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Competitive Advantages of Global Finance & Indian Business Environment

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Abstract

Competitive Advantage of Global Finance and Indian Business Environment has become an exceptionally dynamic concept, whether this concept since the time of its emergence has been contributed towards the growth of the economy or it has been a reason for the crisis, inflation, unemployment etc. in the nation.

This paper has tried to bring into the light the relation between the Competitive Advantages of Global Finance and in Indian Business Environment.

Despite having the gesture of a developing economy, India is growing fast and this is the reason only why this study has become so hot and controversial now-a-days. There might be many factors which are promoting the economy towards the development path but how far and in which direction the concept of competitive advantage is contributing will discuss later in this paper only.

Indian Companies should keep participating in the international financial market or not by the end of this paper readers will definitely get a conclusion.

This paper is completely based on secondary data, both descriptive and analytical process have been applied to execute this study. This study will definitely help other authors, researchers who are involved in financial and economic studies to understand the model of Competitive Global Finance.

Keywords: Competitive advantages, global finance, Indian financial policies, capital movement, Indian companies, Indian business environment.

Introduction

Meaning of Competitive Advantage: Competitive Advantage is a special feature of every business which makes it superior than others, which makes leader to any business in the industry. It helps any business to attract more customers and to grow its market share.

It is actually a condition or circumstance that puts a company in a favorable or superior business position.

Global Finance: It is an International Financial System of legal agreements, institutions and both formal and informal economic actors that together facilitate international flow of financial capital for the purpose of investment and trade financing. It includes international trades and investments, currency exchange rates, cross-border transactions and the flow of capital among countries.

Indian Business Environment: Business and environment are closely related to each other, the success of any business completely depends on the business environment of its country.

1. International Finance and Indian Business Environment:

India has started enjoying the global finance since mid-1980s by seeking commercial loans and receiving savings from Indians living abroad. By the beginning of 1991, India made substantial efforts to attract foreign income from portfolio investments and through direct source. The efforts bring positive results and FDI grew to $2.6B by 1997 from $158M at the end of 1992. The recent wave of financial globalization that has occurred since mid-1980s has been noticed by a rush in capital flows among industrial countries and, especially from developed countries to developing countries, though the impact of capital flows from these developed countries to developing countries are not equal for all. Some of them have experienced destructions in the growth rates of the nations and a significant financial crisis too.

Though the inflows in India Financial Market have been a tremendous record, from the year 1970 to 2021, it is almost 90 times, liberalization and globalization of Indian Financial

market into the international financial market has given a remarkable growth to the country.
Have a look of inflows through the following given Table 1

Table 1: Capital inflows in India Financial Market

Years	Capital Inflows
1970	$0.05B
1980	$0.08B
1990	$0.24B
2000	$0.35B
2010	$27.4B
2020	$64.36B

Sources: *macrotrends.net*
Here B is indicating Billion.

Before participating in international financial markets, the capital inflows towards the economy can be seen how low it was then, even the growth in inflows was very low during a decade but when India started emerging as a global financial competitor the hike in capital inflows began outstanding though the participation in global financial market was started almost in mid-1980s but officially it takes place from the beginning of 1990s. International Capital Flows grew significantly during 1990s. Transactions in bonds and securities grew rapidly in both industrial and developing countries. Composition of these flows changed markedly.
The changes in between 2000 and 2010 was considerable, it came into lime light, people started investing in Indian Financial Market rapidly and now the situation is that not only during a decade but year on year the increment going up drastically.

2. Why Should Indian Companies Participate Internationally:

As international finance is a medium to make financial relations between one or more countries, it opens up many financing options at cheaper rate which reduces the cost of capital of the company, companies get better options to take and lend money. International finance facilitates the companies to make e better combination of long-term debt which plays a crucial role in the organization. It has many other benefits like it improves the credibility of the organization in international market, makes the organization more competitive which emphasize the organization to improve its quality of goods or services with maintaining a standard price of the goods or services provided. Probably the main benefit of financial globalization for developing countries is the development of their financial system.
It doesn't bring only positivity many disadvantages are also associated with this term like it increases the throat cut competition among the provider of the goods or services. Availability of more finance options may explode the market with money flow and in this way, it might be a cause of inflation, where it has the ability to increase the job opportunities, it might be a reason to make some unskilled or other persons unemployed, because generally the money flows from a developed to a developing economy so the receiving economy generally faces the problem of lagging behind in technology.
Though the list of disadvantages is very long but these can be addressed by taking the proper initiatives on time.
Steps can be taken to achieve a good place in international Financial System are:

