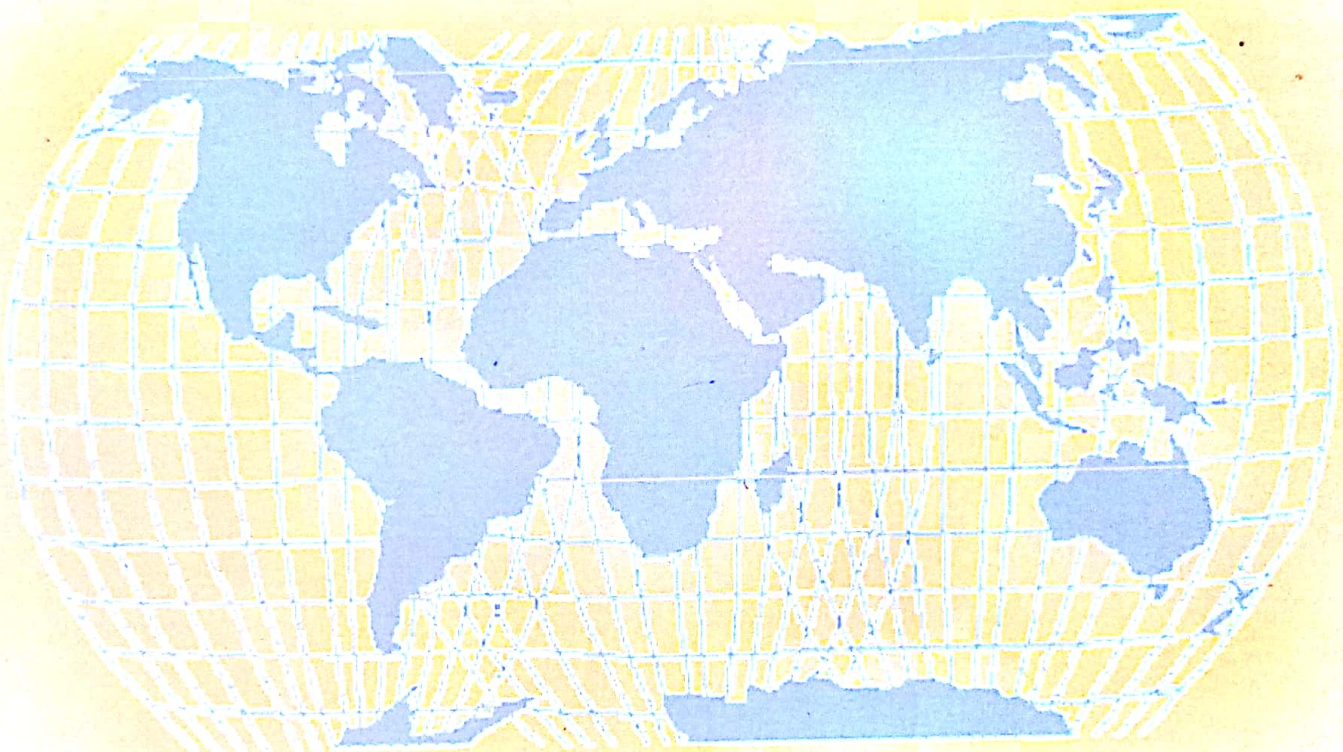


IJBR, Volume VII, Number 6, 2007

ISSN: 1555-1296

IJBR.org

INTERNATIONAL JOURNAL OF BUSINESS RESEARCH™



Our University Sponsors

Jesse H. Jones School of Business
Texas Southern University, Houston, Texas, USA
<http://www.tsu.edu>



School of Business
Hampton University, Hampton, Virginia, USA
<http://www.hamptonu.edu>

Managing Editors

Professor C. B. Claiborne, Ph.D.
Texas Southern University, Houston, Texas, USA

Dean/Professor Sid Howard Credle, Ph.D.
Hampton University, Hampton, Virginia, USA



