Opportunities and Challenges in India’s Emergence as an Economic Superpower and its Role in the Economy

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ABSTRACT

This essay will divide into two parts, the first part is an in depth analysis of India’s opportunities through the examination of geographical and demographic factors, economic analysis of its GDP, PPP, Poverty Rate, Foreign Exchange and Gold reserve, Domestic Saving. It explores various sectors of the Indian economy, political and cultural factors that contribute to India’s ability to emerge as an economic superpower.

The second part of the paper highlights the threats such as dilemmas in the economic context which covers slower Gross Domestic Product (GDP), deficit in the current account, poverty, and economic inequality between the regions, income inequality of the population, low Foreign Direct Investment (FDI), inflation, unemployment, and brain drain. The social aspects such as corruption, malnutrition, education, low literacy rates, health care. Besides that, religious and political divides. It concludes with facts presented that India could indeed be a superpower provided it overcome the threats highlighted.

Keywords: Opportunities and Threats Analysis, Social and Economic Indicators, India

INTRODUCTION

India’s Opportunities

Geographical Factors

India is the seventh largest country in the world, covering an area of 32,875,900 square kilometers. It is a separate subcontinent, strategically located in the middle and sea vessel en route on its trans-Indian Ocean for trade between East and West.

Being located in the tropical belt, India can reap tremendous advantage if they utilize solar energy, as a new form of renewable energy for its needs. Moreover, this region has a high solar insulation that enhances the solar yield.

Demographic factors

The Indian population stands at 1.27 billion as of 2013 (World Population Statistics, 2013). Based on Figure 3, the Indian population forecast, obtained from the United Nation (UN) Population Division, its population will start its peak in 2015 and continue to 2050.
Figure 1. The Position of India

Figure 2. India’s Climate

Former President of India, Dr. A P J Abdul Kalam identified the human resources as one of India’s core competencies. Its strength lies in India’s growing young population, with 50% of its population under 25 (India Online Pages, 2014). As a result, soon it possess one fifth of the world’s working population. As its education system incorporate English as a second language as a result it has the 2nd largest English Language population (Masani, 2012).

Figure 3. India’s Demographic from the Economist 2013
Companies will be lured to set up their enterprise in India as they will have a human capital advantage. This occurs when the enterprises in the economy are able to recruit and retain people with high potential.

**Economic Factors**

Goldman Sachs predicts that India will rank 3rd in terms of GDP as of 2050 per capita (Tomalin and Nicke, 2013). The per capita of India’s income growth during the 1950’s and 1960’s was a mere 1%. The evidence that the economy is growing it’s the increment of the income growth of 7% (Basu, 2008). It currently stands at 9.2% as of 2010. However, it dropped to 3.2% as of 2012.

The Purchasing Power Parity of India had steadily risen over the past decade from USD 1,800 to almost double USD 3,700 as of 2011. This is shown in the table in Figure 4 extracted from Index Mundi.

**Table 1. India’s GDP per PPP from Index Mundi**

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<tr>
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<td>1,800</td>
<td>2,200</td>
<td>2,540</td>
<td>2,900</td>
<td>3,100</td>
<td>3,400</td>
<td>3,800</td>
<td>2,600</td>
<td>3,200</td>
<td>3,500</td>
<td>3,700</td>
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The population living under the poverty line had steadily declined at a rate of 44.5% during the 80’s to 28% during 2002 but rose to 29% as of 2010.

**Table 2. India’s Population Living the Poverty Line from Index Mundi**

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<tr>
<td>India</td>
<td>35</td>
<td>25</td>
<td>25</td>
<td>29.8</td>
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**Figure 4 India’s Inflation**
The inflation of India had steadily decreased and is at its lowest at 8.1%. The total bank deposits increased from ₹59.1 billion (US$960 million) in 1970–71 to ₹38309.22 billion (US$620 billion) in 2008–09.

India amassed double in their reserves of gold and foreign exchange.

Table 3. India’s foreign exchange and gold reserve

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<tbody>
<tr>
<td>India</td>
<td>126,000,000</td>
<td>136,000,000</td>
<td>165,000,000</td>
<td>275,000,000</td>
<td>256,400,000</td>
<td>274,700,000</td>
<td>284,100,000</td>
<td>297,900,000</td>
</tr>
</tbody>
</table>

There is an increase of domestic saving which is 12.2% in 1960’s, 22.2 in the 70’s and currently is at 34%. This rate had been quite consistence based on the analysis of the data obtained from the World Bank ranging between 30-35 from 2009 to 2012.

