IMPACT OF GLOBALISATION ON BALANCE OF PAYMENTS IN INDIA

Prasad .S.P

Assistant Professor, Department of Economics, Government First Grade College, Srirangapatna, Mandya District

ABSTRACT

Globalisation has had a multifaceted impact on India's balance of payments, with both positive and negative consequences. While it has boosted exports and attracted foreign investment, leading to a stronger financial account, it has also resulted in increased imports and a persistent trade deficit, affecting the current account.

Keywords : Imports & Exports, Special Economic Zones, Payments

INTRODUCTION

The Balance of Payments (BOP) is a systematic record of all economic transactions between the residents of the reporting country and the residents of the rest of the world for a given period of time. It comprises all of a country’s current transactions of exporting and importing goods and services as well as financial transactions such as purchase and sale of foreign assets, foreign direct and portfolio investments, and borrowing from and lending to the rest of the world. BOP is a quantitative summary of a country’s international transactions over a period of time. It reveals various aspects of the international financial position of a country. According to Kindleberger (1973), “The balance of payments of a country is a systematic record of all transactions between the residents of the reporting country and the residents of foreign countries during a given period of time”. Further, as explained by Salvatore (1975), “A nation’s BOP is a systematic record of all its economic transactions with the outside world in a given year.”

Globalisation is the new buzzword that has come to dominate the world since the nineties of the last century. The main reform initiatives in India were undertaken after a fiscal and foreign exchange crisis which brought it to the verge of default on the foreign loans. Thus, the Indian globalisation is a result of the decadence within and the pressure from without. The effects of globalisation on the Indian economy in the post-globalisation years are clearly visible in the foreign sector - foreign exchange reserves, international trade, inflow of foreign capital, etc. This paper explores the contours of the on-going process of globalization. Throughout this paper, there is an underlying focus on the impact of globalisation on the Indian economy.

INDIA’S BALANCE OF PAYMENTS

The overall picture of India’s balance of payments was not very comfortable until the 1990s or at the time of launching reforms. The strategy of reforms introduced in India, July 1991 presents a mixture of macroeconomic stabilization and structural adjustment; or in other words, it was guided by both the short-term and long-term objectives. The reforms proved to

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be reasonably successful. Some of the achievements of reforms would include – improvement in India's exports and exports growth, reduction in external debt, containment of fiscal deficit, controlling inflation, increase in foreign direct investment and foreign institutional investment, increase in trade openness, increase in foreign exchange reserves, stabilizing the exchange rate of rupee and move towards capital account convertibility .

The success of India's debt management policy is reflected in a gradual and steady improvement in the debt sustainability indicators during the 1990s. It is noteworthy that in terms of indebtedness classification, the World Bank has classified India as a less – indebted country since 1999 (Report on Currency and Finance 2002 – 03). External sector reform has been the consolidation of external debt in the nineties, especially short-term debt. The ratio of short-term debt to total debt has come down from 10.2 in 1990-91 to 4.4 in 2002-03. The debt service ratio has come down from 35.3 in 1990-91 to 14.7 in 2002-03. As observed by RBI one major success which was achieved after implementation of reforms was the turning of current account deficit into a surplus. Besides, this there was also an improvement in Net terms of trade and Income terms of trade.

India's BOP data shows that there was a surplus in the current account of BOP for three consecutive years from 2001 – 02 to 2003 – 04. In this regard, an observation from a current account surplus for the third consecutive year coupled with an expanding capital account further strengthened India's BOP in 2003-04. Rising current account surplus has been one of the distinguishing features of India's BOP in the current decade (Economic Survey 2004 – 05). The strength resilience and stability of the country's external sector is reflected by various indicators. These include a steady accretion to reserves, moderate level of current account deficit, changing composition of capital inflows, flexibility in exchange rates, sustainable external debt levels with elongated maturity profile and an increase in capital inflows.

The current account has followed an inverted "U" shaped pattern during the period 2001 – 02 to 2006-07 rising to a surplus of over 2 percent of GDP in 2003 – 04. Thereafter it has returned close to its post-1990s reform average with a CAD of 1.2 percent in 2005-06 and 1.1 percent of GDP in 2006-07 (Economic Survey 2007 – 08). The Global Financial Crisis, affected Indian external sector in 2008, is considered to be the latest in the series of the economic crisis to adversely affect world economies. Unlike the past few crises, the current crisis has not spared any of the countries or market sectors and has devastated economies that were traditionally strong. It is stated that an excessively loose monetary policy in the 1990s in major developed economies transformed into global imbalances and a full-blown financial and economic crisis for all the economies of the world.

