

# INDIA'S FOREIGN TRADE AND BALANCE OF PAYMENTS POSITION IN PRE AND POST REFORMS PERIOD : AN EVALUATION

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*India opened up the economy in the early nineties following a major crisis that led to foreign exchange crunch which dragged the economy close to defaulting on loans. The Gulf crisis in the late 1990 sharply raised macro economic problems. There was political instability in the country during this time period. All these developments together eroded international confidence in the Indian economy and as a result, the country's credit rating in the international capital market declined steeply. The B.O.P. position was on the brink of disaster in mid January 1991 and again in late June 1991. Thereafter, Government took a series of measures to increase foreign exchange reserves and to contain price rise. The last decade of the 20th century was momentous in the economic history of India as it witnessed a successful transition of India from a controlled, inward looking and slow growing economy to a liberalized and open economy that has now found a place amongst the fastest growing economies of the world. There is no denying of the fact that economic reforms have increased the rate of growth of India's foreign trade positively. A push has been given to the exports but the increase of imports is higher than the increase of exports. As a result of it economic reforms have not succeeded in correcting trade imbalance.*

**Keywords:** Foreign Exchange, Trade Imbalance

## INTRODUCTION

After independence the policy makers adopted a planned economy approach to development and advocated state run industries with just a few areas open to the private sector. It is well known that from 1951 to 1991, Indian policy-makers struck to a path of centralized economic planning accompanied by extensive regulatory controls over the economy. The policy makers in the early 1980s started realizing the drawbacks of the old inward looking; import substitution strategy of economic development. In fact India's economy went through several phases of economic liberalization in the 1970's and the 1980's. However, these attempts of economic liberalization were incomplete, self contradictory and often self-reversing in parts. India launched its massive economic reforms in 1991 under the pressure of economic crises and the government converted the prevailing economic crisis into an opportunity to launch massive economic reforms. The government announced new economic policies which radically departed from the economic policies and regulatory framework pursued in India during the previous forty years. India adopted liberalization programmes to augment efficiency and productivity of Indian manufacturing and make the Indian firms more competitive in the international market. Consequently, manufacturing sector has registered improvements in exports.

A large number of studies have already been conducted regarding the foreign trade & balance of Payment position but no such study has so far been conducted which gives the comparative picture of foreign trade and balance of payment position in both pre and post reforms period. Hence in this background the present study is undertaken with a view to achieve the following objectives

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- To study the growth of foreign trade in pre and post reforms period.
- To work out the balance of payments in pre and post reforms period.
- To suggest ways and means for accelerating India's Foreign Trade.

## **DATA AND METHODOLOGY**

The present study is based upon the time series secondary data collected from various published sources of Government Agencies. The data has been gathered from Economic Survey of Govt. of India, RBI Bulletins, RBI Handbook of Statistics and Ministry of Commerce & Industry of Govt. of India etc. The study broadly covers the period of 45 years from 1970-71 to 2014-15. In order to achieve the objectives of the study the entire period is divided into two sub periods viz. 1970-71 to 1989-90 is taken as pre-reforms period and 1990-91 to 2014-15 is considered as post reforms period. Annual Growth rate of India's exports and imports, Compound annual growth rate of India's exports and imports and balance of Payment position is calculated in order to draw the inferences.

## **RESULTS AND DISCUSSIONS**

The results and discussions of the study are presented below on the basis of annual growth rate of export and import in pre and post reform period.

### **Compound Annual Growth Rate of Exports**

The post reforms period in India has been characterized by high growth rates of exports which have often been attributed to the reforms process. Reforms have enhanced export competitiveness. Manufacturing sector has registered improvements in exports. The reforms have contributed not only to an increase in export volume but also to a moderate shift into higher quality. Table-I shows the Annual Growth rate of India's exports during pre-reforms period as well as post-reforms period. The Annual growth rate of exports is fluctuating in both the periods because of many reasons. It does not give the clear picture of growth of exports. Therefore, compound annual growth rate is calculated. The compound annual growth rate of exports in the pre- reforms period was 16.44 % whereas in the post reforms period the compound annual growth rate went up to 17.66 %. The table clearly shows that exports have increased during post reforms period although the impact of economic reforms on exports is not very significant but still it is positive.

### **Compound Annual Growth Rate of Imports**

There has been a sharp increase in the import during post-reforms period. This development is the result of repeated devaluation of Indian rupee and increasing import intensity of both production and consumption during the post-reforms period. The process of structural reforms has further increased Indian imports.