A Publication of the
Academy of International Business and Economics®

Promoting Global Competitiveness™

TABLE OF CONTENTS

	Page
VOLUNTARY DISCLOSURES OF FORWARD-LOOKING EARNINGS INFORMATION AND FIRM VALUE IN THE AIRLINE INDUSTRY Bert J. Zarb, Embry-Riddle Aeronautical University, Daytona Beach, Florida, USA	1
PERCEPTUAL ETHICAL VALUES OF BUSINESS AND ENGINEERING STUDENTS IN SAUDI UNIVERSITIES Abdulwahab S. Al-Kahtani, King Fahd University of Petroleum and Minerals, Saudi Arabia	19
DETERMINANTS OF HIGH SCHOOL ECONOMIC LITERACY: A CASE STUDY Hamid Tabesh, University of Wisconsin-River Falls, U.S.A Brian L. Schultz, University of Wisconsin-River Falls, U.S.A	28
PRELIMINARY FINDINGS REGARDING THE IMPACT OF THE MARTIAL ART - KENDO, ON THE PERCEPTIONS OF BUSINESS STUDENTS' PROFESSIONAL DEVELOPMENT Sid Howard Credle, Hampton University, Hampton VA, USA Ruby L. Beale, Hampton University, Hampton VA, USA	35
SETTING THE STAGE FOR EFFECTIVE EXECUTION OF CHANGE: PRACTICAL ADVICE FOR LEADING CHANGE EFFORTS F. Barry Barnes, Nova Southeastern University, Ft. Lauderdale, FL, USA Dennis F. Karney, School of Business, University of Kansas, Lawrence, KS, USA	45
ANTECEDENTS OF LOGISTICS PERFORMANCE AND ECONOMIC PERFORMANCE: THE CASE OF RADIO FREQUENCY IDENTIFICATION Alexandra M. Hilger, METRO Group GmbH, GERMANY Paul W.Th. Ghijsen, Open University of the Netherlands, Heerlen, The NETHERLANDS Janjaap Semeijn, Open University of the Netherlands, Heerlen, the NETHERLANDS	57
INDIA AND THE GLOBAL ECONOMY: A COMPARATIVE STUDY IN SELECT COUNTRIES D. Chennappa, Osmania University, Hyderabad, INDIA H. Venkateshwarlu, Osmania University, Hyderabad, INDIA	67
INNOVATION: A NECESSITY OF THE NEW GLOBAL BUSINESS PARADIGM C. B. Claiborne, Texas Southern University, Houston, Texas, USA	73
ROUND TWO OF THE CANYON FOREST VILLAGE DEBATE: ONE STEP FORWARD, TWO STEPS BACK Dennis Foster, Northern Arizona University, Flagstaff, Arizona, USA Craig Bain, Northern Arizona University, Flagstaff, Arizona, USA	77
PROFILING CONSUMER-TO-CONSUMER AND BUSINESS-TO-CONSUMER BUYERS: WHO BUYS WHAT? James Anderson, Lakehead University, Thunder Bay, Ontario, CANADA Mehdi Zahaf, Lakehead University, Thunder Bay, Ontario, CANADA	85
CONFORMIST BEHAVIOR IN JAPANESE EARNINGS FORECASTS Seung-Woog (Austin) Kwag, Utah State University, Logan, UT, USA	100

INDIA AND THE GLOBAL ECONOMY: A COMPARATIVE STUDY IN SELECT COUNTRIES

D. Chennappa, Osmania University, Hyderabad, INDIA
H. Venkateshwarlu, Osmania University, Hyderabad, INDIA

ABSTRACT

The world economy is in the midst of a profound transformation. Globalization, liberalization and privatization constitute the three core elements of the economic reforms in the newly emerging global economic systems. This paper an attempt is made to envisage the real conditions of the global economy in terms of GDP, Trade, Foreign Direct Investment, Poverty, unemployment, Monetary policy and Social indicators in select countries like: United States, South Korea, China and India. The study finds China and India has been emerging in terms of GDP, Trade and reducing poverty and unemployment in recent past by expanding inter-firm and inter-industry trade. However, India is indexed as low potential and under – performer in attracting FDI.

