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THE IMPACT OF GLOBALISATION ON INDIA'S CAD

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ABSTRACT

Globalisation is not a new concept it started with the Adam Smith "lissez fair" policy where the movement of goods, capital, services and labour across the boundary was almost free and there was not government intervention in the economic activity of country. Britain was only a single country which was engaged free trade practices during first half of the nineteen century. The trade barriers in Europe were eliminated near about 1860.the first step towards the international trade was Anglo-French treaty. The US practised protection throughout the period 1870-1913 as average tariff levels remained in the range of 40-50% (Chang, 2002). Between 1875 and 1913, the average level of import duties on manufactured goods rose from 12% to 20% in France, 10% to 20% in Italy, and 5% to 13% in Germany. Much the same was true of most other European countries (Bairoch, 1993). The CAD is said to be necessary for a growing economy, though it is recommended in a small amount. The sustainable CAD that is safe for India is said to be in the range 2.4-2.8 % of GDP. This is a result of a study by Rajan Goyal, Director in the Department of Economic and Policy Research, Reserve Bank of India [Omkar K. ,Shweta Pillai 2013]

The merchandise trade deficit increases year by year and he import of merchandise import in 1990-91 was 500.86 Rupees Billon now in 2012-2013 is 28159.18 Rupee Billion which shows a very high growth rate in the import of merchandise in the country and the trade deficit which was -169.33 Rupee Billion now in 2013-2013 recorded 10644.6 Rupee Billon but in the year 2013-2014 there is the merchandise deficit become low or negative growth and come to -8848.44 Rupee Billion which is 1796.16 Rupee Billion it is due to increase in the merchandise export from 16676.6 of 2012-2013 to 19310.74 Rupee Billon in 2013-2014 and in this year CAD of the country also become starts decaling due to increasing the export in this year. India largely depends upon on the import of POL and POL product meet its domestic demand and this account for its CAD the import of non POL product also increased significantly with the liberalisation and globalisation of Indian economy.

KEY TERMS: *CAD, liberalisation and globalisation, Merchandise, POL product, Rupees Billon.*

INTRODUCTION

It should be stated that globalisation is an open-ended process (Mann 1997) not and end of history for the globalisation no single definition can encompass the overall feature of globalisation. It is a different thing for different people, place and time. Simply for the understanding we can say that globalisation is the process of expanding the economic activities of the country across the whole world. The economics activities mainly consists international trade, international investment and international finance. But Guy Brainbant: says that the process of globalization not only includes opening up of world trade, development of advanced means of communication, internationalization of financial markets, growing importance of MNC's, population migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution. The term globalization refers to the integration of economies of the world through uninhibited trade and financial flows, as also through mutual exchange of technology and knowledge. Ideally, it also contains free inter-country movement of labour. The American Defense Institute defines globalization as "fast and continuous inter-border flow of goods, services, capital (or money), technology, ideas, information, cultures and nations."

The roots of globalisation can certainly be traced back to the colonisation of Asia, Africa, and the Americas by the dominant economic powers of Europe. However, the expansion of capitalism as a globalising force has not been uniform in successive eras since then. Impelled by the search for new markets and new sources of wealth, and fanned by the industrial revolution, colonialism resulted in the establishment of international commodity markets and mercantilist trade. Although economic protectionism deepened following the First World War and the Great Depression in the early twentieth century, the end of the Second World War provided an impetus for a new bout of capitalist expansion, which, however, was tempered by the establishment of the Soviet bloc and socialism as an alternative form of capital accumulation and distribution. Since the Second World War, much of the world has indeed become more inter-linked through innovations and advances in applied sciences, travel and transportation, communications, and information technology. But globalisation as we know and experience it today is not simply an inevitable outcome of scientific advancement and technological progress, and there is little that is 'natural' or even autonomous about it. Rather, it is the result of specifically conceived, planned, and targeted neo-liberal policy and structural measures that sought to bring all aspects of social, economic, and political life under the rubric of market capitalism. This era of globalisation took hold in the early 1980s with the coming to power of the Reagan administration in the USA and the Thatcher government in the UK, the eruption of the global debt crisis, the fleshing out of neo-liberalism as an economic framework (which eventually came to be known as the Washington Consensus), and the IFIs' imposition of structural adjustment programmes (SAPs) on developing countries. The fall of the Berlin Wall, the collapse of the Soviet Union, and the end of the Cold War hastened the acceptance by nations of capitalism as the only viable economic order that could create wealth. New nation states that emerged from territories previously under the Soviet umbrella were quick to embrace the economic, institutional, and political support extended by the well-established capitalist powers of North America and Western Europe, especially the USA. [Shalmali Guttal 2007]