The components of the Indian economy are analyzed based on the industry, textile, service, retail, tourism

**Industry**

The Central Intelligence Agency (CIA) Fact book ranked India 11th, in terms of nominal factory output. This includes mining, manufacturing and construction. India produces 79 different minerals and has a 1/3 of thorium storage.

This rate had been fluctuating, based on the data obtained from Index Mundi shown in Table 4. We calculated the mean as 5.73 it’s not bad as the standard deviation of the sample is 1.6.

Table 4. Nominal Factory Output from Index Mundi

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<tr>
<td>India</td>
<td>6</td>
<td>7.5</td>
<td>6</td>
<td>6.5</td>
<td>7.4</td>
<td>7.9</td>
<td>7.5</td>
<td>8.5</td>
<td>4.8</td>
<td>9.3</td>
<td>9.7</td>
<td>4.8</td>
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This is partly due to the removal of import restriction which brought in foreign competition. In addition, liberalized the Foreign Direct Investment (FDI) leads to an expansion in the production of fast moving consumer good (FMCG).

**Textile**

The textile industry reform became one of India’s central government achievements with domestic and foreign investment amounting to 27 billion during 2004 to 2008 and it grew to 38 billion which created around 17 million jobs (Minister of Textiles Shankersinh Vaghela, 2012).

**Service**

India’s service industry account for 57% of India’s GDP and contributes to a sharp improvement from 15% compared to the 1950’s. It ranks no 13th in services output worldwide. According from data obtained from SF Gate, the services sector provides 4.5% of the population employed from 1951 to 1980 it steadily rose to 7.5% during 1991 to 2000 and rose to 27% as of 2012.
India is fast emerging as the source of skilled manpower India’s business process outsourcing (BPO) for export oriented services (EOS). Indian manpower commands comparative advantage in the global markets because of its capacity to deliver high quality of work as compared to the price it asks. India has a large pool of low cost talented workers. This is much better than the Export oriented Industrialization (EOI).

Almost half of the technologies outsourcing companies of the world are Indian firms. The Information technology and businesses process outsourcing are among the top contributes the workforce and is growing quickly have a cumulative growth rate of revenue 33.6% between 1997 and 1998 and 2002–03 and contributing to 25% of the country's total exports in 2007–08 (Datt & Sundharam, 2009).

Retail

With a huge population of 1.2 billion people, India is one of the world fastest growing retail markets which are estimated at USD 450 billion. It accounts for around 15% of its GDP. (Ablett, Baijal, Bose, Farell, Gersh, Greenberg, Gupta & Gupta, 2007) The country has strict regulation with over 30 regulations to be fulfilled before start up. It has recently relaxed the industry in 2012 by allowing up to full ownership in single brand retail and a 51% in the form of FDI in multi brand retail (The Economist, 2008).

Tourism

India tourism sector contributes to 6% of the national GDP, providing 40million jobs. The World Travel and Tourism Council believes India's tourism industry will grow at 10% per annum in the next decade, making it lead the world in terms of growth. (Neogi, 2006). It has fascinating historical monuments such as the Taj Mahal, one of the 7 wonders of the world with culturally diverse which leaves an enriching experience to many travelers.

Based on Neogi around 3.9 million tourists’ travels to India as of 2005 and had spent USD 1470 per person. Tourist spends more than USD 15.4 billion in India annually (Asia Travel Tips, nod., Pasricha, 2004, Thompson, 2005) This is higher when compared with France that the most popular destination in the world. India is a major medical tourism destination with a 150,000 foreigners visiting it a cheap price for the exceptional various medical procedure. The sector continues to grow at a yearly rate of 15%.