INTRODUCTION

The world economy is in the midst of a profound transformation. Globalization, liberalization and privatization constitute the three core elements of the economic reforms in the newly emerging global economic systems. Historic events, like the end of the cold war, the transformation in Central and Eastern Europe, the disintegration of the Soviet Union and the emergence of a common market in Western Europe are most significant on the international front. These changes have had a profound impact on both international relations and the world economy. The world has accepted the concept of the so-called *global economy* and this drastic transformation directly relates to the technological development¹. In addition, there is a strong correlation between economics and technology that influence the progress of any nation. As a result, all of the countries around the globe, including developing and underdeveloped, have accepted this concept of macroeconomic restructuring. It is apparent that India is also passing through this historic movement on the economic front. To examine the latest development in India and to the select countries through trade, foreign direct investment, and poverty and social sector, the following objectives are framed.

REVIEW OF LITERATURE

Dollar and Kraay (2002)², suggests a positive link between the level of openness and economic growth. Rodrik (1999)³ argues that the openness required by globalization is no guarantee of better growth performance or poverty reduction. In Asia, Liu and Luo (2004)⁴ note a growing interdependence between ASEAN and China, and particularly between ASEAN-5 and China. Iradian (2005)⁵ looking at inequality, poverty and growth – through a panel dataset of 82 countries for the period 1965-2003 – illustrates that poverty has declined significantly on a global level over the past two decades. However, he stresses that most of this improvement was due to the sharp reduction in poverty in China and India. Studying poverty trends since the early 1980s, Chen and Ravallion (2004)⁶ predict that if the present trends continue, the 1990 aggregate rate of \$1 a day poverty will be halved by 2015, meeting the MDGs, but only East and south Asia will reach this goal (which is consistent with Iradian's study). Beth Anue Wilson and Geoffrey N Keim (2006)⁷ placed India in International economic position and found India are offered programmers that are more skilled but which must address problem of poverty, infrastructure and governance to achieve potential. UNCTAD, World Investment Report (2006)⁸ says the impact of globalization on countries and companies is nowhere manifest more than in the outward FDI by the developing and transition economics in recent years. Brigitte le'vy (2005)⁹ mentioned that in 21st Century the transnational economic space that globalization has created needs organizational responses from multilateral institutions and governments.

OBJECTIVES OF THE PAPER

1. To grasp the real conditions of the global economy in terms of GDP, in selected countries.
2. To assess the growth in Trade, FDI, Poverty, and Social Sector in Select countries.

METHODOLOGY

This paper places India in the global context and examines its place. It is a macro analysis, and based on secondary data. The necessary data has been collected from World Investment Report 2006, IMF 2006 Reports, Million Development Program Report 2006, World Bank Annual Report 2006, Tenth Five Year Planning Commission Paper, and Reserve Bank of India periodicals. The period of the study is 2000 to 2006. The inherent limitation of this paper is lack of uniform data. However, title suggests India and the Global Economy, but main focus has been given on select countries like: United States of America, South Korea, China and India's economic indicators.

ECONOMIC CONDITIONS OF THE WORLD

There is widespread concern about the condition of the world economy. Specifically there is remarkable coincidence of improved GDP growth of the major economies in 2006. The United States economy is growing at 4.8 per cent (1st quarter of 2006 over 4th quarter of 2005). The Japanese economy is expanding again after more than a decade of stagnation. The German economy is beginning to grow a little faster. The Chinese and Indian economies are expanding rapidly¹⁰. All of this creates demand among these leading economies as well as in other countries, and also shows world trade is expanding. In response to these reforms, trade as a percentage of GDP has almost doubled since 1991 and GDP per capita growth has picked up. In this regard, an attempt is made to identify where places India in the Global context in select countries. It is, therefore, select countries and selected economic indicators have been presented in Table 1.

