With large service sector based economy, high saving rate and low external dependency, capital movements can be controlled. Indian government can stop borrowing and repay high interest loans. The government is gradually reducing the interest rates paid on non-resident foreign exchange reserves.

The dollar has depreciated sharply over the last few years against most major currencies. Unlike in the past, now there are good alternatives to the dollar as a reserve currency. India can switch from dollar to currencies like Euro or Yen or even Yuan.

The impact of economic reforms on foreign exchange reserves has grown faster in post reform period. India’s forex reserves become seventh largest in the world at the end of 2002. The high level of foreign exchange reserves has given rise to a suggestion in some quarters that this can be used to finance infrastructure projects. The nature of the reserves is an important consideration in evaluating the merits of the suggestion. It is generally desirable to finance domestic infrastructure investments from local resource and substitution of this by draw down of foreign exchange reserves may imply monetisation of inflations and a relook at FRMB prescription of RBI loans to government. The finance minister appears to have made a cautious start in the 2005-06 budgets and attention should turn to choice of projects and their sectoral implication.

CHAPTER V
SUMMARY OF FINDINGS AND SUGGESTIONS

The researcher concludes the study in this chapter by summarizing the main findings and by bringing into focus some ‘clues’ for the future policy makers. As the analysis is based on the data available for a short period and also due to the fact that even the available information is limited, the ‘clues’ may not be as strong as one will like them to be. Yet, they do throw up some ‘indications’ to the extent that continuous monitoring would enable a change towards objective policy changes. They do serve a very important purpose. A number of suggestions have been put forward, which can be put to practical use for balance of payments in India.

Study of balance of payments and its categories has assumed prominence in view of the fact that the balance of payment plays a very significant role in mobilizing financial resources. Balance of payment assumes three forms, namely, (i) Current Account (ii) Capital Account and Foreign Exchange Reserves. The current account comprises Visible and Invisibles, and Capital account comprises Foreign Investments, External assistance, Commercial borrowings, and Rupee debt service, NRI deposits and other capital and official financing that is Foreign Exchange Reserves (monetary movements) that comprises Foreign currency assets, Gold and SDR Allocation.
Scholars have already made some studies on balance of payments. The present study has taken twenty-two years of balance of payment of India from 1980-81 to 2001-02 for analysis.

The data needed for this study have been compiled from the various issues of Reserve Bank of India Bulletin, Economic Survey and Articles published in Economic and Political Weekly, Indian Economic Journal, Third Concept, Public opinion, the Economic challenger, Southern Economist and the Asian Economic Review.

For an analysis of data, regression equations have been estimated using the principle of least squares. To estimate the average annual growth rate and compound growth rate, simple time series trend, semi-log model have been used. To find out the determinants of capital accounts, a multiple linear regression model has been adopted. To compare the trends in the balance of payments before New Economic Policy and after it Chow test has been used.

Findings

Before New Economic Policy the trend analysis for exports for the years from 1980-81 to 1990-91 had revealed that there was an increasing trend. The average annual growth rate of exports during pre liberalization period was 2387.52. The compound growth rate was 16.38.
After new economic policy for the years from 1991-92 to 2001-02, it shows continuous growth rate. It increased more than five times during the study period. From the year 1991-92 to 2001-02 the average annual growth rate of export was 16986.37. The calculated compound growth rate of export was 15.33. The Indian exporters were to trade with the international trading community and there was a significant influence of the increasing exports on overall economic activity of the country during the years.

During 1980-81 to 2001-02 the average annual growth rate of export was 9706.99. Regression co-efficient was significant at both levels. 99 percentage variation found in exports had been explained. It shows sizeable growth rate due to adoption of New Economic Policy. The compound growth rate was 19.79. Chow’s ‘F’ test which was carried out to study the structural changes that occurred in the trends of exports between the pre-reform period and the post-reform period, led to the conclusion that the increase in the compounded growth rate during the post reform period compared to that of the pre-reform period was statistically significant. Thus, there was a structural difference in the growth rates between the pre-reform period and post-reform period.