GLOBALISATION AND INTERNATIONAL TRADE

Globalisation is not a new concept it started with the Adam Smith "*lissez fair*" policy where the movement of goods, capital, services and labour across the boundary was almost free and there was not government intervention in the economic activity of country. Britain was only a single country which was engaged free trade practices during first half of the nineteen century. The trade barriers in Europe were eliminated near about 1860.the first step towards the international trade was Anglo-French treaty. The US practised protection throughout the period 1870-1913 as average tariff levels remained in the range of 40-50% (Chang, 2002). Between 1875 and 1913, the average level of import duties on manufactured goods rose from 12% to 20% in France, 10% to 20% in Italy, and 5% to 13% in Germany. Much the same was true of most other European countries (Bairoch, 1993). Not only Europe and US the most of the country of the world now on the way of free trade practices and started open their boundaries for each others in which some are forced imposed and some countries are interesting to go global for their necessities. Japan , Korea, Indonesia, China are now in the row of free trade. In 1842 a agreement signed by the China with Britain for the free trade and fixed the tariff ceiling at 5%. In 1840 Britain which was the ruler in India imposed free trade in India. The reality of trade policy, it would seem, did not mirror the myth of free trade. The West practised protection wherever necessary, but imposed free trade on the Third World. In the sphere of trade, even in 1913, the developed world is best described as 'islands of liberalisation surrounded by a sea of protectionism', whereas the developing world is best described as an 'ocean of liberalisation with islands of protectionism' (Bairoch and Kozul Wright, 1996).

In India there was' a huge pressure of demand of goods and services during the Second World War. The requirement of import commodity increase faster than export and country suffering deficit in food and raw material India which have enjoying export surplus like commodity raw cotton and raw jute become start decaling and the demand of oil seed and pig iron for the domestic increase that is the cause of counter effect on the balance of export of the country and now the volume of the export about the two third of pre war level.

There was a need of tight import policy which comes in to force in 1957 in second five year plan. The calling was fixed for import of essential goods and services no fresh licence were issued in this period to established importers and the condition of issue of capital goods licence on differ payment basis wear made more stringent. The calling for import is given keeping in the mind that the import of nessicary item raw material and intermediary product done.

The balance of position in 1959-1960 becomes better. There was increasing growth recorded in the export and reduce in import. The export of Hides and skins, cotton textile, vegetable oils and manufacturing items such as Bicycles, swing machine, and fan increases. India initiated the economic reform in 1991 keeping the mind the faster growth rate. The trade policy revised which was followed for decade and minimises the trade licensing procedures the policy focus was primary on liberalization and input for industries and to encourage domestic export oriented growth. However the import of consumers goods not free it was regulated under the protective tariff policy. In this period India become the member of many trade blocks like WTO and SAARC and have entered in to many foreign trade agreements with neighbours and with the other foreign countries of the world now Indian economy has opened for whole world and the foreign companies started to entered in the boundary of the country and establishing their manufacturing unites in the country. Now Indian marketing started attracting all the foreign countries to set their unit because India have a very huge effective demand of goods and services.

CURRENT ACCOUNT AND CAD

Current account is a very important and broader concept of the Balance of Payment it covers all the transaction of resident and non resident other than financial items. It includes the sum of three balances i.e. Merchandise balance, service balance and unilateral transfer balance or we can say that it comprises trade and transfer balances. Merchandise represent the export and import of commodity form/to India the credit item represent export and debit of this account import. Invisibles comprise cost of services, income and transfer payment. The manual of IMF for India select head under the Invisibles account i.e. (1) travels (2) transport (3) insurance (4) investment income (5) miscellaneous(receipt and payment for patent and royalties) (6) official transfer and transfer payment private.

Hence it measures the exports and imports of commodities and services, the movement of investment income from one home country to the rest of the world and vice-versa. It measures unilateral transfers between the agents of the domestic country and the rest of the world. If the balance of the Current Account is negative, i.e. if the imports are greater than the exports then there is said to be a CAD.