TABLE 1: SELECT COUNTRIES & SELECTED ECONOMIC INDICATORS-2005

	India	China	South Korea	United States
1. Population (in million)	1,100	1,300	49	296.5
2. Percentage of world population	17	21	0.7	5.0
3. GDP (\$ billion)	785	2,200	680	12,500
4. GDP annual growth rate	8.5	9.9	5.6	3.5
5. GNI per capita (US \$)	720	1,740	15,251	43,740
6. Merchandise trade (% of GDP)	28.2	63.8	--	21.2
7. Imports of Goods services (% of GDP)	21.0	31.4	--	15.1
8. Export of Goods services (% of GDP)	19.0	38.4	--	11.2
9. FDI inflow (US \$ billion)	5.3	54.9	--	106.8

Source: Compiled from World Investment Reports.

As can be seen from Table 1 that, 9.9 per cent of annual GDP growth rate was registered in China, followed by 8.5 per cent in India and 5.6 per cent in South Korea in 2005. The merchandise Trade in percentage to GDP was highest in China (63.8 per cent), followed by India (28.2 per cent) and only 21.2 per cent in US. Exports of Goods services in per cent in US. However, mere US\$ 5.3 billion foreign capital inflow is registered in India whereas US\$ 54.9 billion in China and US\$ 106.8 billion in US. Based on the above fact that in South Asia, China and India has been emerging as fastest economy growing countries then that of United States. In case of US economy, no one needs to worry about the GDP annual growth rate because GNI per capita Income is US\$ 43,740, which has not been earned ever in any country in the world. Significantly, South Korea has robust their economy. Hence, GDP per capita of South Korea, China and India has been presented in Figure 1.

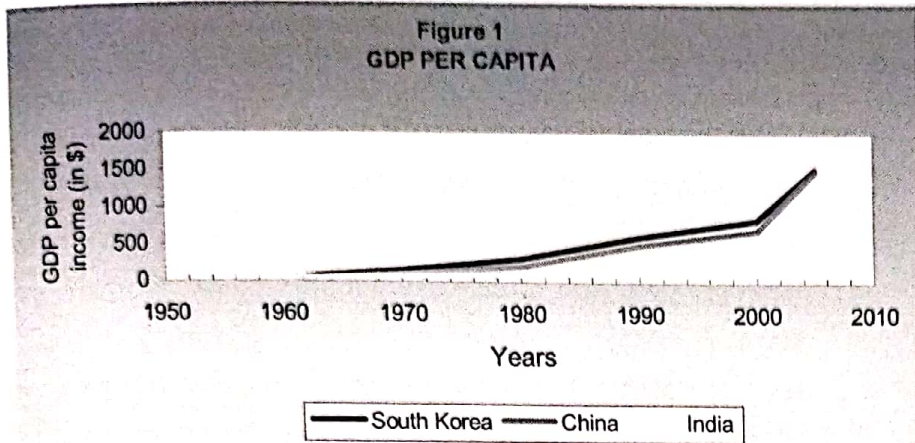


Figure 1 shows, India's pace of reform has been gradual, however, compared with that of South Korea and China, in 1960, India, South Korea, and China all had trade shares of roughly ten percent of GDP. South Korea began a period of dramatic export-led growth in the 1960s—as did China two decades later—that corresponded to rapid increases in GDP per capita by 2003, India had just reached the level of openness in 2000, which had been gained by South Korea in the mid-1960s and China in the mid-1980s. This comparison highlights both the lagging pace of India's development and the tremendous potential that could be unleashed should India follow in the footsteps of these other Asian countries.

TRADE

Trends and Characteristics of Trade

Trade is said to be the engine of economic growth and the expansion of trade and economic growth have a close interrelationship. The expansion of trade after the war exceeded economic growth rates greatly. The postwar economic growth was brought about through the expansion of trade. When we look at the index with 1995 as 100, world GDP showed an increase of 7.2 times from 1950 to 2003 while merchandise exports showed the remarkable increase of 145 times. The breakdown of exports showed an increase of 23 times for agricultural products, 87.5 times for mining products, and 146 times for manufactured goods, and manufactured exports were the driving force of total exports¹¹. Thus, world merchandise trade by region wise and in select country wise from 1948 to 2005 presented in Table 2.