The ‘t’ test, which was carried out to examine whether the growth rates for exports differed between the two sub-periods, had shown that there was a significant difference between the two periods for exports.
Before New Economic Policy, the total imports of India continuously increased. There was no decline in imports in any one of the years. The trend analysis of imports for the years from 1980-81 to 1990-91 shows that the average annual growth rate was 3343.61. The calculated compound growth rate was 13.87.

It also increased after the New Economic Policy. From the year 1991-92 to 2001-02, there was a continuous growth in the India’s imports. The imports almost increased five times from 1991-92 to 2001-02. The value of slope co-efficient was 23622.56. This shows that the average annual growth rate of imports during 1991-92 to 2001-02 was that the Government of India had taken a number of steps to import technologically advanced machinery for the development of the growth of the economy. The compound growth rate was 18.04.

The average annual growth rate was 12934.20 during 1980-81 to 2001-02. Regression estimates were statistically significant. The calculated compound growth rate was 17.79. The important reason for the increased trend in the total imports is that the government of India had taken serious steps to import advanced technological machinery for the development of the economy. Chow’s ‘F’ test, which was carried out to study the structural changes that occurred in the trends of imports between the pre-reform period and the post-reform period, which led to the conclusion that there was a structural difference in the growth rates between the pre-reform period and post reform period.
Before the implementation of new economic policy trade balance showed the negative growth rate. During the eleven years, there was a two-fold increase in the trade balance. The value of slope co-efficient was $-956.15$, which implies the downtrend in trade balance in the corresponding period.

After New Economic Policy in 1991-92 trade balance went up 5.5 times. The average annual absolute growth rate of trade balance was $-6636.19$.

The value of slope co-efficient was $-3227.21$ from 1980-81 to 2001-02. It shows the average annual growth rate of trade balance. It implies the negative growth. Widening trade deficits, were caused mainly by the import requirements of the economy, which increased at a much faster rate than the rate of growth of exports. To encourage exports through granting bounties to manufacturers and exporters for avoiding the negative growth of trade balance. Imports may be discouraged either by total prohibition or by imposition of import duties or by adopting the quota system.

For constructing an instability index, Mac Bean Index (MBI), has been used to measure the average percentage deviations of the value of exports and their moving average. In the pre reform period, export instability was higher than the import instability whereas in the post reform period, import instability was higher than the export instability because of export-import (exim) policies. Improvement in quality of products,
government incentives and improvement in technology had resulted in stabilization of exports.

Before new economic reforms there was neither continuous increase nor continuous decrease in invisibles. There were ups and downs in invisibles during the period taken for analysis. The average annual growth rate of invisibles was $-350.95$.

After liberalization, invisibles were increasing from the year 1991-92 to 2001-02. The slope coefficient was 6512.25. The growth of the invisible receipts had also exceeded the merchandise exports during the 1990s, which was due to a favourable shift in the dynamic comparative advantage, and India had emerged as one among the fastest growing exporters of services in the world.

The average annual growth rate was 2708.23 during 1980-81 - 2001-02. Regression estimates were statistically significant. The explanatory variable accounts for 70 percentage of variation found in invisibles. An invisible service also played crucial role in trade. The growth of invisible receipts had also outpaced merchandise exports during the 1990s, which indicates a shift in dynamic comparative advantage, India has emerged as the fastest growing exporters of services in the world.

Before implementation of New Economic Policy current accounts increased more than five times over eleven years. The value of slope coefficient was $-1307.55$, which shows a downward trend in current account.
After implementation of New Economic Policy the value of current account was -2235 in 1991-92. The slope co-efficient was –123.94. The current account on India’s balance of payments had been in surplus, leading to the second paradox. While a surplus in the current account had implied that India did not require capital inflows to finance its balance of payments.

