, if properly utilized, will make it a true economic power in this world.

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