Table 2 shows the expansion and regional trends of the world exports after the war. Merchandise exports of the world continued to increase consistently from \$58 billion in 1948, to \$7,294 billion in 2005. They increased by 125.8 times during the period. Exports by GATT/WTO members (148 as of October, 2005) increased from 60.4% in 1949 to 94.3% in 2005. These organizations played a crucial role in the expansion of trade. It should also be mentioned that export-oriented industrialization adopted by latecomers contributed greatly to the expansion of manufactured exports. The share of North America declined gradually from 27.3% in 1948 and to 13.7% in 2005. The share of Latin America also continued to decrease from 12.3% in 1948 to 5.2% in 2005. Interesting is in the case of Asia. Its share declined from 13.6% in 1948 to 12.4% in 1963, but continued to increase after that, recording 26.1% in 2005, almost double that of 1948. The breakdown clearly shows differences of economic development by country. Japan's share was only 0.4% in 1948, but increased to 6.5% in 2005. China's share was 0.9% in 1948, reached 2.5% in 1993 and increased to 6.0% over the past decade. India was proud of a high share with 2.2% in 1948, but gradually decreased her share to 0.5% in 1983 and then started to increase, showing 0.8% in 2005. The breakdown clearly shows differences of economic development by South Asian countries.

As can be seen in Table 3, both FDI inflows and outflows increased annually. FDI inflows were \$648 billion and FDI inward stock was \$8,902 billion in 2005,¹² while FDI outflows were \$730 billion and FDI outward stock was \$9,732 billion. The great contributors to FDI are multinational corporations (or transnational corporations). The regional distribution of FDI is shown in Table 4 & 5. The FDI inflows were

\$180.8 billion in developed countries and \$118.6 billion (Asia occupying 62%) in developing countries on an annual average between 1992 and 1997, but recent years saw a greater inflow towards developed countries, showing \$542.3 billion in developed countries and \$373.9 billion in developing countries in 2005. FDI outflows show that more originated from developed countries with \$646.2 billion, compared with the \$132.5 billion from developing countries.

Years	1948	1953	1963	1973	1983	1993	2005
World (\$billion)	58.0	84.0	157.0	579.0	1838.0	3671.0	7294.0
Region	100	100	100	100	100	100	100
World							
North America	27.3	24.2	19.3	16.9	15.4	16.6	13.7
Latin America & The Caribbean	12.3	10.5	7.0	4.7	5.8	4.4	5.2
Western Europe	31.5	34.9	41.4	45.4	38.9	44.0	43.1
C/E Europe/ Baltic States	6.0	8.1	11.0	9.1	9.5	2.9	5.5
Africa	7.3	6.5	5.7	4.8	4.5	2.5	5.5
Middle East	2.0	2.7	3.2	4.1	6.8	3.4	4.1
Asia	13.6	13.1	12.4	14.9	19.1	26.1	26.1
...Japan	0.4	1.5	3.5	6.4	8.0	9.9	6.5
..China	0.9	1.2	1.3	1.0	1.2	2.5	6.0
..India	2.2	1.3	1.0	0.5	0.5	0.6	0.8
..Australia...	3.7	3.2	2.4	2.1	1.4	1.5	1.2
..Six East Asian Traders	3.0	2.7	2.4	3.4	5.3	9.2	9.7
GATT/WTO members	60.4	68.7	72.8	81.8	76.5	89.5	94.3

Source: Compiled from UNCTAD, World Investment Report 2006, 2006.

