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IMPACT OF ECONOMIC REFORMS ON INDIA'S TRADE BALANCE AND FOREIGN EXCHANGE RESERVE-

Niyati Chaudhary,
Senior Research Fellowship, IMSAR, M.D.U., Rohtak.

ABSTRACT

In India, at the end of March 1991 there was acute shortage of foreign exchange, high inflation and deficit in balance of payment. So, the government of India took initiatives to bring reforms in the external sector. To progress the external scenario following measures were taken such as imports were liberalized, foreign investment was welcomed and Indian currency was devaluated. The present study is an attempt to find out how far these reforms in the external scenario have brought changes in balance of trade and foreign exchange reserves. The study is descriptive in nature and based on secondary data collected from CMIE database and journals and various websites. Data has been analyzed on the basis of percentage and graphs. The result shows that foreign exchange reserves are increasing while balance of trade is still in deficit.

Keywords: Economic reforms, Balance of trade and Foreign exchange reserve.

*** Introduction :** There was lot of restrictions on the foreign trade till the early 1980s such as high tariffs and non tariff barrier, tariff structure and import licensing system. During this period there was high inflation, giant trade deficit, massive debt from both foreign and domestic, descend in foreign exchange reserve. In India, at the end of March 1991foreign reserves accumulation was less than six billion dollar. This was equivalent to pay 15 days' imports. The country was on the edge of default in the discharge of its international debt obligations. In the private sector, there was damage to the entrepreneurship and innovation due to the system of licenses and permits. Public sector became sick and inefficient due to the high political interference. The government of India tried to overcome from this crisis by borrowing from the International monetary fund (IMF) but did not get success. In 1991, Due to financial crisis and pressure from international organizations like the World Bank and IMF there was amendment in the Indian economic policies

At the initial stage of reforms, aim of the trade policies was to support domestic output, and promotion of exports leading which will reduce trade deficit. Due to changes in economic reforms, Indian market has turn into center area for foreign investor. In developing countries like India, there has been enormous demand of foreign capital because it will increase productivity as well as enhance the foreign exchange reserves which will be beneficial for meeting trade deficit of India. Developing country like India Foreign exchange reserves are medium of exchange in international market to import various goods and services. Thus enhance in the foreign reserves may be expected to accompany boost in import of goods and services. In the era of globalization and the changes in the international trade pattern emphasize the factors of a country's balance of trade position.

Foreign Exchange Reserve: In India, Foreign Exchange Reserve has three motives i.e., transaction, speculative and precautionary purposes for holding reserves. Foreign Exchange reserves are the instrument to maintain the exchange rate. In short, official reserves are detained for precautionary and transaction purposes. The basic objective to manage the currency to maintain the balance between supply and demand of foreign currencies.

Balance of Trade: Balance of Trade record all the transactions related to export and import and goods and services of a country with rest of the world. Until the early 1990s India's trade policy regime was highly complex. The tariff structure, high tariff rates Quotas and restrictions on import and export of goods.. India's share of world export fell to 0.5% in 1983.

2. REVIEW OF LITERATURE:

2.1 Pre – reforms scenario:

In 1964, Singh expressed dissatisfaction towards the India's external sector's performance and ill-fated import substitution policy. The import substitution policy was biased against global integration of Indian market. He suggested many reforms in the export sector but these were implemented later after economic crisis in 1991.

Joshi and Little (1994) mentioned that in 1985 various steps were taken for liberalization and de-licensing in several industries but fiscal deficit and macro imbalance in Indian economy wee the consequences of these steps. Cerra and Saxena (2000) stated that IMF structural adjustment program were came due to India was facing balance of payments crisis and low foreign exchange reserves. Desai (1999) noted that In India in 1991, many reforms were taken in the industrial, public, external and financial sector. Joshi and Little (1996) recommended that old model of India could bring disaster in the economy at that time balance of payment deficit was create an opportunity to lanced new model for development of economy of India

In the late 1980s, the government of India initiated the steps towards simplify the tariff structure, replacing quantitative restrictions with tariff barriers and reducing state control on the external and domestic industrial policy. Few other steps were taken towards these areas such. Das (2003) mentioned that many awaked steps were taken to dismantle the import licensing regime through reductions in the number of products listed under banned/restricted category. Ahluwalia (2002) stated that an urgent priority of the policy makers for the economic reforms was to reduce fiscal deficit because this was seen as the major root of Bop crisis in 1991.

Bhagwati (1993) and Panagariya (2008) mentioned that reforms during the 1990s improved performance of that period and growth of large enterprises viable due to ease of import licensing and new trade regimes. Kotwal et al (2011) remarked that tariffs remained high and rates of protection didn't fall during these reforms. Agarwal and Whalley (2013) discussed about the elimination of quantitative restrictions and licensing; Liberalisation of FDI and portfolio inflows.

