RJPSSS RESEARCH JOURNAL OF PHILOSOPHY & SOCIAL SCIENCES
A Peer Reviewed International Journal

A STUDY ON THE IMPACT OF GLOBALIZATION ON INDIAN BALANCE OF PAYMENTS

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Introduction

Balance of payment (BOP) play a vital role which determines the economic health of a country. Balance of payment also influences the important economic indicators like exchange rate, interest rate and inflation. In this paper the researcher attempts to find how globalization has made an impact on India's balance of payment. The Researcher also tries to find out how the current account and capital account has changed according to the changes of globalization.

The present study has three sections, first it studied about how the current account has worked then second how the capital account has moved as per the impact of globalization and finally studied the impact of globalization on balance of payment.

Definition and Explanation of selected Balance of Payment Indicators

Balance of Payment: As per Kuldeep and Dinesh, **t**he balance of payments of a country is a systematic record of all transactions between the residents of a country and the rest of the world carried out in a specific period of time. Balance of payments accounts are an accounting record of all monetary transactions between a country and the rest of the world.

The Current Account: The current account is used to mark the inflow and outflow of goods and services into a country. Earnings on investments, both public and private, are also put into the current account. Within the current account are credits and debits on the trade of merchandise, which includes goods such as raw materials and manufactured goods that are bought, sold or given away (possibly in the form of aid). Services refer to receipts from tourism, transportation (like the levy that must be paid in Egypt when a ship passes through the Suez Canal), engineering, business service fees (from lawyers or management consulting, for example), and royalties from patents and copyrights. When combined, goods and services together make up a country's balance of trade (BOT) **(**Sachin N. Mehta 2013)

The Capital Account: The capital account is where all international capital transfers are recorded. This refers to the acquisition or disposal of non-financial assets (for example, a physical asset such as land) and non-produced assets, which are needed for production but have not been produced, like a mine used for the extraction of diamonds. The capital account is broken down into the monetary flows branching from debt forgiveness, the transfer of goods, and financial assets by migrants leaving or entering a country, the transfer of ownership on fixed assets (assets such as equipment used in the production process to generate income), the transfer of funds received to the sale or acquisition of fixed assets, gift and inheritance taxes, death levies, and, finally, uninsured damage to fixed assets **(**Sachin N. Mehta 2013).

Objectives

- To analysis the impact of globalization on the capital account of India
- To analyse the effect of globalization on Indian current account
- To examine how globalization made changes on Indian balance of payment

Hypotheses

H_0 = There exist no significant difference between pre and post globalization on Indian capital account

H_0 = There exist no significant difference between pre and post globalization on Indian current account

H_0 = There exist no significant difference between pre and post globalization on Indian balance of payment

Methodology

The data for the present study has been taken from RBI Handbook for the period from 1971-72 to 2013-14. The indicators that have been selected are current account, capital account and balance of payment statement of India. The tools used in the study were graphs and paired t test.

Analysis and findings

For analytical purpose the data were divided into pre (1971-72 to 1990-91) and post globalization (1991-92 to 2010-14) period.

Table No. 1: Current Account-Pre Globalization *(in billion Rupee)*

Year	**Current Account Net**	**Year**	**Current Account Net**
1971-72	-4.99	**1981-82**	-28.39
1972-73	-3.12	**1982-83**	-32.80
1973-74	11.35	**1983-84**	-33.16

1974-75	-9.56	**1984-85**	-28.73
1975-76	-1.78	**1985-86**	-59.56
1976-77	8.94	**1986-87**	-58.30
1977-78	11.24	**1987-88**	-62.93
1978-79	-2.38	**1988-89**	-115.80
1979-80	-5.53	**1989-90**	-113.89
1980-81	-22.14	**1990-91**	-173.67

Source: RBI Hand Book of Statistics on Indian Economy 2014-2015

From the table No. 1 it is clear that till 1980s there is a continuous fluctuation in the current account. But from 1981 onwards there is a continuous reduction and the net current account moves downward and in 1990 it touched the level of -173.67 billion. This happened because a large amount of foreign institutional investment outflows from the country in 1990 and the policy failures of Indian government. Till 1990, India followed closed economic policy which made the country into a deep trouble and in 1990 India went into a situation to pledge its gold to foreigners. But in 1991, India adopted globalization policy which open its economy to the world economy and try to integrate itself into the world economy.