FOREIGN DIRECT INVESTMENT (FDI)

Asia is the largest recipient of FDI among the developing regions. Developing countries received \$172 billion in 2003, out of which Asia accounted for 62% with \$107.1 billion. Asia's FDI recorded its peak with \$146.1 billion in 2000 corresponding to the world trend, but declined after 2001 and then recovered in 2003. (Refer Table 5.) The rapid increase of FDI into Asia is because of China. The largest recipient was China with \$52.7 billion in 2002, followed by Hong Kong with \$9.7 billion, Singapore with \$5.7 billion, India with \$ 1.0 billion. The largest recipient in 2003 was also China with \$53.5 billion, followed by Hong Kong with \$13.6 billion, India with \$ 4.3 billion, Korea with \$3.8 billion.¹³

	1992-97 ^a	1998	1999	2000	2001	2002	2003	2004	2005
Developed Countries	180.8	472.5	828.4	1108	571.5	489.9	366.6	396.2	542.3
....Western Europe	100.8	263	500	697.4	368.8	380.2	310.2	217.69	433.6
....Japan	1.2	3.2	12.7	8.3	6.2	9.2	6.3	7.81	2.77
.....U.S	60.3	174.4	283.4	314.0	159.5	62.9	29.8	122.37	99.44
Developing Countries	118.6	194.1	231.9	252.5	219.7	157.6	172.0	416.8	373.9
Asia	74.1	102.2	112.6	146.1	111.9	94.4	107.1	156.6	199.5
...South Asia	2.5	3.5	3.1	3.1	4.0	4.5	6.1	7.3	9.7
WORLD	310.9	690.9	1086	1388	818	678.8	559.6	710.7	916.3

Source: UNCTAD, World Investment Report 2006.

FDI: India

According to Reserve Bank of India 2006 reports,¹⁴ there has been massive increase in FDI inflows into the country since 1991-92 (both as a consequence of increase in FDI and portfolio investment). Foreign investment inflow rose from \$ 4892 million in 1995-96 to \$20,244 million in 2005-06, in a span of ten

years basically due to rapid increase in portfolio investment. However, comparing their inward FDI and potential ; using the UNCTAD -2006 indices, India is indexed as low potential and under – performer in attracting FDI.

Table 5: Regional Distribution of FDI outflows 1992-2005 - (\$ billion)

	1992-97 ^a	1998	1999	2000	2001	2002	2003	2004	2005
Developed Countries	275.7	631.5	1014.3	1083.9	658.1	547.6	569.6	686.3	646.2
....Western Europe	161.7	436.5	763.9	859.4	447	364.5	350.3	367.9	618.8
....Japan	20.2	24.2	22.7	31.6	38.3	32.3	28.8	30.9	45.7
.....U.S	77.6	131	209.4	142.6	124.9	115.3	151.9	222.4	-12.7
Developing Countries	51.4	53.4	75.5	98.9	59.9	44.0	35.6	126.7	132.5
Asia	39.6	31.6	41.7	83.8	50.3	37.9	23.6	83.4	83.5
...South Asia	0.1	0.1	0.1	0.5	1.4	1.2	0.9	2.09	1.5
WORLD	328.2	687.2	1092.3	1186.8	721.5	596.5	612.2	813.06	778.7

Source: UNCTAD, World Investment Report 2006.

POVERTY

As per World Bank report (2006) ¹⁵ extreme poverty in developing countries fell from 28 per cent in 1990 to 19 per cent in 2005. Accordingly, at the global level, 10 per cent of the population in developing countries will live on \$ 1 a day or less in 2015. In East Asia and the Pacific, by 2020 the percentage of people living on \$1 will drop to one per cent. However, a still significant 13 per cent share will be below the \$2 a day poverty line indicator. At the other extreme is South-Asia, which is projected to have a \$1 a day poverty rate of 12.8 per cent in 2015. While this represents a drop from the 25 percent level of 2000. Whereas, in case of Latin America & the Caribbean actual poverty rates are higher than that of projected.