2.2 Impact of Reforms: Bhagwati and Srinivasan (1993) articulated that the 1980's weak policy regime was the main cause of the crisis of 1991 rather than the external factors. Bhattacharya et al. (1996) studied the position of Indian trade sector in post 1991 period and found that there was a marginal change in the position of trade sector.

Balance of trade: WTO (2001) mentioned that in India over the post-reform period the service sector has performed better than merchandise trade. Brahmbhatt et al. (1996) found that in 2000 India in term of its share in world exports of service ranked 22th. GOI (2003) found that the share of trade in India's GDP has been raised; the share of trade was 21.4 % in 2001-02 in comparison to 14.6% in 1990-91.

World Bank (1990) noted that during the post -1991 India's export performance improved due to trade liberalization but still Indian export performance lagged behind in comparison to other rapidly growing Asian countries. Prasad (1997) studied the impact of economic reforms on exports of India and found that during 1990-1991 to 1994-1995 India's exports achieved a higher growth rate as compared to growth rate of world exports. This growth due to growth in terms of quantity and not due to real increase in unit values showed that Indian exports were becoming more competitive in terms of prices. Matoo and stern (2003) reported that India's trade policy regime was extremely complex until the early 1990s. Balasubramanyam (2003) noted that custom duty rates fell down to 29% in 1995-96 while trade policy remains same. In 1990-91 highest tariff stood at 355 per cent, while additional condensed to 71 per cent in 1993/94 and to 41 per cent in 1995/96.

Foreign Exchange Reserve: Acharya (2008) remarked that stable current account balance after reforms led to enhancement in the foreign exchange reserves. In 2000-01 the foreign exchange reserves were US$ 42.28 billion but in 2007-08 increased to US$ 309.72 billion after that there was decline in 2009-10 to US$ 279.06.

3. OBJECTIVES AND RESEARCH METHODOLOGY :

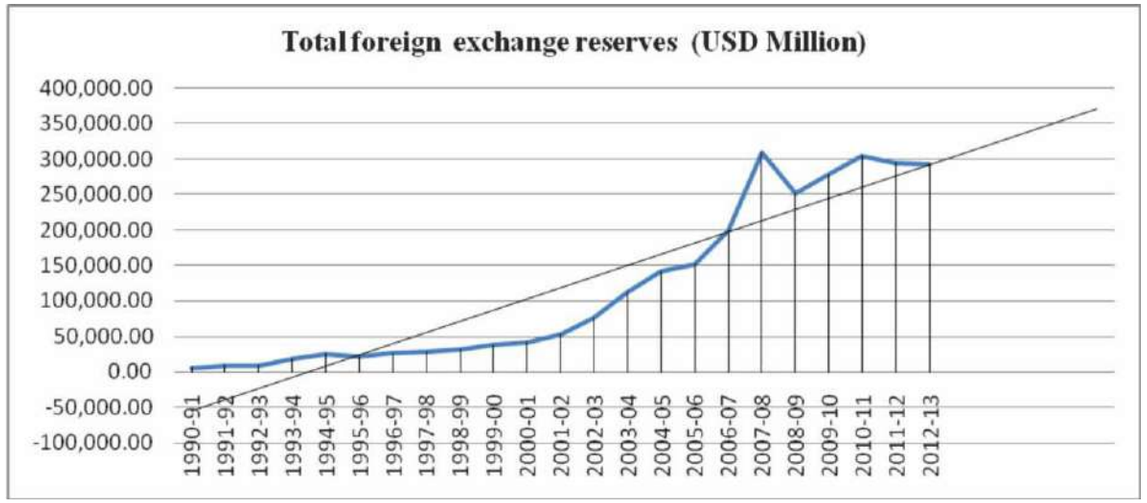
The primary objective of this study is to find out how far economic reforms in the external scenario have brought changes in balance of trade and foreign exchange reserve. The study throws light on whether there is an improvement in external scenario or not. The study is descriptive in nature and based on secondary data collected from prowess database and journals and various website. Data has been analyzed on the basis of percentage and graphs.

4. ANALYSIS AND INTERPRETATION:

Table 1: Foreign exchange Reserve in the post reform period

Year	Total foreign exchange reserves (USD million)
1990-91	5,834.00
1991-92	9,220.00
1992-93	9,832.00
1993-94	19,254.00
1994-95	25,186.00
1995-96	21,687.00
1996-97	26,423.00
1997-98	29,367.00
1998-99	32,490.00
1999-00	38,036.00
2000-01	42,281.00
2001-02	54,106.00
2002-03	76,100.00
2003-04	112,959.00
2004-05	141,514.00
2005-06	151,622.00
2006-07	199,179.00
2007-08	309,723.00
2008-09	251,985.00
2009-10	279,057.00
2010-11	304,818.00
2011-12	294,398.00
2012-13	292,646.50