KEY INDICATORS OF INDIA'S BALANCE OF PAYMENTS

Particulars	**1990 - 91**	**2000 - 01**	**2010 -11**	**2019-20**
Exports /GDP (In Per cent)	5.75	9.70	15.29	11.17
Imports /GDP (In Per cent)	8.69	12.36	22.89	16.66
Trade / GDP (In Per cent)	14.44	22.06	38.18	27.83
CAD / GDP (In Per cent)	-3.01	-0.57	-2.87	-0.86
Import Cover (In Months)	2.5	8.8	9.6	12.00
External Debt /GDP (In Per cent)	28.7	22.4	17.3	21.8

Short Term Debt / Total Debt (In Per cent)	10.3	3.6	20.4	19.1
Debt Service Ratio (In Per cent)	35.3	16.6	4.2	6.5
Foreign Exchange Reserves (In Rs. Billion)	4388	184482	514000	590185
Exchange Rate of Rupee (Rs. Per US Dollar) (Annual Average)	17.94	45.68	46.62	72.92

Source: Reserve Bank of India – Handbook of Statistics on Indian Economy.

The table gives a snapshot of key indicators of India's Balance of Payments for select years during the post-globalisation period. It is clear from table 1.1 that there has been an improvement in some of the key indicators of the balance of payments. For instance, India's exports / GDP ratio which was 5.6 per cent in 1990 – 91 has almost doubled to 9.5 per cent in 2000 – 01. It further went up to 17 per cent in 2013-14. Similarly, India's import / GDP ratio increased from 8.5 per cent in 1990 – 91 to 12.1 per cent in 2000 – 01. In 2013-14 it was 24.7 per cent. The trade / GDP ratio shows the extent of openness of a country. It can be seen that this ratio increased from 14.1 per cent in 1990 – 91 to 21.6 per cent in 2000 – 01. It further went up to 41.6 per cent in 2013-14. Moreover, the change in the current account deficit / GDP ratio shows a significant improvement.

The CAD / GDP ratio was as high as 2.9 per cent in 1990 – 91, which declined considerably to 0.5 per cent in 2000 – 01. In 2013- 14, CAD / GDP ratio was 1.6 per cent, well within manageable limits. The debt indicators like external debt / GDP ratio, short-term debt / total debt, and debt service ratio have also shown improvement over a period of time after the implementation of reforms. For example, the external debt / GDP ratio declined from 27.8 per cent in 1990 – 91 to 19.6 per cent in 2000 – 01 and further to 23.6 per cent in 2013-14. The short-term debt / total debt ratio declined significantly from 10.2 per cent in 1990 – 91 to 4 per cent in 2000 – 01. This ratio, however, increased to 23.6 per cent in 2013-14. The debt service ratio declined from 35.3 per cent in 1990 – 91 to 17.1 per cent in 2000 – 01. It declined considerably to 5.9 per cent in 2013-14. There has been also a significant increase in the foreign exchange reserves of the country. The foreign exchange reserves (excluding gold & SDRs) increased from Rs. 400 billion in 1990 – 91 to Rs.18368 billion in 2000 – 01 and further to Rs. 182007 billion in 2013-14. The exchange rate of a rupee per US dollar shows that there has been depreciation in the value of rupee over a period of time. In 1990 – 91, the annual average exchange rate was Rs.17.4 per US dollar, which went up to Rs.44.9 per US dollar in 2000 – 01. However, this exchange rate has remained more or less stable after 2000 – 01. It was Rs.58.59 per US dollar, in 2013-14. In 2019-20 the overall trade went up to 27.83% and the current account deficit gone to -0.86%. The External debt/GDP increased to 21.8%. Foreign exchange reserves and Exchange rate of rupee shoot up to Rs.590185 in billion and 72.92 US dollar per Indian rupee respectively.

TRADE POLICY REFORMS IN POST- GLOBALIZATION PERIOD

Some major trade policy reforms were carried out in the post-globalization period to improve the balance of payments position of India.

(1) Reduction in Tariff Rates - A key aspect of the trade reforms of the 1990s was the reduction in import duties. The broad approach to reforms regarding customs tariffs and exemptions was laid out in the Report of the Tax Reforms Committee, 1991 (Chelliah Committee). India's customs tariff rates have been declining since 1991. The 'peak rate' has progressively come down from a level of over 300 per cent during the pre-reform period to 150 per cent in 1991 – 92 and further to 25 per cent in 2003 – 04.

As a member of WTO, India bound about 67 per cent of its tariff lines whereas prior to the Uruguay Round, only 6 per cent of the tariff lines were bound. In fact, in most items, India's customs tariff rates are at present significantly lower than the corresponding "bound" rates stemming from the obligations undertaken in the WTO.

(2) Phasing out Quantitative Restrictions - In the Indian context, for several decades phasing out quantitative restrictions on imports of a wide range of products were justified for the balance of payments reasons. Out of the nearly 5000 Harmonised Tariff Lines at the 6 digit level, about 80 per cent were subject to some form of import licensing restrictions as in mid – 1991. However, as a founder member of WTO, India is under obligation to strike down all quantitative restrictions, on imports and reduce import tariffs so as to 'open up' the economy to world trade and the forces of globalization. India has been following a consistent policy for gradual removal of restrictions on imports since 1991.