3. Indian Economy in International Financial Market:

India has emerged itself as one of the fast-developing economy and today it has become the most attractive center for the purpose of attracting foreign investment. The Indian Stock Market has overtaken the France and has positioned itself as the world's fifth largest stock market with a market capitalization of $3.3tn as on May 2023.
The growth in the Indian Stock Market is commendable it has created history, It has become the fifth-largest economy in terms of nominal GDP and the third largest by purchasing power parity (PPP). According to the current Chief Governor of RBI Shaktikanta Das: he stated in the G20 Summit that "Our financial sector is stable, we have left worst of inflation behind us, our external debt is manageable, therefore rise in dollar will not affect the nation very much.
Foreign investors feel secured in Indian financial market compare to any other developing economy, as it is buoyed by a robust democracy, key structural reforms, and private consumption. Our economy has achieved a high macroeconomic stability with a score of 90 out of 100 and ranked 41th out of 141 economies) in the World Economic Forum's (WEF) Global Competitiveness Index.
Being the world's largest democracy where a significant portion of democracy belongs to a healthy middle class, making it an attractive consumer market. It has the largest market size in term of manufacturing and services and ranked at 3rd position out of 141 economies according to World Economic Forum (WEF's) Global Competitiveness Index.
It is anticipated by the WEF that total consumption expenditure of India will grow to $5.7 trillion by 2030.
Therefore, it can be said that Indian economy is positioned in a very good rank in international Financial Market.

4. What is India's Competitive Advantage in Global Financial Market:

If we look into the increment of FDI in Indian Stock Market, where even a single foreigner and not only a firm or organization, allows to direct invest in Indian Financial Market by way of acquiring shares and debentures.
This can be considered as one of the competitive advantages of the nation where it attracts more and more funds, but it has some controls and limitations which takes steps back to some of the investors to invest in the economy.
One of those is tedious and heavy taxation in India and some ambiguous financial policy. It should be as much clear as crystal so that one to one transaction could be possible.

5. Main agents of International Financial System:

There are four main agents who plays significant role while integrating with the international financial markets. They are: Government, Borrowers and Investors and Financial Institutions.

- **Governments:** Governments are one of the most important agents of financial globalization who liberalizes and deregulates the domestic financial market and allow the foreign investors and domestic service providers to trade and makes their trades easy.
- **Borrowers and Investor:** They are the main components of any financial market. Borrowers or debtors borrows investments by selling financial instruments such as bonds, shares etc. to the investors and investors tend to be focused on the long-term investments and gains returns in the form of interest or dividend etc. They are complimentary of each other and for the financial market too.

- **Financial Institutions:** Last but definitely not the least, financial institutions are the platforms where transactions execute and borrowers and lenders borrow and lend money. It acts like an intermediary between them, as it is a legal body therefore it is better to execute the transactions through it despite transacting directly.

6. Future of International Financial Globalization in India:

As global finance has more disadvantages than advantages for a developing economy in the beginning phase so it becomes questionable what's the future of global finance in these types of economy whether should keep transacting internationally despite having many disadvantages or should stop trading internationally.

First let consider some of the major disadvantages that a developing company might face while trading internationally:

- If a developing economy completely implement the concept of International Financial Globalization or let allow to integrate all the companies even a small and one-man company to integrate themselves globally, many related theories implies that the volatility of consumption relative to that of output will go down, while the essence of global financial diversification is that an economy should be able to minimize its income risks in global financial market.
- When a country liberalizes its financial system, it becomes subject to market discipline and exercised by both the foreign and domestic investors. Therefore, it has to be ready to take the pressure from both domestic and international market.
- It can lead to financial crisis if there are imperfections in the international financial markets. Not only in developing country but imperfections in international financial markets can lead to a financial crisis even in the developed country with sound fundamentals.
- It might affect the GDP of the economy negatively because the small sized companies of developing countries are not ready to cope up with advancement of international financial market.

Any potential increase in volatility tends to occur in short-run right after integration especially in developing economy. When a developing country integrates itself, volatility and crises might arise. If the domestic financial sector is not prepared to cope with foreign flows and is not properly regulated and supervised, financial integration may lead to domestic crises.

But if the integration is done after making the domestic fundamentals accordingly to cope up with international financial markets, then it can be fruitful in long run only.

7. What Steps should be taken by Domestic Economy to make it more competitive in International Financial Market:

- **Tariffs and Trade Regulations:** India's high trade tariffs, generally non-transparent and ambiguous regulations leaving many foreign investors and exporters with limited access to the market. India has the highest average tariffs among all the G20 economies. These barriers are still there as may be Indian government tries to protect domestic producers. But not only foreign investors, sometimes the domestic investors also feel it very tedious to deal with the tariffs and financial policy compliances even to invest in our domestic financial market.
- **Delay in Implementation of Domestic Financial Policies:** The most important changes that is needed to make it more competitive in international financial market is to fast implementation of the policies which are made for the international financial compliance.
- **Technology and Networks:** It can't be denied that India has made a substantial place for itself in the world's technology platform, but when it comes to comparison with industrialist economy, it feels lagging behind among them, though India is steel a developing economy but its competitors are now the developed countries because India is also on the verge of developed economy path.

Conclusions

The challenges of integrating with the global financial market is always daunting. As it becomes the international matter therefore regulations and policies are constantly evolving and no business landscape remains constant. Without having a concrete financial fundamental of domestic policies jumping into the ocean of international financial markets might be dangerous not only for a company but also for the organization. As the gains are likely to materialize in the long run while the costs will tend to be more prevalent in the short run. It would be suggested to any developing economy to participate in global financial markets with solid plans and exposures.

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