Agriculture

Majority of Indian up to 51% are engaged in the agriculture and allied sector, such as fishing and logging which contributes to 17% of the nation’s GDP in 2012. It still ranks second in terms of farm outputs. Its geographical location which has fertile soil up to 39% (Ministry of Water Resources, Government of India, 2004) ,the cultivated area combined with an average rainfall of 47.6 inches, which vast irrigation makes it have an average yield of 30-50% in the world. It is the world leading producer of milk, jute and pulses. (Ministry of Agriculture, Government of India, 2010).It comes in second in the production of rice, wheat, sugarcane and nuts, fruit, vegetables, silk (Food and Agricultural Organization of the United Nation (FAQ), 2006) and beef. In 2008, India had the world's third largest fishing industry (The Hindu, 2008).
Energy and Power

According to the CIA Fact Book, India's oil reserves meet 25% of the country's domestic oil demand. As of 2012, India's total proven oil reserves of 5.5 million barrels while gas reserves stood at 43,800 million cubic feet. Based on the data from the Ministry of Coal from the government of India, 2012 the country meets most of its domestic energy demands through its 106 billion tons of coal reserves. India is also rich in certain alternative sources of energy of thorium (Press Information Bureau, Government of India, 2011) reserves. This is supported by Subramanian, 2011, Thakur & Monami, 2011, Bedi & Rahul, 2011 with an estimated reserve of 846,477 metric .

Infrastructure

India has the world's third largest road network (CIA Fact Book, 2011) covering more than 4.3 million kilometers and carrying 60% of freight and 87% of passenger traffic. Ministry of Road transport and highway sources reveal that Indian Railways is the fourth largest rail network in the world, with a track length of 114,500 kilometers.

The World Bank states that India has 13 major ports, handling a cargo volume of 850 million tons in 2010. India has a national teledensity rate of 74.15% with 926.53 million telephone subscribers, two-thirds of them in urban areas (Tribune, 2011) but Internet use is rare, with around 13.3 million broadband lines in India in December 2011. According to Baburajan, 2011 the trend will grow through with the 3G and WiMax services.

Political Factors

India is a democratic country where free speech, free press, independent judicial system, Western Westminster parliament and a high electoral rate of 9 out 10 with a standard deviation of 0.6 in the Polity score on democracy scale. In a democratic system such as India's where even the poorest people exercise their political rights actively, fairness and inclusion will be even more critical for social stability than in China. As it becomes a great power, these values will likely become an enduring part of the country's DNA.

Military Factors

India is USA’s Key strategic partner (Pants, 2007) and it’s mentioned in the US Quadrennial Defense Review Report. India has the 2nd largest army after China with 3rd largest active duty force in the world. International Institute for Strategic Studies; Hackett, (IISS), 2010 states that, India’s combined forces, 2,414,700 personnel are the world 3rd largest defense force. The Indian Air Force is the fourth largest air force in the world. The Indian Navy is the world's fifth largest navy. India posses nuclear Weapons since 1974, but did not sign the Nuclear Nonproliferation Treaty).

Based on the Table 5, India’s Military Expenses of 2.4% values at USD 16.97 billion as of 2004 it is one of the world’s largest arms importers.

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<th>Table 5. India’s Military Expenses</th>
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<tr>
<td>India</td>
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Threats

Economic Factors

Slowdown of economic growth

India achieved an amazing growth in 2nd quarter in 2008 a 9.8% and 9.3% in 3rd quarter 2009 and continue to perform well in 2010 with 11.4% in the 2nd quarter as well as 9.9% in 2nd quarter of 2011. However, that growth is hampered by a lower growth in 2012 with an average growth of 5% and significantly lower GDP annual growth of 4.6% in 2013. This is alarming as based on the declining rate 2014 will be around 4.8%.

![India GDP Annual Growth Rate](source)

Figure 5. India GDP Annual Growth Rate

This drop is consistent as they face problems within the government, droughts that hamper the agricultural sector, power shortage, low consumer confidence and unstable rupee (Bakdar, 2014). Standard & Poor's, the credit rating agency, has recently warned it may lose its sovereign grade rating while its BBB-investment rating could be lowered further to junk status, which would make borrowing more costly.

Table 6. Deficits on the Current Account (in millions)

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<tr>
<td>India</td>
<td>4,897</td>
<td>12,950</td>
<td>26,400</td>
<td>12,110</td>
<td>37,510</td>
<td>26,630</td>
<td>51,780</td>
<td>41,400</td>
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The Indian current account has declined since 200 which saw a steep drop of approximately 5 billion to negative 41 billion which show a bad sign. (CIA Fact Book, 2011). India's Ministry of Finance report on 2009-2010 states that the growing oil import bill is seen as the main driver behind the large current account deficit, which rose to $118.7 billion, or 11.11% of GDP, in 2008–09. Between January and October 2010, India imported $82.1 billion worth of crude oil (Ramakrishnan, 2010).