Chart 1: Foreign exchange Reserve in the post reform period



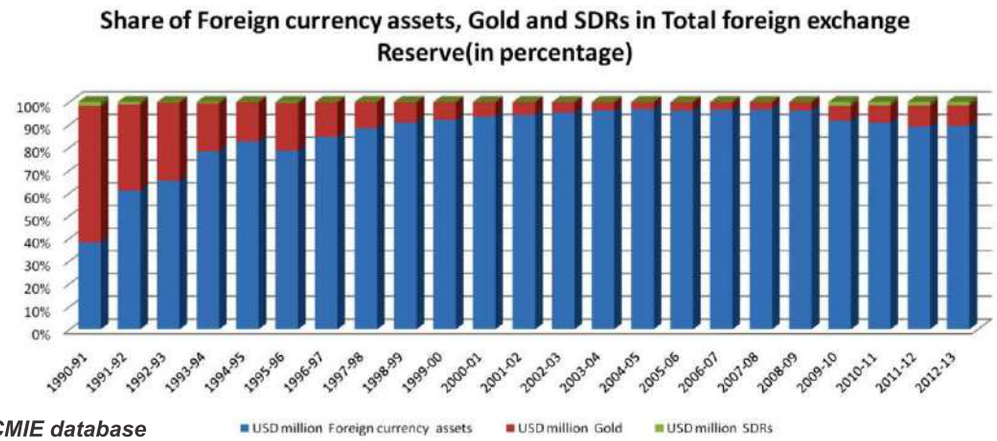
Source: CMIE database

Chart 1 predicts the total foreign exchange is increasing over the period. After economic reforms foreign exchange reserve was increasing gradually till 2000-01.But from 2001-02 it increased at increasing rate. It was at the highest point i.e. 3, 00,000 (approx) in 2007-08. After reforms in 1991, it increasing continuously but there was decline in 2008-09. In 2008-09 declined due to recession period in the economy. We had an array of foreign exchange reserve between 2, 50, 000-3, 00, 000 in the preceding years. By using linear trend analysis, we get a trend line with a period of 5 year : $Y = 15731x - 70171$. After 5 year the foreign exchange reserve in India will be more the 3, 50,000 USD million. Due to economic reforms foreign exchange reserve increased dramatically. More foreign companies came in India for investment because globalization welcomes MNC. More foreign currency come which lead to enhance foreign exchange reserve.

Table no 2: Share of Foreign currency assets, Gold and SDRs in Total foreign exchange Reserve (in percentage)

Year	Foreign currency assets	Gold	SDRs
1990-91	-33.61	617.86	-4.67
1991-92	151.83	0.09	-11.76
1992-93	14.26	-3.4	-80
1993-94	134.19	20.65	500
1994-95	38.1	7.16	-93.52
1995-96	-18.09	4.37	1,071.43
1996-97	31.23	-11.12	-97.56
1997-98	16.13	-16.35	-50
1998-99	13.66	-12.71	700
1999-00	18.75	0.47	-50
2000-01	12.82	-8.37	-50
2001-02	29.06	11.82	400
2002-03	40.83	15.98	-60
2003-04	49.46	18.79	-50
2004-05	26.17	7.19	150
2005-06	7.03	27.89	-40
2006-07	32.26	17.88	-33.33
2007-08	55.91	47.98	800
2008-09	-19.32	-4.6	-94.44
2009-10	5.49	87.8	500,500.00
2010-11	7.71	27.72	-8.73
2011-12	-5.2	17.63	-2.19
2012-13	-0.13	-2.7	-3.16

Chart 2 : Share of Foreign currency assets, Gold and SDRs in Total foreign exchange Reserve (in percentage)



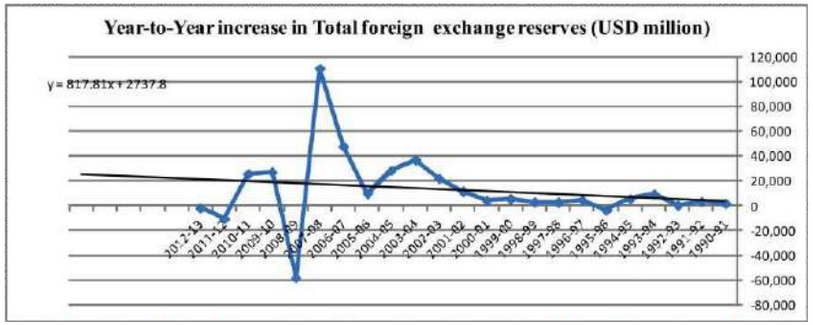
Source: CMIE database

Chart 2 predicts the composition of the foreign exchange reserve. Share of foreign currency assets is high in comparison to other elements like GOLD and SDRs in total foreign exchange reserve. In 1990-91 share of Gold was high but it declined over the years. From 2004-2009, the share of gold was very low in the total foreign exchange reserve. While Gold share increased after 2009-10 continuously. Share of foreign currency increased after economic reforms. In the early years it was increasing slowly but after 1996-97 it showed a drastic increased and had enormous share in total foreign exchange reserve (Chart 2).In total reserve foreign currency assets' share was high because more foreign investors invest their money in India due to economic reforms.