From the table No. 2 it reveals that the measures taken after the globalization doesn't give a positive sign in the current account. From the 23 years data, only three years shows a positive sign and all other years show a negative data points. The data also shows an important fact that the 2007-08 global economic crisis play an important role in the negative trend of current account of India. At the same time the export was hardly hit because the global demand diminished after the crisis started. But the demand for foreign goods doesn't slow down especially in oil and related products, and gold. This made the situation even worse after 2008. In an overall view after globalization, India's balance of payment doesn't change as much as the economists thought that liberalization brings a change in current account.

Table No.2: Current Account – Post Globalisation

(in billion Rupee)

Year	**Current Account Net**	**Year**	**Current Account Net**
1991-92	-22.35	**2003-04**	639.83
1992-93	-127.64	**2004-05**	-121.74
1993-94	-36.34	**2005-06**	-437.37
1994-95	-105.83	**2006-07**	-443.83
1995-96	-196.46	**2007-08**	-634.78
1996-97	-162.82	**2008-09**	-1276.29
1997-98	-208.83	**2009-10**	-1796.99
1998-99	-167.89	**2010-11**	-2196.54
1999-00	-203.31	**2011-12**	-3759.73
2000-01	-115.98	**2012-13**	-4796.10
2001-02	164.26	**2013-14**	-1877.50

2002-03	306.60		

Source: RBI Hand Book of Statistics on Indian Economy 2014-2015

Hypothesis test

Table No. 3: Paired Samples Statistics

		Mean	**N**	**Std. Deviation**	**Std. Error Mean**
Pair 1	Current Account Net in Pre-Globalisation Period	-36.2600	20	49.17749	10.99642
	Current Account Net in Post-Globalisation Period	-357.2150	20	676.22168	151.20777

Table No. 4: Paired Samples Test

		Paired Differences					**t**	**df**	**Sig. (2-tailed)**
		Mean	**Std. Deviation**	**Std. Error Mean**	**95% Confidence Interval of the Difference**				
					Lower	**Upper**			
Pair 1	current account net in pre-globalisation period - current account net in post-globalisation period	320.95	635.03	141.99	23.75	618.16	2.260	19	.036

The mean statistics in the paired sample t- test shows that there exists a very big difference on before and after globalization and after globalization the current account deficit has actually widened. The significance section in the second table also shows that there exist a significance difference in pre and post globalization in current account because the significance statistics value is 0.036 which is below 0.05 level. So the null hypothesis is rejected and alternative hypothesis is accepted.

Capital account analysis

Table No. 5: Capital account – Pre Globalization ***(in billion Rupee)***

Year	**Capital Account Net**	**Year**	**Capital Account Net**
1971-72	5.19	**1981-82**	5.86
1972-73	2.79	**1982-83**	20.10
1973-74	-11.13	**1983-84**	27.38

1974-75	4.78	**1984-85**	37.40
1975-76	7.90	**1985-86**	55.14
1976-77	8.08	**1986-87**	57.70
1977-78	7.10	**1987-88**	65.45
1978-79	13.12	**1988-89**	116.78
1979-80	8.80	**1989-90**	116.17
1980-81	13.15	**1990-91**	128.95

Source: RBI Hand Book of Statistics on Indian Economy 2014-2015

Table No. 5 and tell a different story regarding the current account, because, form the twenty years of data, only one year show negative value and all other years show positive values. And in the period of BOP crisis in 1990s the capital account is in positive state and the reason for this increase is that, foreign aid and borrowing is also counted in the capital account records. The foreign earning of Indians abroad is also calculated in capital account.

Table No. 6 states that in the first year of analysis that is 1991-92, the capital account was in the lowest of the 23 years selected and it is because of the balance of payment crisis in 1990 but from the succeeding year onwards the data shows an increasing trend and in 2008-09 i.e., the period of world economic crisis the capital account shows a decreasing trend and afterwards it shows a positive trend.

Table No. 6: Capital account - Post Globalization (in billion Rupee)

Year	Capital Account Net	Year	Capital Account Net
1991-92	95.09	**2003-04**	800.10
1992-93	118.83	**2004-05**	1280.81
1993-94	304.15	**2005-06**	1096.33
1994-95	287.43	**2006-07**	2080.17
1995-96	155.96	**2007-08**	4331.67
1996-97	405.02	**2008-09**	305.15
1997-98	375.36	**2009-10**	2439.35
1998-99	350.34	**2010-11**	2791.05
1999-00	481.01	**2011-12**	3074.70
2000-01	392.41	**2012-13**	5003.13
2001-02	401.67	**2013-14**	2838.04
2002-03	513.77		

Source: RBI Hand Book of Statistics on Indian Economy 2014-2015

Hypothesis test

Table No 7: Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Capital account net in pre-globalisation period	34.5355	20	42.25820	9.44922
	Capital account net in post-	950.2835	20	1119.36812	250.29832

	globalisation period				

Table No 8: Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Capital account net in pre-globalisation period - Capital account net in post-globalisation period	-915.7	1092.1	244.2	-1426.9	-404.6	-3.8	19	.001

The mean statistics in the paired sample t- test shows that there exists a very big difference on before and after globalization and after globalization the capital account deficit increased in very big manner. The significance section also shows that there exist a significance difference in pre and post globalization in capital account because the significance statistics shows below 0.01 levels and the value is 0.001. So the null hypothesis is rejected and alternative hypothesis is accepted.