During 1980-81 - 2001-02, the average annual growth rate of current account was –518.91. The value of slope co-efficient was statistically significant. 21 per cent of variation found in current account has been explained by the independent variable. The ratio of current account to the overall balance was in ups and downs from 1980-81 to 2000-01. The current account performance over the period was negative in nature. The main reason for this negative growth is that imports steadily increased over exports, after introducing New Economic Policy. India is in the position to equip with high technological inputs. There is deficit in the current account balance. The deficit is managed by capital account surplus of balance of payments. But in 2002, current account got surplus, because of the more earnings of invisibles.

Before New Economic Policy, capital account had been increasing up to 1988-89. The value of slope co-efficient was 1278.84, which could be seen that there had been a ten-fold increase in the balances of the capital account during the period 1980-81 - 1990-91.
The compound growth rate of capital account was 32.33.

After New Economic Policy, it shows that volume of capital accounts was increasing at a faster rate. The value of slope co-efficient was 3620.47. The compound growth rate of capital account during the period 1991-92 - 2001-02 was 15.34. The surplus or deficit in the capital account signified an excess or shortfall of the receipts, such as public borrowings, external loans, small savings, provident fund, repayments of loans by the third parties and the like.

In 1980-81 - 2001-02, the average annual growth rate of capital account was 2359.39. The value of regression estimate is statistically significant. $R^2$ value was 0.86. The compound growth rate was 20.08. Ratio of capital account to the over all balance in India over the study period shows ups and downs. It increased continuously because of the large inflow of FDI, NRI deposits and earning of foreign exchange reserves. The ratio of capital account to the over all balance in India over the study period shows ups and downs during the study period.
By using Chow test it has been found out that position before and after New Economic Policy the balance of payment was not the same in the two time periods, that is, from 1980-81 to 1990-91 and 1991-92 to 2001-02.

The result of this analysis shows that the current deficit is balanced by capital account surplus till the year 2001. But in 2002 the BOP has got surplus in current account.

In the pre-reform period, the average annual growth rate of foreign investment was –1.000 and the post reform period it was 2242.66. After 1991, the share of foreign investments in the capital account of the balance of payments had considerably increased from the level of 1.4 per cent in 1991 to around 50 per cent in recent years. Along with utilization of foreign exchange reserves, emphasis has been laid on the foreign direct investment and relaxation of the regulations governing foreign direct investments in specific areas like construction, civil aviation and the like. Even in this area there are differences of opinion, arising on account of the nature of inflows particularly the volatility exhibited by foreign institutional investors inflow. It may be mentioned that when foreign investment inflows were 103 million dollars in 1990-91, 97 million dollars was accounted by foreign direct investment. The liberalization following 1991-92 resulting in somewhat higher inflows during the subsequent years with the total foreign investment inflows increasing with withdrawal of FIIIs.
The slope coefficient of external assistance in the pre-reform period was 175.43. After the reform period the average annual growth rate of external assistance was -283.32 crores. It was at a decreasing rate of growth. The marked decline in external assistance was due to the significant increases in the repayments, reflecting the pre-payment against fixed interest rate IBRD currency pool loans in the year 2000 and the general rising trend in the repayments of past loans by India.

In the pre-reform period external commercial borrowings was increasing at Rs.352 crores and after the reform period, it was increasing at the rate of Rs.642 crores. The external commercial borrowings had increased steadily during the study period. Since commercial borrowings are a quite costly proposition, there is a limit, beyond which it may not be possible for the government to borrow. Even in case of such loans, care must be taken that they should be raised for projects, which are carefully selected, speedily executed and which have direct impact on increasing our exports or reducing the magnitude of imports.

After the introduction of New Economic Policy the rupee debt service was an unstable growth. The government had, therefore, claimed that the economy had moved to a more stable and sustainable level in its balance of payments account in the nineties.
The increase in the debt services, and the liability of the service ratios during the year 2000-01 was essentially on account of the prepayments of external assistance and the restructuring of commercial debt.

NRI deposits in 1980s had increased with the FCNRA schemes, recording a steady and rapid growth. The NRI deposits had increased by more than fifteen times from the level of Rs.178 crores in the year 1980-81 to that of Rs.2756 crores in the year 1990-91. Since the 1991 crisis, the NRI deposits had continued to accumulate steadily. During the 1990s, the inflows into the accounts under the FCNRB scheme were almost sufficient to offset the FCNRA requirements for repayments.