Poverty
Based on the research by National Sample Survey is between 22%-27.8% as of 2004-2005 while it was 36% during 1993-1994 although it had decreased almost 230 to 280 million people live below the poverty line in India.

![Graph showing Official Poverty Estimates for India from 1973-74 to 1999-2000](http://www.theleftcoaster.com/archives/southasia/India_poverty_rates_official_Panagariya.jpg)

**Figure 6. Official Poverty Estimate for India**

**Income Inequality**

According to International Monetary Fund (IMF) the Indian income inequality has risen significantly. Abhijit, Banerjee and Piketty, 2005 and Pranad and Bardhan, 2007 studies had also supported these phenomena. According to the study of Pranad and Bardhan the wealthiest 0.01 had seen a 327 rise in their income. Likewise the IMF 2014 stated that Indian billionaire had a 12 fold of wealth enough eradicate India’s poverty twice. Figure 7 shows India’s Gini coefficient was seeing a rise in the inequality of India’s populations’ income between 1993-1995 compared to 2004-2005.

![Graph showing India’s Gini coefficient](http://www.savap.org.pk)

**Figure 7. India’s Gini coefficient**

Based on the article from Times Insight Group in 2011 shown in Figure 14 the income is not well spread out with the highest 10% makes 5 times higher than the median and the median makes 0.4% higher than the bottom.
Economic disparities between regions

According to the World Bank, India faces a critical problem with the sharp and growing regional variations among India's different states and territories in terms of poverty, availability of infrastructure and socioeconomic development. Approximately 30% of India’s population is concentrated in the six slow-income states.

Unemployment

India faces chronic unemployment with Figure 9 showing that the unemployment is at its lowest point compared to past years.

The Indian organized sector only takes care of 12% to 13% of the workforce. The remaining 87% are relegated to agriculture and the informal sector with low and uncertain earnings. Unless India finds a quick way to generate jobs, its population of unemployed youths could be a reason of instability (Johnson, 2006). He further commented that growth in the service sector, especially in the Information technology cannot surpass the jobs provided in the manufacturing sector.
Brain Drain

Table 7. India's Migration per 1000

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<tr>
<td>India</td>
<td>0.08</td>
<td>0.08</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>0.05</td>
<td>0.05</td>
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India pools of talented workers are body shopping when they were exported to the USA to solve complex technical problems. The rate of immigration had stood at -0.05 and had not improved.

Wage in Equality between genders

Most of the women in India 80% are engaged in agriculture. In this industry, they make significantly less around 66% of the male’s income. The other 20% working outside the nonagricultural sector make 57% of the male’s income (Desai, Sonalde, Dubey, Joshi, Sen, Shariff and Vanneman, 2010).

Current Account Deficit

Table 8. India's Current Account Balance obtained from Index Mundi (in millions)

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<tr>
<td>India</td>
<td>4,897</td>
<td>-12,950</td>
<td>-26,400</td>
<td>-12,110</td>
<td>-37,510</td>
<td>-26,630</td>
<td>-51,780</td>
<td>-4,1,400</td>
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India current account has declined from a healthy, positive USD 5 billion to a negative USD 41 billion. This is due to the fall of Indian exports due to the global recession in 2009 as the USA and European Union accounts for 60% of its exports. (Chaturvedi and Sahu, 2009).

Low FDI

India has a historically low Foreign Direct Investment (FDI) due to its strict capital control. Figure 19, shows the Indian FDI in comparison with China’s FDI throughout 1999 to 2012.
During the year 2011, FDI inflow into India stood at $32.90 billion, 51.1% higher than the 2010 figure of $24.15 billion. Based on Figure 20 the inward FDI in India is 8.48 billion in 2014. FDI remained low at around 1 % (Minister for Overseas Indians Affairs Vyalar Ravi, 2011).