Table no 3. Comparison of year-to-year increase Total foreign exchange reserve

Year	Total foreign exchange reserves (USD million)
1990-91	1,872.00
1991-92	3,386.00
1992-93	612
1993-94	9,422.00
1994-95	5,932.00
1995-96	-3,499.00
1996-97	4,736.00
1997-98	2,944.00
1998-99	3,123.00
1999-00	5,546.00
2000-01	4,245.00
2001-02	11,825.00
2002-03	21,994.00
2003-04	36,859.00
2004-05	28,555.00
2005-06	10,108.00
2006-07	47,557.00
2007-08	110,544.00
2008-09	-57,738.00
2009-10	27,072.00
2010-11	25,761.00
2011-12	-10,420.00
2012-13	-1,751.50

Chart 3: Comparison of year-to-year increase Total foreign exchange reserve



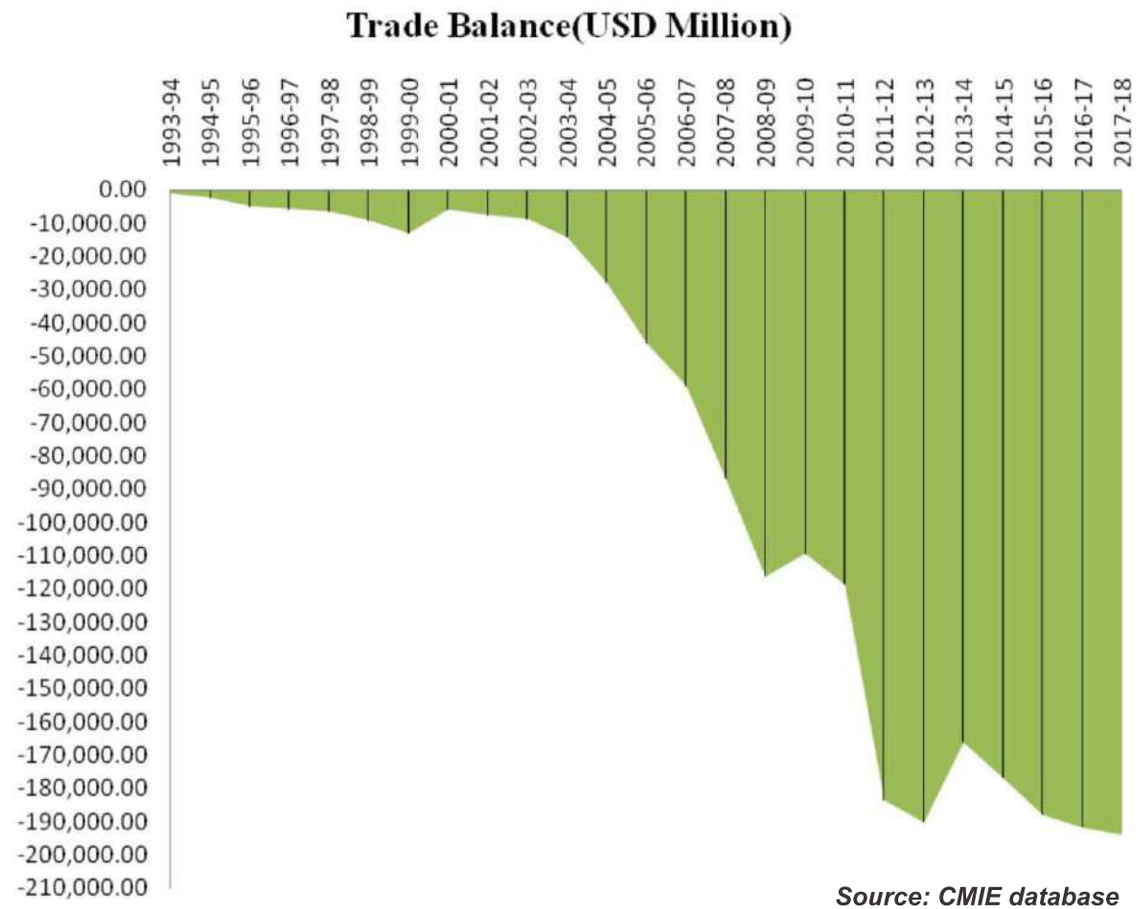
Source: CMIE database

Total foreign exchange reserve has been increased at low rate in the following years of economic reforms. It rose in 2003-04 but decline continuously in next two years. It can be noticed that in 2006-07 total foreign exchange reserve is around 1,20,000 USD million which is highest till now. But there was tremendous decline in 2007-08. In 2007-08 total foreign exchange reserve was negative 60,000 USD million, which shows that recession in that period effected foreign exchange reserve so much. In following year of 2007-08, it raised above 20,000 but again in 2011-12 it declined and total foreign exchange reserve was negative in that year (Chart 3).By using linear trend line, the linear equation for the period of 5 year is: y = 817.8x + 2737. There was fluctuation in the reserve because many other economic factors such as other countries economic position are also affecting the reserve.