**Table – 1 : Annual Growth Rate of Exports in Pre and Post- Reforms Period**

Annual Growth of India's Exports in Pre-reforms period			Annual Growth of India's Exports in Post-reforms period		
Years	Exports (In Rs. Cr.)	Annual Growth (in %)	Years	Exports (In Rs. Cr.)	Annual Growth (in %)
1.	2.	3.	4.	5.	6.
1970-71	1535.3	9.35	1990-91	32557.6	17.71
1971-72	1608.2	4.75	1991-92	44041.8	35.27
1972-73	1971.5	22.59	1992-93	53688.3	21.90
1973-74	2523.4	27.99	1993-94	69751.4	29.92
1974-75	3328.8	31.92	1994-95	82674.1	18.53
1975-76	4036.3	21.25	1995-96	106353.3	28.64
1976-77	5142.7	27.41	1996-97	118817.1	11.72
1977-78	5407.9	4.90	1997-98	130100.6	9.50
1978-79	5726.1	5.88	1998-99	139753.1	7.42
1979-80	6418.4	12.09	1999-00	159561.4	14.17
1980-81	6710.7	4.55	2000-01	203571.0	27.58
1981-82	7805.9	16.32	2001-02	209018.0	2.67
1982-83	8803.4	12.78	2002-03	255137.3	22.06
1983-84	9770.7	10.99	2003-04	293366.8	14.98
1984-85	11743.7	20.19	2004-05	375339.8	27.94
1985-86	10894.6	-7.22	2005-06	456417.9	21.60
1986-87	12452.0	14.30	2006-07	571779.5	25.28
1987-88	15673.7	25.87	2007-08	655863.5	14.70
1988-89	20231.5	29.07	2008-09	840755.0	28.19
1989-90	27658.4	36.71	2009-10	845534.1	0.56
			2010-11	1142922.0	33.17
			2011-12	1465959.2	28.26
			2012-13	1634318.1	11.48
			2013-14	1905011.2	16.56
			2014-15	1897026.1	-0.42
Compound Annual Growth rate of Exports in Pre-reforms period = 16.44%			Compound Annual Growth rate of Exports in Post-reforms period = 17.66%		

Source: Hand book of Statistics on the Indian Economy (Year 2009 & 2014-15) and Economic Survey of relevant years

**Table-2 : Annual Growth Rate of Imports in Pre- Reforms and Post-Reforms period**

Annual Growth of India's Imports in Pre-Reforms Period			Annual Growth of India's Imports in Post-Reforms Period		
Years	Imports (In Rs. Cr.)	Growth	Years	Imports (In Rs. Cr.)	Growth
1.	2.	3.	4.	5.	6.
1970-71	1634.2	3.28	1990-91	43192.9	22.26
1971-72	1824.5	11.64	1991-92	47850.8	10.78
1972-73	1867.4	2.35	1992-93	63374.5	32.44
1973-74	2955.4	58.26	1993-94	73101.0	15.35
1974-75	4518.8	52.89	1994-95	89970.7	23.08
1975-76	5264.8	16.51	1995-96	122678.1	36.35
1976-77	5073.8	-3.63	1996-97	138919.7	13.24
1977-78	6020.2	18.66	1997-98	154176.3	10.98
1978-79	6810.6	13.13	1998-99	178331.9	15.67
1979-80	9142.6	34.24	1999-00	215236.5	20.69
1980-81	12549.2	37.26	2000-01	230872.8	7.26
1981-82	13607.6	8.43	2001-02	245199.7	6.21
1982-83	14292.2	5.03	2002-03	297205.9	21.21
1983-84	15831.5	10.77	2003-04	359107.7	20.83
1984-85	17134.2	8.23	2004-05	501064.5	39.53
1985-86	19657.7	14.73	2005-06	660408.9	31.80
1986-87	20095.8	2.23	2006-07	840506.3	27.27
1987-88	22243.7	10.69	2007-08	1012311.7	20.44
1988-89	28235.2	26.94	2008-09	1374436.0	35.77
1989-90	35328.4	25.12	2009-10	1363736.1	-0.78
			2010-11	1683467.2	23.45
			2011-12	2345463.1	39.32
			2012-13	2669162.2	13.80
			2013-14	2715434.1	1.73
			2014-15	2734049.1	0.69
Compound Annual Growth rate of Imports in Pre-reforms period = 17.56%			Compound Annual Growth rate of Imports in Post-reforms period = 18.05%		

Source: Hand book of Statistics on the Indian Economy (Year 2009) Economic Survey of relevant years