The CAD is said to be necessary for a growing economy, though it is recommended in a small amount. The sustainable CAD that is safe for India is said to be in the range 2.4-2.8 % of GDP. This is a result of a study by Rajan Goyal, Director in the Department of Economic and Policy Research, Reserve Bank of India [Omkar K. ,Shweta Pillai 2013]

In a very simple word we can say that current account deficit (CAD) is the deference between the debit and credit side of current account the debit side of current account comprise the import of merchandise goods and services and the credit side of current account are export of merchandise goods and services. Most of the developing economies have a serious problem of CAD because their current account debit side is grater than credit side means the import of goods and services are greater than exports. India after the liberalisation when the new economic policy come in to force there are increasing growth rate recorded year by year in its CAD because the import of goods become started increasing and there are a very low growth rate recorded in the export of merchandise goods of the country however the export of services are increasing but this increase is not greeter than import of merchandise goods. A country undergoing Current Account Deficit results into foreign liabilities and debts with rest of world. This further leads to payback of valuable foreign exchange reserves. Substantial amount of foreign exchange are spent on paying out these debts. One important drawback of increasing external debt is decline in value of nation's domestic currency. Payment of foreign debts results in increase in demand of foreign currencies. This leads to devaluation of domestic currency and thus, enhances problems of foreign exchange crises. There are various factors which influence country's External Borrowings as well as Foreign Exchange Rates. One such important factor is Current Account (Trade Balance) Deficit. [Dr. Mehernosh B. Mehta]

The CAD is affected by negative movements of the exchange rate and negative Foreign Investments. The RBI is now following a more market determined exchange rate. A high and uncontrollable CAD may scare foreign investors which in turn would weaken the rupee, which then would cause a further strain on the CAD. This effect is a chain-effect. Hence in this study we analyse the cause and effects of the CAD, and the Indian Rupee (INR)-to-US Dollar (USD) exchange rate, and their interdependence. The ways of financing the CAD is analysed. In order to understand the volatility in the INR exchange rate, a brief analysis is done on the major components of the capital account, namely, types of foreign investment.[Omkar K. Shweta Pillai 2013]

The following data showing the trends of current account deficit in India after liberalisation

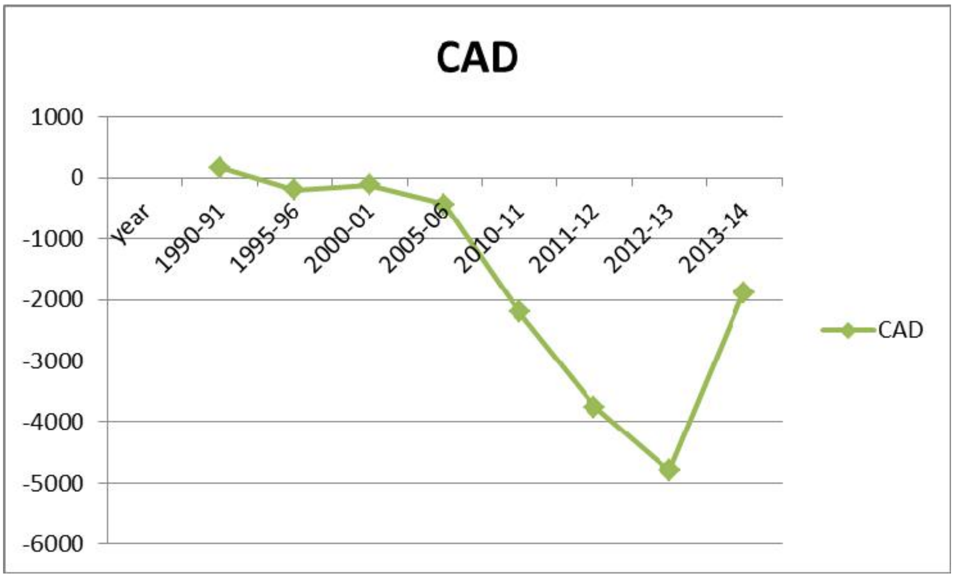
Table-1. Current Account Balance (Rupees Billion)

Year	CAD
1990-91	165
1995-96	-197.06
2000-01	-115.98
2005-06	-437.37
2010-11	-2196.53
2011-12	-3759.73
2012-13	-4796.14
2013-14	-1877.5

Source: RBI Handbook of Statistics 2013-2014.

As we seen in this table that in 1990-1991 current account is shoes the picture of positive and in India in 1991 the liberalization policy adopted than after open the boundary with tariff relaxation so the CAD started increasing and in 1995-96 it was -197.06 rupees billions which and in 2012-13 it was recorded highest with -4796.14 rupees billion and in 2013-14 it dramatically decrease because in this period the government adopted a very tight policy for controlling such a huge CAD.