Table no 4 Comparison and Forecasting of Trade balance in India (USD Millions)

Year	Trade Balance(USD Millions)
1993-94	-1,091.90
1994-95	-2,324.80
1995-96	-4,887.00
1996-97	-5,666.30
1997-98	-6,484.60
1998-99	-9,160.50
1999-00	-13,020.80
2000-01	-5,897.50
2001-02	-7,586.20
2002-03	-8,690.80
2003-04	-14,315.00
2004-05	-27,969.90
2005-06	-46,065.50
2006-07	-58,802.90
2007-08	-86,800.40
2008-09	-116,223.20
2009-10	-109,288.20
2010-11	-118,609.20
2011-12	-183,436.70
2012-13	-190,108.70
2013-14	-166,077.60
2014-15	-176,779.80
2015-16	-187,833.60
2016-17	-191,655.80
2017-18	-193,798.40

Chart 4: Comparison and Forecasting of Trade balance in India (USD Millions)



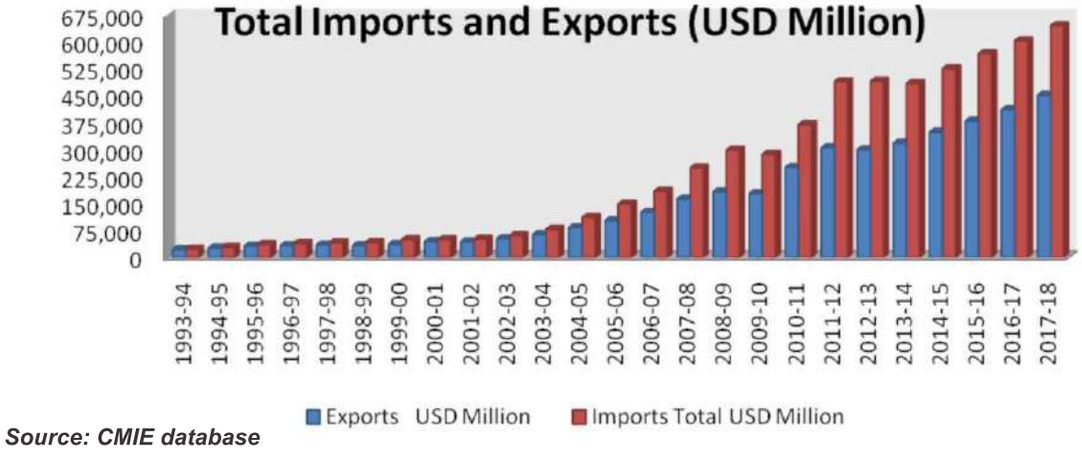
Source: CMIE database

There was always deficit balance of trade. It was rising continuously over the year. Till 2003-04, trade balance had deficit balance below 20,000. But after 2003-04 it was diminishing at increasing rate. Deficit balance of trade balance had risen continuously. In 2008-09 trade balance was -116,223.20 USD. It was -190,108.70 USD in 2012-13, which was highest deficit in last 20 years. In next 5 year, as per available data, trade balance will be around -190,000 USD (Chart 4.)In India imports are more than exports. Few items such as rise, spices etc were exports in comparison to more items were exports. The reason behind this are in India import promotion policy, quota and tariffs were removed while for exporting many restrictions are still in other countries which lead to deficit trade balance.

Table no 5 Total Imports and Exports in India (USD Million)

Year	Exports	Imports
1993-94	22,213.30	23,305.20
1994-95	26,338.60	28,663.40
1995-96	31,834.50	36,721.50
1996-97	33,491.20	39,157.50
1997-98	35,041.60	41,526.20
1998-99	33,183.10	42,343.60
1999-00	36,708.00	49,728.80
2000-01	44,063.00	49,960.50
2001-02	43,824.40	51,410.60
2002-03	52,708.00	61,398.80
2003-04	63,880.40	78,195.40
2004-05	83,501.40	111,471.30
2005-06	103,068.90	149,134.40
2006-07	126,271.90	185,074.80
2007-08	162,982.70	249,783.10
2008-09	183,096.80	299,320.00
2009-10	178,322.10	287,610.20
2010-11	250,786.00	369,395.20
2011-12	305,752.80	489,189.50
2012-13	300,208.30	490,317.00
2013-14	318,127.80	484,205.50
2014-15	348,562.20	525,342.00
2015-16	379,523.20	567,356.80
2016-17	411,071.00	602,726.80
2017-18	451,240.80	645,039.20

Chart 5: Total Imports and Exports in India (USD Million)