![India’s Foreign Direct Investment](image)

**Figure 11. India’s Foreign Direct Investment**

**Inflation**

The inflation level of India is on the rise due to the shortage of key foodstuff supply. Based on Figure 11 India’s inflation is low due to economic contraction, but China achieved a lower inflation despite a higher growth.

![India Inflation CPI vs China Inflation CPI](image)

**Figure 12 Comparison between India and China’s Inflation CPI**

**Energy Dependence & Costs**

India is the fourth largest consumer of oil in the world. According to Press Information, Bureau of India the country imported US$120 billion worth of oil in 2011-12. This has caused an adverse effect on its current account deficit.
Infrastructure

Instead of enabling people to acquire basic needs such as food, sanitation, water, health care, the government is promoting ‘non-inclusive growth’ and has sought to provide basic services through subsidies with the associated problems of inefficiency and corruption.

Social

Child Malnutrition

India has the highest child malnutrition at 47.8%. India has about 61 million children under the age of 5 who are chronically malnourished, compared to 150 million children worldwide. (India ‘s National Family Health Survey, 2006 quoted by UNICEF)

![Going hungry](image)

Figure 13. Going Hungry from the Economist, 2010.

A majority of malnourished children of India lives in rural areas. Girls tend to be more malnourished than boys. Malnourishment, claims this report, is not a matter of income, rather it is education as in other parts of the world. A third of children from the wealthiest fifth of India's population are malnourished (Pada, 2010).

Pada further elaborated that the government initiative Integrated Childhood Development Service (ICDS) has been operating since 1975 fails to achieve its target of distributing subsidized meals to 120 million children subscribed to the aid.

Education

Global Human Development Report the Real Wealth of Nations: Pathways to Human Development study by the United Nations (UNDP) examines inequalities in 19 states across India and finds that educational outcomes are most unequal within states resulting in a loss of 43 percent to HDI values of states. This is a significantly higher loss than the global average of 28 percent. In addition, India is subsidizing the higher education instead of the primary education because limited access of education to only the elite class. (Drèze, John; Sen, Amartya,1996)
Furthermore, inequalities and inadequacies in the education system have been identified as an obstacle preventing the benefits of increased employment opportunities from reaching all sectors of society. Coupled with high absenteeism rate of teacher at 26% (Chaudhary, 2006).

**Low literacy rate**

The Index Mundi data in Figure 23 show that the population, literacy rate as of 2003 is only

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<th>Country</th>
<th>1995</th>
<th>2001</th>
<th>2003</th>
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<tr>
<td>India</td>
<td>52</td>
<td>61</td>
<td>59.5</td>
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Lowest Adult literacy of India is at 74% (Economic Times, 2011). This is supported by the data obtained from the Registrar General and Census Commissioner of India’s, 2011. It is not even at par at China’s 2009 Literacy rate of 95.9%. (CIA Fact Book, 2010).

![Global Literacy Rates](source)

Figure 14. United Nations Development Report 2011

Literacy in India is not homogeneous; some states in India have more impressive literacy rates than others. Kerala 90.92% literacy rate in 2001 Bihar lags behind with 47.53%. (World Bank, 2008)

**Health Care**

According to a report of the United Nations Development Program, India has the highest population living with AIDS/HIV. This is supported by data obtained from the World Health Organization (WHO). Data on the size of the HIV/AIDS epidemic: Prevalence of HIV among adults aged 15 to 49.

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<tr>
<th>Country</th>
<th>1999</th>
<th>2001</th>
<th>2007</th>
<th>2009</th>
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<tbody>
<tr>
<td>India</td>
<td>0.7</td>
<td>0.9</td>
<td>0.3</td>
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India’s economic growth will decline by 0.86 percentages annually if the AIDS problem has not properly dealt with.
Child Labor

The sub Indian continent is notorious with child labor based on the report from BBC in 2014 a child goes missing every 8 minutes in India and are often forced to work as sex slaves and domestic servants. The census by The National Commission on Enterprises in the Unorganized Sector (NCEUS) found an increase in the number of child laborers from 11.28 million in 1991 to 12.59 million in 2001. M.V. Foundation in Andhra Pradesh found nearly 400,000 children, mostly girls between seven and 14 years of age, toiling for 14-16 hours a day in cottonseed production across the country of which 90% are employed in Andhra Pradesh. Bellary District in Karnataka has over 40% of the labor in a precious stone cutting sector are children

Religion

India has a diverse mix of religions such as Muslims, Hindus, Sikhs, Buddhist and races. It has a long history of communal violence. Hindu related violence is the 1998 Chamba massacre, the 2002 fidayeen attacks on Raghunath temple, the 2002 Akshardham Temple attack allegedly perpetrated by Islamic terrorist outfit Lashkar-e-Toiba and the 2006 Varanasi bombings.