Chart 1



In this chart it is very clear that till the 2012-13there was continuous increase recorded in the CAD but in 2013-2014 it reduces from 2918.64 rupees billon which is amazing and good for Indian economy it reduced the pressure from the government and shows that the planning of government and higher authority of the county are working good but problems prevail in the economy of the country.

The reason of such a very high CAD is the merchandise import demand are becoming increasing countenousily the flowing data shows the actual position of merchandise import and export of the country.

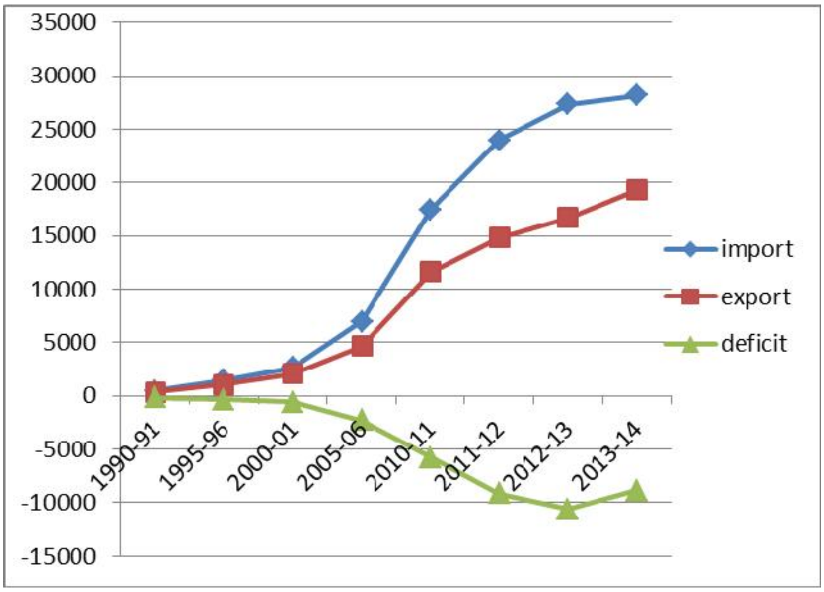
Table-2. Merchandise Trade (Rupees Billion)

Year	Import	Export	Deficit
1990-91	500.86	331.53	-169.33
1995-96	1465.43	1084.82	-380.61
2000-01	2645.89	2078.52	-567.37
2005-06	6954.12	4657.48	-2296.64
2010-11	17461.35	11656.65	-5804.7
2011-12	23946.47	14825.17	-9121.3
2012-13	27321.46	16676.9	-10644.6
2013-14	28159.18	19310.74	-8848.44

Source: RBI Handbook of Statistics 2013-2014.

In this table we can clearly see that the reason of this CAD is merchandise trade of the country the merchandise trade deficit increases year by year and he import of merchandise import in 1990-91 was 500.86 Rupees Billon now in 2012-2013 is 28159.18 Rupee Billion which shows a very high growth rate in the import of merchandise in the country and the trade deficit which was -169.33 Rupee Billion now in 2013-2013 recorded 10644.6 Rupee Billon but in the year 2013-2014 there is the merchandise deficit become low or negative growth and come to -8848.44 Rupee Billion which is 1796.16 Rupee Billion it is due to increase in the merchandise export from 16676.6 of 2012-2013 to 19310.74 Rupee Billon in 2013-2014 and in this year CAD of the country also become starts decaling due to increasing the export in this year. We can see it with the help of chart of this data which showing a increasing growth rate of import of merchandise goods with blue lines which rate of growth become start falling in 2013-2014 and on the same point the trade deficit of merchandise goods become better and merchandise export also recorded increasing figures from past.