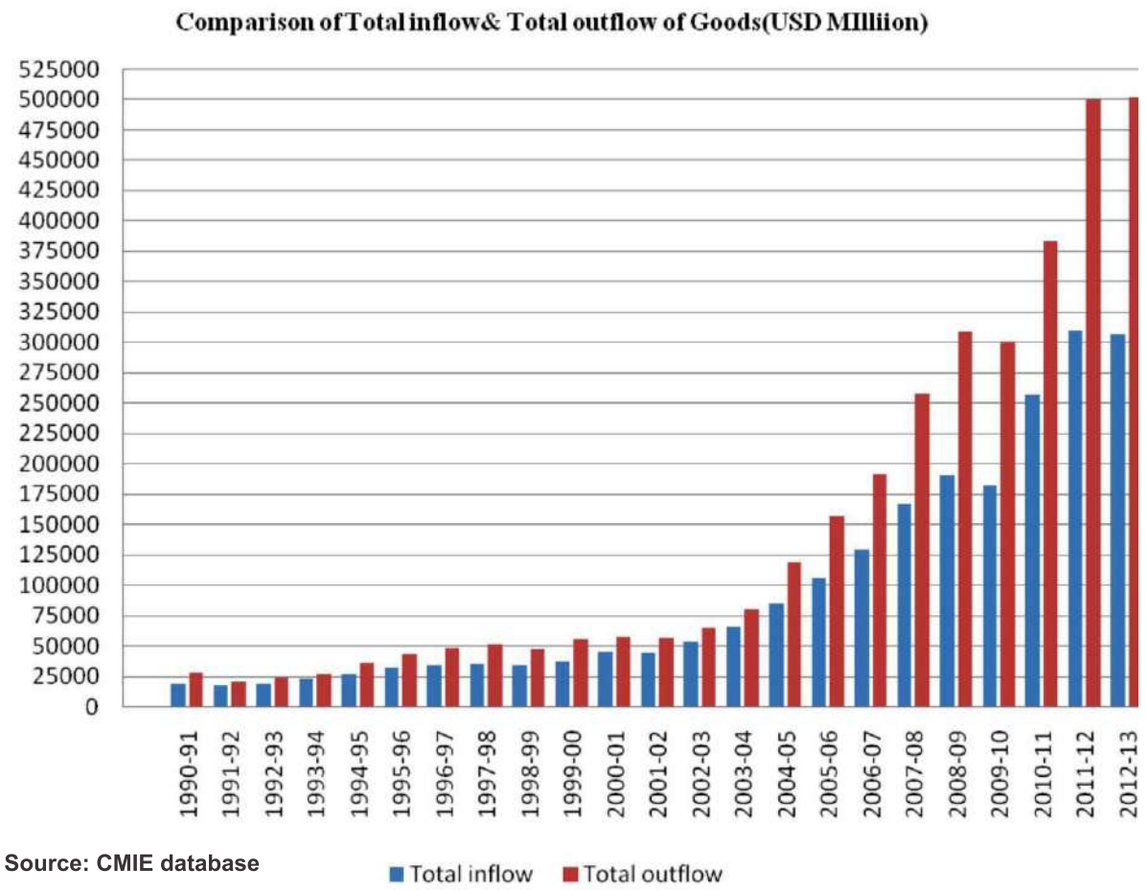
Source: CMIE database

After having a look at chart 5, it becomes quite clear that total imports in India increased continuously over year. As far as total exports are concerned there had been continuous increasing trend over years. As it is clear from the Chart 5 imports are more than the exports. After the economic reforms import was enhancing. Till 2017-18, Import will be around 650,000 (USD Million) and export will be around 450,000 (USD Million). In future, Import and export in India will increase but balance of trade will be disequilibrium as it shows in current situation. Indian government removes many tariffs and quotas for increasing the imports which can be seen in the figure that imports are increasing continuously.

Table no 6. Comparison of Total inflow &outflow of Goods (USDMillion)

Year	Exports	Imports
1990-91	18,477.00	27,915.00
1991-92	18,266.00	21,064.00
1992-93	18,869.00	24,316.00
1993-94	22,683.00	26,739.00
1994-95	26,855.00	35,904.00
1995-96	32,311.00	43,670.00
1996-97	34,133.00	48,948.00
1997-98	35,680.00	51,187.00
1998-99	34,298.00	47,544.00
1999-00	37,542.00	55,383.00
2000-01	45,452.00	57,912.00
2001-02	44,703.00	56,277.00
2002-03	53,774.00	64,464.00
2003-04	66,285.00	80,003.00
2004-05	85,484.00	119,143.00
2005-06	105,541.00	157,179.00
2006-07	129,127.00	190,965.00
2007-08	166,579.00	258,346.00
2008-09	190,213.00	309,255.00
2009-10	182,262.00	300,644.00
2010-11	256,318.00	383,481.00
2011-12	309,843.00	499,533.00
2012-13	306,581.40	502,236.90