Analysis of Balance of Payment

Table No. 9: Balance of Payment – Pre Globalization

(in billion Rupee)

Year	**Balance of payments**	**Year**	**Balance of payments**
1971-72	0.20	**1981-82**	-22.53
1972-73	-0.33	**1982-83**	-12.70
1973-74	0.22	**1983-84**	-5.78
1974-75	-4.78	**1984-85**	8.67
1975-76	6.12	**1985-86**	-4.42
1976-77	17.02	**1986-87**	-0.60
1977-78	18.34	**1987-88**	2.53
1978-79	10.74	**1988-89**	0.98
1979-80	3.27	**1989-90**	2.28
1980-81	-8.99	**1990-91**	-44.71

Source: RBI Hand Book of Statistics on Indian Economy 2014-2015

From the table No. 9 and it is inferred that the balance of payment in the pre globalization period show some fluctuation but at the same time the major portion of the data points are in the positive side and that means there exist a surplus balance of payment. For nine years it show a negative value and for 11 years it show a positive value. Only in 1980-81 and 1990-91 the values fell into deep trouble.

The table No. 10 explains that in the post globalization time it is clear that only four data point show negative values and all other shows a positive values. This means the measures taken to improve the balance of payment is working. But the main factor to understand is that the influencing factor for the positive sign of balance of payment is capital account.

Table No. 10: Balance of Payment - Post globalization

(in billion Rupee)

Year	**Balance of payments**	**Year**	**Balance of payments**
1991-92	72.74	**2003-04**	1439.93
1992-93	-8.81	**2004-05**	1159.07
1993-94	267.81	**2005-06**	658.96
1994-95	181.60	**2006-07**	1636.34
1995-96	-40.50	**2007-08**	3696.89
1996-97	242.20	**2008-09**	-971.14
1997-98	166.53	**2009-10**	642.36
1998-99	182.45	**2010-11**	594.51
1999-00	277.70	**2011-12**	-685.03
2000-01	276.43	**2012-13**	207.02
2001-02	565.93	**2013-14**	960.54
2002-03	820.37		

Source: RBI Hand Book of Statistics on Indian Economy 2014-2015

Hypothesis test

Table No. 11: Paired Samples Statistics					
		Mean	**N**	**Std. Deviation**	**Std. Error Mean**
Pair 1	Balance of payments in pre-globalisation period	-1.7235	20	13.84671	3.09622
	Balance of payments in post-globalisation period	593.0685	20	924.76045	206.78272

Table No. 12: Paired Samples Test							
	Paired Differences				**t**	**df**	**Sig. (2-tailed)**
	Mean	**Std. Deviation**	**Std. Error**	**95% Confidence Interval of the**			

				Mean	Difference				
					Lower	Upper			
Pair 1	Balance of payments in pre-globalisation period - Balance of payments in post-globalisation period	-594.8	925.7	206.99	-1028.0	-161.5	-2.9	19	.010

The mean statistics in the paired sample t- test shows that there exists a very big difference on balance of payment before and after globalization, and after globalization the balance of payment surplus increased in a huge manner. The significance section also shows that there exists a significance difference in pre and post globalization in capital account because the significance statistics is below 0.01 level and the value is 0.010. So the null hypothesis is rejected and alternative hypothesis is accepted.

Conclusion

It is clear from the analysis that the balance of payment of India is not in a situation of worry when we look in the data. But when we go interior side of the analytical part the current account is highly in deficit situation. The reason for this is, India is not good in export compared to the import. High oil price and huge subsidy for oil and 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 crisis which is of high cost and it can be achieved by collaboration but a huge some 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 tallied we get a positive or nearly positive result. This is because the barrowing and even aid is calculated in capital account as an inflow of capital with positive sign. So if removing these burdens from capital account and then made an analysis we can tell India's balance of payment is in deep trouble and globalization didn't do anything but increase the quantity of export at the same time import increase more heavily. However these import increases the economic growth by the import of capital goods and highly needed non-available goods.

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