Poverty: India

According to the official (Planning Commission) ¹⁶ figures which are available, 260 million people (26 per cent population), still live below the country's poverty line. Seventy five per cent of these were dwelling in rural areas. Although the proportion these people below poverty line has declined significant improvement during the period 1993-94 to 1999-2000 but the decline was lower than the projected poverty proportion of 18.61 per cent in 2005. The short fall was because of uneven performance among the most populous States of Orissa (47 %), Bihar (43 %), Madhya Pradesh (37%), Uttar Pradesh (36.5 %), Assam (36 %), and West Bengal (27 %). These States together account for 67 per cent of poor population in India. Behind these figures are human faces, human pain, suffering, and a moral duty to make poverty outdated and create equity in development programmes.

SUGGESTIONS:

(1) Enhanced investment activity, particularly in the infrastructure area, to uplift the people who lived on less than \$1 a day and suffering from hunger. (2) Adopt "pro-poor" policies. Pro-poor policies should be designed to provide this possibility by means of a decent job. This implies creating employment opportunities to help women and men secure productive and remunerative work in conditions of freedom, security and human dignity. (3) Increase international assistance aimed at improving access to developed-country markets and reducing external debts and debt servicing, thus freeing resources for reform programmes targeted on improved governance, job creation and poverty reduction - the absence of which will prevent most of the developing world from participating in growing world demand. (4) A global partnership for development will be established by the WTO/GATT member countries.

CONCLUSION:

The world economy is in the midst of a profound transformation. The changes have had a profound impact on both international relations and the world economy. This study found that the China and India

economy is expanding rapidly in terms of GDP, trade, reducing the poverty and unemployment. Strong domestic demand, trade growth and overcoming the problems associated with the transition process are encouraging signs, but India is failed to attract FDI. The select countries economic indicators highlighted that India lagging behind in development. Suggested that India should follow footsteps of other Asian countries.

REFERENCES:

1. Arun S. Patil & Zenon J. Pudlowski (2003) "the globalizations of the Indian Economy" World Transactions On Engineering And Technological Education, UICEE, US, Vol. II, No.3, P 367.
2. Dollard D and A Kraay (2002), "Spreading the wealth" Foreign Affairs, Vol.81, No.1, pp 120-133.
3. Rodrik. D. (2002), "the global economy and developing countries", Baltimore, Hopkins University Press, Japan.
4. Liu, Y. and H. Luo (2004), "Impact of Globalization on International Trade between ASEAN-5 and China: Opportunities and Challenges", *Global Economy Journal*, VOL. 4. No.1, P.6.
5. Iradian .G. (2005), "Inequality, Poverty and Growth: Cross country", IMF, Working paper 5.
6. Chen.S. and Ravallion .M. (2004), " how have the world's poorest fared since the early 1980s ? The World Bank Research Observer, Vol.19, No.2, pp 141-169.
7. Beth Anue Wilson and Geoffrey n Keim (2006), "India and the Global Economy – vast potential but difficult challenges" Business Economics, USA, January 2006, p.28.
8. UNCTAD, World Development Report 2006.
9. Brigitte Levy (2005) "Globalization at the Cross Raods: New emerging trade pattern and the millennium Development Goals" International Trade and Finance Association, Paper 19, p 20.
10. Forrest Cookson (2006), " The world economy 2006", World Bank paper 26, World Bank, Washington, DC, p 207.
11. Kazumi Yamamoto (2006) "the impact of Globalization on the trade and investment environment of Asian countries and the role of the Government", I D E, Aichi University, Japan, p.8.
12. UNCTAD, (2004) World Investment Report 2004, United Nations, New York and Geneva , p.21.
13. *opcit. P.34.*
14. Reserve Bank of India (2006), Trend and progress of Banking in India, RBI, Mumbai, p18.
15. The World Bank (2005), World Development Indicators, 2005, Oxford University Press, p.23.
16. Tenth Five year Planning Commission (2002-07), Government of India, p.206.
17. ILO (2005), Global Employment Trend Models, 2005, ILO, Geneva, P.16.