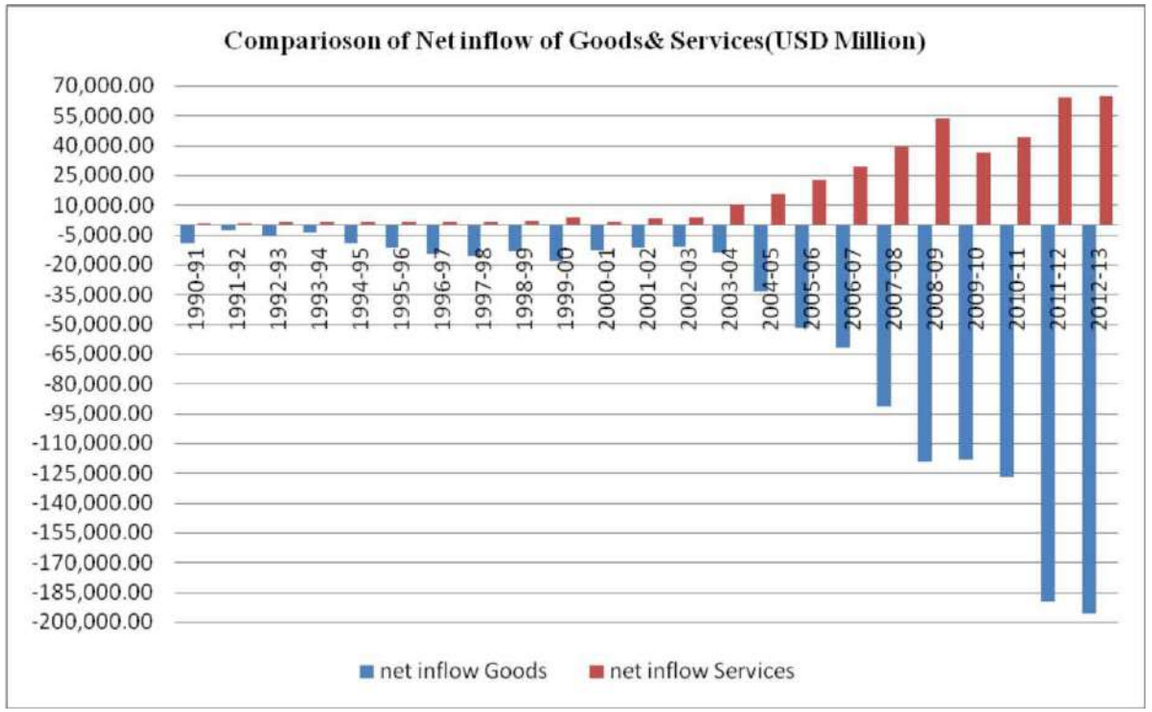
Chart 6: Comparison of Total inflow &outflow of Goods (USDMillion)



Source: CMIE database

Inflow and outflow of goods are explained in chart 6, which illustrated in the early stage of reforms the outflow and inflow was low . After period 2003-04 outflow boosted in comparison to inflow. The outflow enhance in 2011-13 surprised the economy in comparison to 2010. Outflow of goods are more than inflow of goods because all import and export barriers were removed. Goods manufactured are less costly and cheaper than foreign goods that's why goods are more exported.

Chart 7: Comparison of Net inflow of Goods & Services (USDMillion)



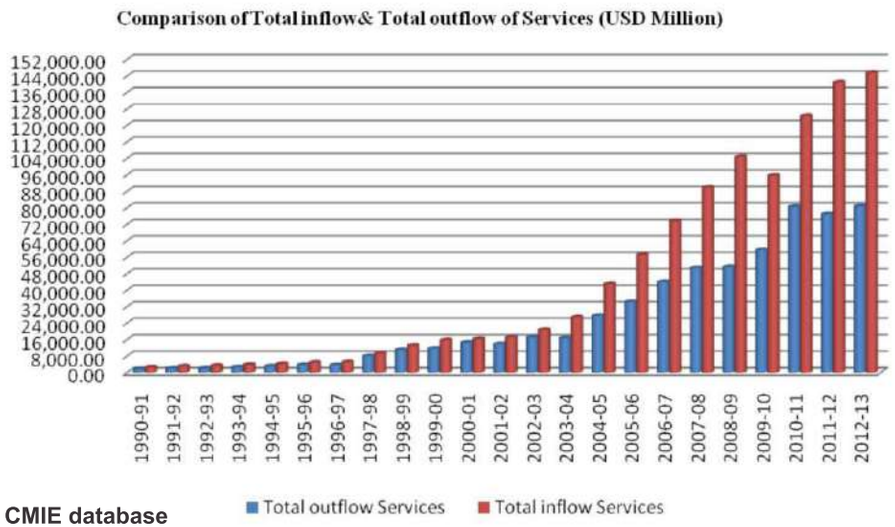
Source: CMIE database

Inflow of Goods and services showed in chart 7, which clarified that inflow of goods were negative while inflow of services were positive. After the period 2003 inflow of services improved significanly.In 2008-09 inflow of services was high in comparison to preceding and following year. In 2011-13 inflow of goods and services was very low i.e. negative.In comparison of both, inflow of goods were increaing than outflow of inflow of services