Chart 2 Merchandise Import, Export and Deficit



Now the another component of the current account should also examine which are followings

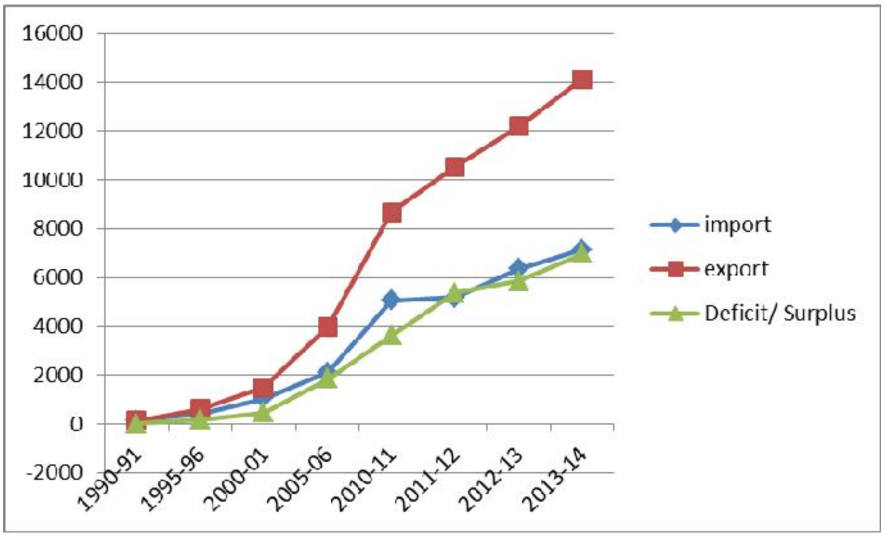
Table-3. Invisibles Trade (Rupees Billion)

Year	Imports	Export	Surplus/Deficit
1990-91	138.29	133.96	-4.33
1995-96	410.88	594.43	183.55
2000-01	1026.39	1477.78	451.39
2005-06	2117.33	3976.6	1859.27
2010-11	5064.11	8672.28	3608.17
2011-12	5173.23	10534.8	5361.57
2012-13	6340.47	12188.93	5848.46
2013-14	7146.79	14117.73	6970.94

Source: RBI Handbook of Statistics2013-2014.

In this table it is very amazing that expect 1990-91 the country is always in the surplus in the head means the earning from invisible is very good but it cant change the condition of the CAD because the deficit of CAD is very much greater than this surplus in 2013-2014 invisibles also recorded a very high growth rate in 2011-12 it was 5361.57 Rupee billion and in 2012-13 5848.46 Rupee Billion which is higher than from 2011-12 with 486.89 but in the 2013-2014 it was suddenly change and recorded 6970.94 it is 1122.48 Rupee Billion surplus in 2013-14.

Chart 3 Invisible trade



The second part of the Current Account is the Invisibles section. This section includes receipts and payments from the services sector and unilateral transfers. The services sector includes transportation, tourism, professional and other services, interest and other investment income.

In this chart it is very clear shown that there are a very increasing growth rate recorded in the export of invisibles and have a surplus value starting from 1990-91 the growth rate was low but after 2005-2006 it become growing very faster. Invisibles have grown on an average of 22% in this time period though in the two years 2001-2002 and 2003-2004, they have grown by 52% and 62% respectively

So it is very clear that there the reason of CAD is the merchandise transaction of the country now we have to find to which item have greater share in the merchandise import of the current account.

Table-4, India's Foreign Trade- (Rupees Billion)