The growth of foreign exchange reserves has shown an improvement more in the post liberalization than in the pre liberalization period. When compared to pre-reform period, the growth of foreign exchange reserves was very high in the two years, 1991-92 and 1993-94. It appears that post-reform policies have helped to accumulate more foreign exchange reserves. Till the end of 2002 the foreign exchange reserves had already crossed $ 68 billion. Foreign exchange reserves have grown faster in the post reform period indicating effectiveness of the liberal policies in 1991.
Exports and foreign exchange earnings, which were the main indicators of the success of the reform process, registered a deceleration in growth in the later part of the 1990s.

Suggestions

Solution to the balance of payment problem requires a package deal of measures. The Government of India took several steps for correcting the balance of payments in recent years. The Government should take constructive measures to maintain steady exports growth rate because it is a real indicator a country’s real growth rate. The Government should encourage people to avoid demonstration effect through home country’s satisfied products in our own country to satisfy the consumption requirements of the people in India.

The Government should bargain to get high volume of SDRs, to avoid balance of payments problem. The Government can encourage the investors or entrepreneurs to start any business because it increases the investment and production. The increasing production is used for home country and also export.
In particular, individual consideration should be given to the current account and long-term capital account balances, the States of which have important implications for the consequences of an overall surplus or deficit.

The balance of payment situations in recent years has remained comfortable. The situation will, however, need close monitoring in the successive years. External sector crucially depends on the sustainable growth of exports. So highest export growth in future ensures import financing. Policy measures necessary to provide appropriate incentives for exports are to get strengthened in the light of the emerging global environment.

There is no denying the fact that foreign capital is essential for the development of the economy. But as the experience of many East Asian countries has highlighted, a country has to be cautious in its approach in opening up its economy to foreign capital flows.

There are some suggestions to encourage NRI’s investment in India

(i) To simplify laws, rules and procedures relating to NRI’s investment in India.
(ii) To remove the evils of corruption, redtapism and bureaucratic system from the government departments.

(iii) To build strong financial structure so that confidence among the NRIs can be increased.

(iv) To encourage banks/financial institutions to issue offshore funds to attract NRIs funds in India.

(v) To remove infrastructure and industrial backwardness.

(vi) To appoint a high powered committee, which can make recommendations to the RBI/Government for modification and amendments in the existing schemes, policies and procedure relating to NRI’s investment.

If these suggestions are implemented, NRI’s investment is expected to play more important role in near future.

Steps are being taken to promote tourism in the country including improvement of infrastructural facilities and focusing on publicity of potential markets and marketing efforts and development of manpower resources.

Conclusion
The liberalization of India’s external sector during the past decade was extremely successful in meeting the balance of payment crisis of 1990 and putting the balance of payments on a sustainable path. These reforms improved the openness of the Indian economy vis-à-vis other emerging economies. Much, however, remains to be done. India’s economy is still relatively closed compared to its ‘peer competitors’. Further reduction of tariff protection and liberalization of capital flows will enhance the efficiency of the Indian economy and along with the reform of domestic policies will stimulate investment and growth.

The main lesson of the nineties is that liberalization of the current and capital account increases the flexibility and resilience of the balance of payment. This applies to trade, invisibles, equity capital, multi-lateral trade (MLT) debt flows, and the exchange market. This thesis conforms that in India the exchange rate is a powerful instrument of adjustment in the current account deficit. It also conforms that equity outflows are very unlikely to be a major cause of balance of payment problems. The impact of fiscal profligacy on the external account has become indirect and circuitous with implementation of external sector reforms. It operates much more through the general expectations about economic prospects and the risk premium demanded by foreign (and domestic) investors and lenders. Thus its negative effects are likely to be focused on the domestic rather than the external account. In other words, the negative long term
effects of fiscal profligacy are more likely to be felt in future on the growth rate of the economy and the domestic financial sector.