Table no 8 Comparison of Total inflow & outflow of services (USDMillion)

Year	Total outflow Services	Total inflow Services
1990-91	1,746.00	2,565.00
1991-92	1,999.00	3,041.00
1992-93	2,116.00	3,313.00
1993-94	2,610.00	3,809.00
1994-95	3,027.00	4,223.00
1995-96	3,697.00	4,916.00
1996-97	3,583.00	5,120.00
1997-98	8,110.00	9,429.00
1998-99	11,021.00	13,186.00
1999-00	11,646.00	15,763.00
2000-01	14,576.00	16,268.00
2001-02	13,816.00	17,140.00
2002-03	17,120.00	20,763.00
2003-04	16,724.00	26,868.00
2004-05	27,588.00	42,971.00
2005-06	34,366.00	57,270.00
2006-07	44,016.00	73,542.00
2007-08	50,774.00	89,926.00
2008-09	51,310.00	104,751.00
2009-10	59,534.00	95,728.00
2010-11	80,555.00	124,635.00
2011-12	76,906.00	140,935.00
2012-13	80,762.90	145,677.50

Chart 8: Comparison of Total inflow & outflow of services (USDMillion)



Source: CMIE database

Inflow and outflow of services predicted in chart 8 which demonstrated that inflow of services was high than the outflow. In the early period of reforms the flwo was low but after the ten years of reforms flow enhanced . After 2004-05 , the gap between the inflow and outflow of services gradually broaden. Inflow of services are more than outflow of services. Economic reforms liberalised as well as promote the privatisation which welcomes more foreign companies for providing services.Many KPO's and BPO's were come after reforms which give more services to the India.

5. CONCLUSION AND RECOMMENDATION:

Total foreign exchange is increasing over the period, during the recession there was decline but it increased after that period. Share of foreign currency assets is high in comparison to other elements like GOLD and SDRs in total foreign exchange reserve. While Gold share increased after 2009-10 continuously. Share of foreign currency increased after economic reforms.

There was always deficit balance of trade. It was rising continuously over the year. In 2012-13, this was highest deficit in last 20 years. In next 5 year, as per available data, trade balance will be around -190,000 USD. Total imports and export in India increased continuously over period. In future, Import and export in India will increase but balance of trade will be disequilibrium as it shows in current situation. Inflow of goods were negative while inflow of services were positive. In 2011-13 inflow of goods and services was very low i.e. negative.

Due to economic reforms liberalisation,privatisation and globalisation were lauunched which attract more foreign investors to india for providing services and trade. Which lead to enhance foreign exchange reserve and provide more emplyment opportunities. For reducing trade deficit government of india need to promote more export promotion policy and need to remove all barrers of trade so that trade deficit can be low.

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WORKING CAPITAL AND PROFITABILITY TRADE-OFF IN FMCG INDUSTRY: A STUDY OF SELECTED COMPANIES

Reeti Gaur
Research Scholar
Department of Commerce
Punjabi University, Patiala
reetz.gaur@gmail.com

Dr. Rajinder Kaur
Professor, Department of Commerce
Punjabi University, Patiala

Abstract :

Purpose: The paper seeks to empirically investigate the flow of working capital management in the companies. It also examines the impact of working capital management on profitability.

Design/Methodology/Approach: The analysis is based on 6 companies of FMCG industry (as per BSEFMCG Index) in India. In this respect the data is collected for a period of 13 years, i.e. 2001-02 to 2013-14 from CMIE database. Descriptive statistics, Karl Pearson correlation, regression analysis and ANOVA have been used.

Findings: It was found that the selected companies in FMCG industry manage their working capital efficiently and maintain cash flow in the business. The companies have good credit worthiness among suppliers as they are provided with sufficient payment time. Further, it was found that there exists a significant negative relationship between key performance indicators for working capital management and profitability.

Implication: The findings suggest that the managers need to maintain a continuous watch on managing the financial flows of funds in order to optimize the working capital. The optimum working capital management will help the managers to increase credit worthiness and better relationship with suppliers and lenders.

Originality/Value: The paper addresses gap in the literature relating to working capital management of Indian FMCG companies.

Keywords : Operating cycle, Working Capital, Profitability, liquidity, firm value, FMCG companies.

INTRODUCTION :

An operational firm involves continuous in and out of funds in the business. A firm deploys its fund in two forms of capital: Fixed Capital and Working Capital. Fixed Capital is generally funds used for long-term purpose and are termed as fixed assets covering land, building, plant and machinery, vehicles, equipment, etc. These are retained in the business to earn profits and are exposed off when become obsolete. Working Capital, on the other hand is a circulating capital that supports the day-to-