In the initial phase of reforms in 1991 – 92, about 3000 tariff lines, covering raw materials, intermediates and capital goods, were freed from licensing restrictions. Tariff line – wise import policy at 10 digit level of Harmonised System International Trade Classification was first announced in 1996 wherein 6161 tariff lines out of a total number of 10,202 lines were freed. Until March 2000, this total had gone up to 8066. Quantitative restrictions in respect of 1429 items remained. The Exim policy of 2000 – 01 removed quantitative restrictions on 714 items and the Exim policy of 2001 – 02 removed quantitative restrictions on balance 715 items. Thus, in line with the commitments to WTO, quantitative restrictions on all import items have been removed.

(3) Five Year Export-Import Policy - In order to bring stability and continuity in export-import policies, the Government has started announcing Export-Import (Exim) Policy covering a period of five years instead of three years. Accordingly, the first five year Exim policy covering the period 1992 – 97 (which also coincided the commencement of Eighth Five Year Plan 1992 - 93 to 1996 - 97) was announced in March 1992. Since then two more policies have been announced – (a) Exim Policy 1997 – 2002 and (b) Exim policy 2002 – 07.

In general, the objectives of Exim Policies were–

1. Accelerating the country's transition to a globally oriented vibrant economy with a view to deriving maximum benefits from expanding global market opportunities,
2. Stimulating sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production,
3. Enhancing the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities,
4. Encouraging the attainment of internationally accepted standards of quality and
5. Providing consumers with good quality products and services at reasonable prices.

(4) Negative List of Imports & Exports - The five year Exim policy 1992 - 97 aimed at eliminating licensing and quantitative restrictions substantially. Under this policy, exports and imports were allowed freely subject to the regulation by a Negative list of exports and Negative list of imports. The Negative list of imports has been altogether removed under the revised Exim policy 1997 – 2002. Similarly, a control on exports has been liberalized to the extent that now all goods may be exported without any restrictions except a few items from the negative list.

(5) Decanalisation - A large number of exports and imports used to be canalized through the public sector agencies in India. However, from 1991 onwards there has been an emphasis on decentralisation. For instance, the proportion of canalized items in total imports declined from 27 per cent to 19 per cent between 1988 – 89 and 1997 – 98. In the subsequent Exim policies the number of decanalised items has increased gradually. Further, there has been continuous effort to increase the coverage of items included in Open General Licence List. For example, during 1997 – 98, the items included under the Open General Licence List accounted for as much as 68 per cent of India’s total tariff lines. The list has been further broadened by the subsequent modifications incorporated in Exim policy of 1997 – 2002.

(6) Policy for Trading Houses - The 1991 policy allowed export houses and trading houses to import a wide range of items. Further, the government also permitted the setting up of trading houses with 51 per cent foreign equity for the purposes of promoting exports. In 1994 – 95 a new category of trading houses called Super Star Trading Houses was created. In the Exim policy of 1992 – 97 export houses and trading houses were provided with the benefit of self-certification under the advance license system, which permits duty-free imports and exports.

(7) Setting up of Special Economic Zones - A scheme of setting up Special Economic Zones on to promote exports was announced by the Government in the Exim policy on March 31, 2000. Subsequently, Special Economic Zones Act, 2005 was passed by the Parliament in May 2005.

(8) Agriculture Export Zones - To promote agricultural exports, the Exim policy 2001, introduced the concept of Agri Export Zones.

(9) Concessions & Exemptions - A large number of tax benefits and exemptions have been granted during the 1990s to liberalize imports and promote exports in the Exim policies of 1992 – 97, and 1997 – 2002. Successive annual Union budgets also extended a number of tax benefits and exemptions to the exporters. Some of these include (a) reduction in peak customs duty to 10 per cent, (b) 10 year tax holiday to the developers of Special Economic zone (c) tax benefits for the three important sectors – the Information Technology sectors and the entertainment industry.

CONCLUSION

After independence for almost fifty years or so, India’s trade policy was ‘inward – oriented’ with an objective to achieve rapid industrialization through import substitution. This strategy covers the period from First Five Year Plan (1951 – 56) to the Seventh Five Year Plan (1985 – 90). However, from 1990 onwards there was a major shift in the policy stance, when the country adopted 'outward – oriented' trade strategy to improve their trade situation. In the year 1991 massive trade liberalization measures were adopted. This year mark a major departure from the relatively protectionist trade policies pursued in earlier years. The major trade policy reforms adopted were – reduction in tariff rates, phasing out of quantitative restrictions, five – year export – import policy, negative list of exports and imports, and decanalisation.

The post-globalisation period in India adopted the New Foreign Trade Policy it replaces the earlier Exim policy of 2002 – 07. The Balance of payment of India is not in a situation of worry when we look at the overall data. But when we go analyse in depth the current account is highly in a deficit situation. The reason for this is, India is not good at export compared to the import. High oil price and huge subsidy for oil and the related price is the number one factor. The import of gold is the second factor. But in exporting side the restrictive measures taken by the developed world is another factor. Technology transfer is another important aspect which is of high cost and it can be achieved by collaboration but a huge sum of profit is needed to pay which leads to the outflow of capital. And finally, from the study, it is observed that the balance of payment is in positive side only because of tallying of current and capital account and in any country if current and capital account are tallied we get a positive or nearly positive result. This is because the borrowing and even aid are calculated in capital account as an inflow of capital with a positive sign.

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