Table-2 shows the annual growth rate of India's imports during pre and post-reforms period. Data clearly shows that like exports annual growth rate of imports in both the periods is also fluctuating because of many reasons. It does not give clear picture of the growth rate of imports. Therefore, compound annual growth rate is calculated. The table shows that the compound annual growth rate of imports was 17.56% which increased to 18.05% in the post-reforms period. It can be said that economic reforms have increased imports significantly. The CAGR of Imports is higher than that of exports even in the post reforms period. It is important to mention here that the Indian exports are not increasing at expected rate instead imports are increasing because of liberalized trade policies. It is also pertinent to mention here that the aim of the post-independence growth strategy was to reduce the dependence on the imports but the government has not succeeded in this direction.

### **India's Balance of Payment Position in Pre and Post-reforms Period**

The Balance of Payment of a country is a systematic record of all its economic transactions with the outside world in a given year. It is a statistical record of the character and dimensions of the country's economic relationships with the rest of the world. There exists a deficit or surplus in the balance of payments. When receipts from foreigners are more than the payments made to foreigners, there is surplus balance of payment. On the other hand when payments made to foreigners exceeds receipts from foreigners; there is deficit in the balance of payment. B.O.P has been calculated for pre- reforms period as well as post reforms period.

#### **Pre-reforms Period**

Table-III shows that in the pre-reforms period from 1970-71 to 1989-90 imports were higher than exports because of which balance of payment remained negative. In the year 1972-73 with the vigorous measures of export promotion, the country was able to have a favourable balance of trade for the first time since independence. In the year 1972-73, after India – Pakistan war various countries refused to supply essential equipments and raw material because of various reasons which reduced both size and growth rate of imports. In the year 1976-77 despite slow growth rate of exports there was a surplus balance of trade for the second time after independence. In fact, export policy was given a definite shape for the first time after independence. But again from 1977-78 to 1989-90 import bill remained higher than the export bill.

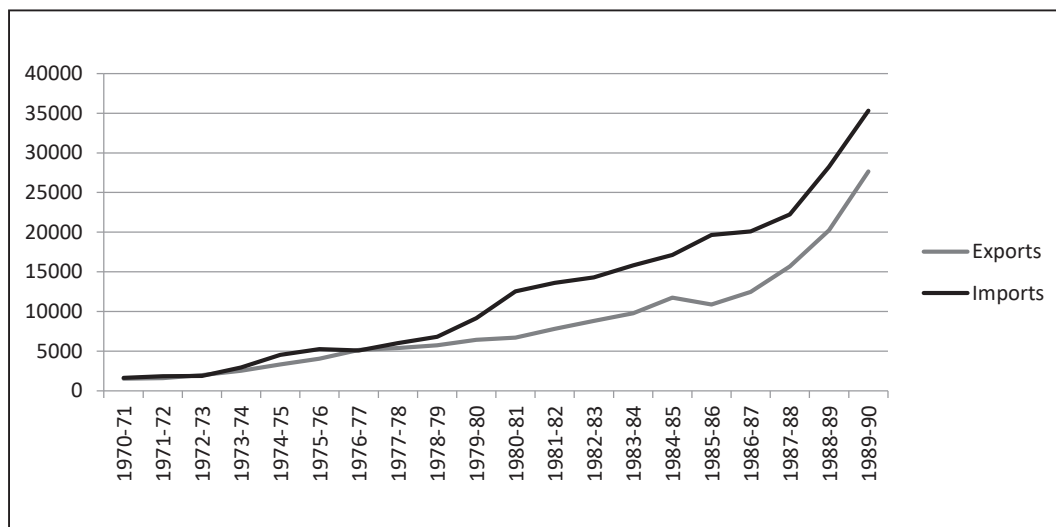
Not only Table -III but Graph-I also shows the adverse balance of payment position in the pre-reforms period. The red line showing growth of imports was closer to blue line which is showing growth of exports in the early seventies. During this time period imports were higher than that of exports but still the gap between the two values was small as import substituting policies were followed in the country. After mid seventies the gap between two lines started increasing and became wider and wider till the late eighties. In fact trade policies were relaxed during this time period because of which imports started increasing. The gap between these two lines shows adverse balance of payment position of India in pre-reforms period.