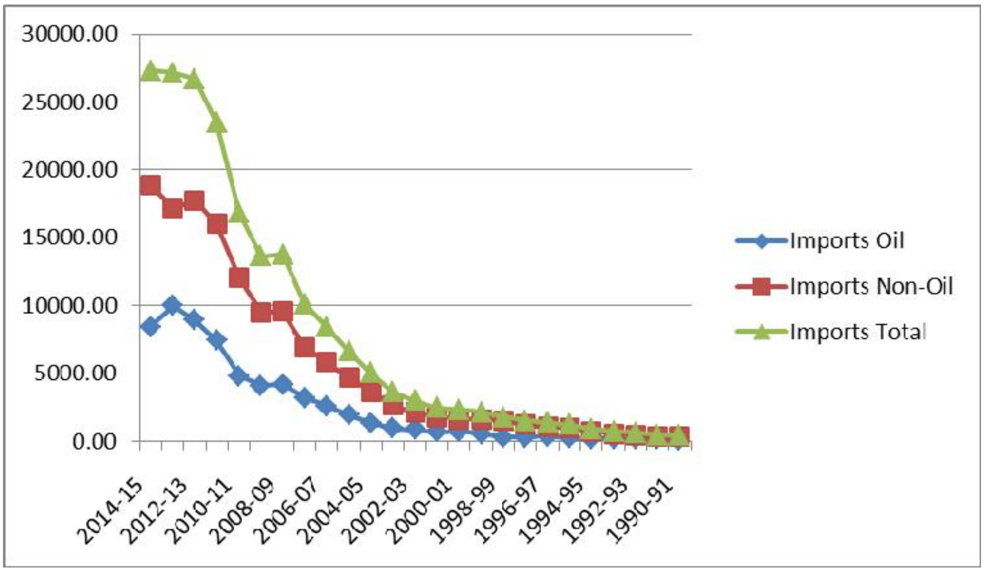
Year	Imports		
	Oil	Non-Oil	Total
2014-15	8424.44	18916.06	27340.49
2013-14	9978.85	17175.48	27154.34
2012-13	8918.71	17772.91	26691.62
2011-12	7430.75	16023.88	23454.63
2010-11	4822.82	12011.85	16834.67
2009-10	4116.49	9520.86	13637.36
2008-09	4199.68	9544.68	13744.36
2007-08	3206.55	6916.57	10123.12
2006-07	2585.72	5819.35	8405.06
2005-06	1946.40	4657.69	6604.09
2004-05	1340.94	3669.71	5010.65
2003-04	945.20	2645.88	3591.08
2002-03	853.67	2118.39	2972.06
2001-02	667.70	1784.30	2452.00
2000-01	714.97	1593.76	2308.73
1999-00	546.49	1605.88	2152.37
1998-99	269.19	1514.13	1783.32
1997-98	303.41	1238.35	1541.76
1996-97	356.29	1032.91	1389.20
1995-96	251.74	975.05	1226.78
1994-95	186.13	713.58	899.71
1993-94	180.46	550.55	731.01
1992-93	171.42	462.33	633.75
1991-92	131.27	347.24	478.51

Source: RBI Handbook of Statistics 2014-2015.

In this table it is very clear that the import of the PO L product is very high and rest is the non oil goods. In 1991-92 it was on 27% of the total import of the country and which is 58% in 2013-14 there is just double from 1991-92 and in this year the non POL product import become decline from previous Years . The there is some decaling recorded in the year of 2014-15 . Oil imports during January, 2015 were valued at US $ 8247.65 million which was 37.46 per cent lower than oil imports valued at US $ 13187.76 million in the corresponding period last year. Oil imports during April-January, 2014-15 were valued at US $ 124747.13 million which was 7.87 per cent lower than the oil imports of US $ 135396.32 million in the corresponding period last year.

Non-oil imports during January, 2015 were estimated at US $ 23957.98 million which was 3.45 per cent higher than non-oil imports of US $ 23158.56 million in January, 2014. Non-oil imports during April- January, 2014-15 were valued at US $ 258664.20 million which was 7.84 per cent higher than the level of such imports valued at US $ 239857.35 million in April-January, 2013-14

Chart 4 India's Foreign Trade – Rupees



The above chart explains that that India largely depends upon on the import of POL and POL product meet its domestic demand and this account for its CAD the import of non POL product also increased significantly with the liberalisation and globalisation of Indian economy.

CONCLUSIONS

It has been noticed that there is India's current share of the world merchandise trade is 1.1 % and Services trade is 2.7 %. In merchandise trade, India's target is to reach 5 % of the world trade by 2020. Along with improving export competitiveness, it is also important to improve information base regarding trade policy regime of India's main trading partners and identify areas which impede market access of Indian goods and services. The sharp fall in imports and moderate export growth in 2013-14 resulted in a sharp fall in India's trade deficit by 27.8 per cent. In absolute terms, trade deficit fell to US$ 137.5 billion from US$ 190.3 billion during 2012-13. However, there was not much change in the POL deficit which was hovering at around US$100 billion in the last two years. With the fall in imports of both gold and capital goods, non-POL deficit fell sharply to US$ 35 billion in 2013-14 from US$ 87.2 billion in 2012-13. In 2014-15 (April- July) trade deficit fell by 24.4 per cent mainly due to the fall in gold and silver imports.[Ministry of Finance Government of India Aug 2014]

So we can say that the main reason for CAD is the import of oil as india depends mainly on. Import of non oil products have also shown sharp increases from 2002-03 to 2014-15. This all the due to globalisation and liberalisation so we can say that the liberalisation and globalisation has negative impact on the Indian economy because the import dependency of Indian economy become increase countenousily form 1991 to 2015 it should be suggest that government should adopted a proper guideline for the import of goods specially POL product however the services are has a positive impact and the share of services increases countenousily.

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