The United States has criticized India of an increment of violence against Christian with 90 over ranging from damage of religious property to violence against Christian pilgrims in the USA 1999 Human Rights Report. In 2007 and 2008 there was a further flare up of tensions in Orissa with churches attacked and set on fire.

The Muslim community faces with the Hashimpura massacre in 1987, Bombay riots, in 1993 they faced bombings in Bombay, and 2002 Gujarat violence.

Social Divide

India had been plagued by its caste system that caused social divide and en equality. There are many issues like employment, marriage, education discrimination related to the issue of caste

According to Reuters India through Trust Law Survey India ranked among the top five most dangerous countries for women it has a high rate of female feticide as up to 50 million girls are missing due to this practice and 44.5% girls are married before the reach 18 years old
according to 215 experts surveyed. The gender equality of India only stands at 37. Women have a better access of education but still have issues of empowerment and economic activity

**Political Obstacles**

**Border Disputes**

India has had border disputes with China and Pakistan, while the issue with Bangladesh over the water in the Farakka Dam. This leads to distrust among the neighbors and lack of economic cooperation.

**Insurgency**

India has quite a few insurrections with Khalistan terrorism and the Maoist insurgency in the last decade

![Figure 16. Overview of the index of perception of corruption, 2010](image)

**Corruption in India**

Transparency International (TI) studies in 2005 revealed that more than half of its participants had to bribe in order to get a task done in public office. In 2008, it establishes the rate to be 40%. Based on its finding TI had placed India in no 95 out of the 183 countries in perceived levels of public sector corruption. India scored 3.1 out of 10.

The Swiss Bankers Association report in 2006 revealed that India topped the worldwide list of black money with almost $1,456 billion stashed in the Swiss Bank. (Rao, 2012 and Nayar, 2006)

Bertrand et al, 2007 reveals that the distribution of grains with leakage between resources and benefit received to target poor household is 50%
CONCLUSION

The way forward can only be achieved by various reforms. I agree with G P Hinduja, one of Britain’s leading Indian tycoons and owner of the truck maker Ashok Leyland opinion. Unless India plays achieved a higher GDP India will only an emerging power and its glory may fade like Japan. India is set back from a huge current account deficit –USD 41,400,000,000 while China has steadily accumulating it to USD 201,700,000,000 (Index Mundi, 2011).

Although the government has prepared an ambitious climate change action plan, the focus so far in implementing the plan is limited to, corruption, lack of investment in the nonagricultural sector as well as the energy sector, lower foreign direct investment. India is also ignoring critical issues such as equity, institutional capacity and good governance. Moreover, it has to solve various internal issues such as poverty, economic disparities within regions, income inequality of the population, education, literacy, gender equality, unemployment, brain drain malnutrition, health care, religion and social divide.

India should focus its promotion of inclusive growth, such as eliminating malnutrition by providing basic needs such as food, water as well as improve sanitation and health care. India should focus on economic reform and shift its paradigm. Besides, focusing on the service and manufacturing sector, it should look at how to improve its agricultural and natural resources sector where the majority of its population is currently employed. The country needs paradigm shifts in agriculture, natural resource management, development planning and governance.

I would recommend that instead of relying on the government aid the citizens should be independent. Besides that, there should be decentralization of the states to have better physical performance and encourage citizen participating in the nation’s decision making. Besides that, focus on developing product oriented and processes in industrial and services. In addition, upgrade the nation’s agricultural capacity towards industrial cultivation as this sector holds a huge portion of jobs for the population. Last but not least encourage women in the Parliament as well as in state assemblies and council.

India will be a side player compared to the United States and China in the global economy even with an improved growth analyzed in the opportunities. It may be a good consumer market but, its influence is limited due to poor governance and infrastructure. When it takes an action it shakes the world then only it can be considered a raising superpower.
REFERENCES