**Table -3 : India's Balance of Payment Position in Pre and Post Reforms Period**

(in Rs. Crore)

India's Foreign Trade in Pre-reforms period				India's Foreign Trade in Post-reforms period			
Years	Exports	Imports	B.O.P	Years	Exports	Imports	B.O.P
1.	2.	3.	4.	5.	6.	7.	8.
1970-71	1535.3	1634.2	-99.0	1990-91	32557.6	43192.9	-10635.2
1971-72	1608.2	1824.5	-216.4	1991-92	44041.8	47850.8	-3809.0
1972-73	1971.5	1867.4	+104.0	1992-93	53688.3	63374.5	-9686.3
1973-74	2523.4	2955.4	-432.0	1993-94	69751.4	73101.0	-3349.6
1974-75	3328.8	4518.8	-1190.0	1994-95	82674.1	89970.7	-7296.6
1975-76	4036.3	5264.8	-1228.5	1995-96	106353.3	122678.1	-16324.8
1976-77	5142.7	5073.8	+68.9	1996-97	118817.1	138919.7	-20102.6
1977-78	5407.9	6020.2	-612.4	1997-98	130100.6	154176.3	-24075.7
1978-79	5726.1	6810.6	-1084.6	1998-99	139753.1	178331.9	-38578.7
1979-80	6418.4	9142.6	-2724.2	1999-00	159561.4	215236.5	-55675.1
1980-81	6710.7	12549.2	-5838.4	2000-01	203571.0	230872.8	-27301.8
1981-82	7805.9	13607.6	-5801.7	2001-02	209018.0	245199.7	-36181.8
1982-83	8803.4	14292.2	-5489.4	2002-03	255137.3	297205.9	-42068.6
1983-84	9770.7	15831.5	-6060.8	2003-04	293366.8	359107.7	-65740.9
1984-85	11743.7	17134.2	-5390.5	2004-05	375339.8	501064.5	-125725.0
1985-86	10894.6	19657.7	-8763.1	2005-06	456417.9	660408.9	-203991.0
1986-87	12452.0	20095.8	-7643.8	2006-07	571779.5	840506.3	-268727.0
1987-88	15673.7	22243.7	-6570.1	2007-08	655863.5	1012311.7	-3564448.2
1988-89	20231.5	28235.2	-8003.7	2008-09	840755.0	1374436.0	-533681
1989-90	27658.4	35328.4	-7669.9	2009-10	845534.1	1363736.1	-518202
				2010-11	1142922.0	1683467.2	-540545.2
				2011-12	146595.2	2345463.1	-2198867.9
				2012-13	1634318.1	2669162.2	-1034844.1
				2013-14	1905011.2	2715434.1	-810422.9
				2014-15	1897026.1	2734049.1	-837023

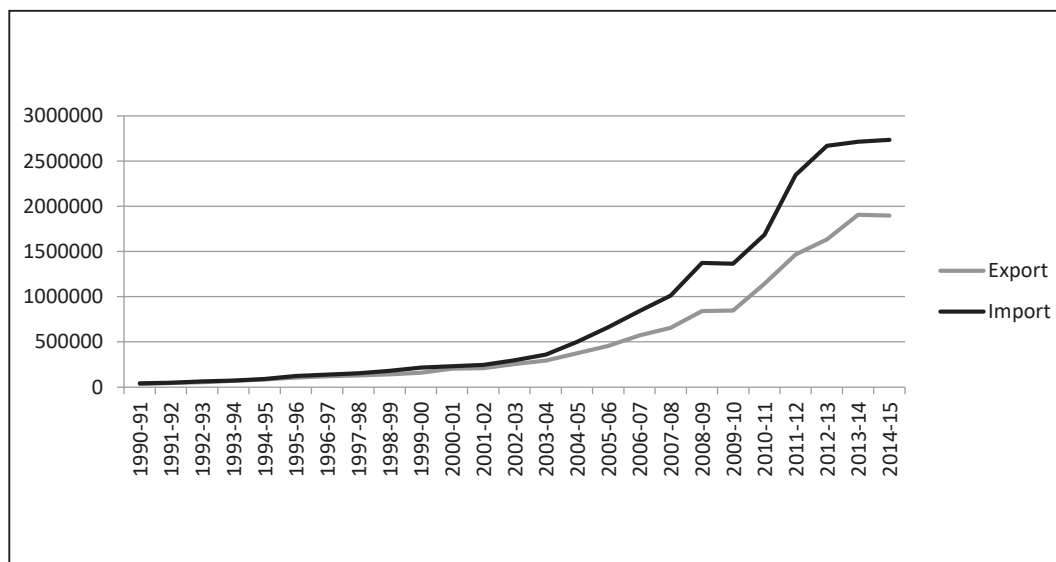
Source: Hand book of Statistics on the Indian Economy (Year 2009) Economic Survey of relevant years

**Graph - 1 : India's B.O.P in Pre-reforms period**

In fact the balance of payments position of the country reveals the external position of the economy. The balance of payments position of India remained comfortable during the 1970s despite adverse incidents like the refugee problem, war with Pakistan in 1971 and adverse agricultural performance in 1973-74. The BOP crisis of 1980s was the outcome of the increase in Oil prices and deterioration in India's international terms of trade. The BOP problem has assumed the nature of a crisis of an unmanageable proposition by the close of the eighties.

### Post Reforms Period

Table-III gives the picture of balance of payment position of India in post-reforms period. This table shows that after the economic reforms were introduced in the Indian economy, the gap between receipts from foreign countries and payments made to them started narrowing for the initial five six years. But after 1995-96 this gap again started widening. These results shows that the significant changes which have taken place during the post-reforms period could not contribute positively to narrow down the deficit in the balance of trade. In the Post reforms period the growth rate of Indian imports is much higher than the Indian exports. India's import bill has been continuously rising because of rapid industrialization necessitating increasing imports of machinery and equipment, industrial raw materials, technical knowhow etc. Secondly Policy of import liberalization and globalization has encouraged imports. Periodic hike in Crude oil Prices by OPEC is also responsible for increasing import bill. The Table-3 reveals the fact that aggregative exports of India show an ever rising trend between 1990-91 and 2014-15. Similar phenomenon is observed for aggregative imports. A further look at these estimates shows the fact that aggregative imports are invariably exceeding the aggregative exports during the entire reference term, and thus trade balance estimates are reported as with negative sign from 1990-91 to 2014-15. This implies that exports are increasing but with slow speed as compared to the imports, which further implies that import – liability of Indian economy has sizeably increased during the post reforms period. This means that reforms have increased the size of exports in absolute terms but import-burden is also accounted in the economy which is leading to the unfavourable or negative trade-balance.

**Graph – 2 : India's B.O.P in Post-reforms period**

The above graph relating to the aggregative exports and imports for Indian economy exhibit the phenomenon of exceeding imports than exports from 1990-91 to 2014-15 as already explained above. A close watch on the graph reveals the fact that such rise in both exports and imports are gradual up to 1996-97, and, thereafter, this rise becomes steep and further steeper after 2000-01. This shows that the impact of Economic Reforms seems pronounced after 1996-97 and more pronounced after 2000-01 in the economy.

## CONCLUSIONS

Thus it can be concluded that on one hand, the exports are getting the rising share in world market but Indian market has greater absorption capacity for imports. Greater import demand may partly be attributed to free competition and better consumer goods. But as long as imports are higher than exports trade balance will remain adverse. In fact Indian economy was opened to world economy to improve balance of payment position but so far this objective has not been achieved. The Economic Reforms were started with the objective of creation of a dynamic export sector in the economy which can help in the overall growth of the economy. After more than two decades of the reforms process, the export sector has shown very little improvement which tells the sad story of reforms. The following policy implications have been emerged on the basis of the above discussions.

- The prospect for the traditional exports has been rather unfavourable. It has, therefore, been clear that a more prosperous outlook for the future can be obtained only from nontraditional exports. Therefore, new strategy should aim at promotion of the traditional exports as the more stable sources of foreign exchange and on the other hand, the widening of the exports base through promotion of nontraditional exports. Manufacturing sector as well as service sector has emerged as one of the important determinant of export sector in the Indian economy. Thus, in order to improve the performance of export sector, policies must be introduced so that the performance of manufacturing sector and service sector is improved and strengthened in future.



- Efforts must be made by the GOI to improve the competitiveness of trade providing cheaper finances, full infrastructure, efficient technology and skilled people who can manage the economic affairs efficiently. Improving business environment for foreign competition is also very important.
- The product and market range of the country be diversified so that pressure on balance of trade be reduced. Government of India must take lead to find out new business opportunities in Africa, South East Asia and Latin America.
- The Special Economic Zones should be developed by simplifying laws, rules and procedures and also by reducing bureaucratic control and red-tapism. Maximum utilization of installed capacity should be ensured so as to minimize costs and generate surpluses for exports without pushing up the prices of domestic supplies.
- The import intensity of the exports needs to be curbed because if the import intensity of exports becomes very high then even if the exports rise at a phenomenal rate the balance of trade problems will continue to afflict the economy. The liberal trade policy should be formulated on the basis of cost benefit ratio. While formulating this policy there should be no discrimination between multinational corporations and indigenous industries. To increase exports some measures like trade fairs, exhibitions be organized internationally.

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