Chapter-7

Conclusion

The current study aimed at fulfilling the following objectives:

a. To explore the level of foreign exchange reserves in balance of payments.
b. To find out the adequacy level of foreign exchange reserves.
c. To find out the impact of globalisation on foreign exchange reserves.
d. To formulate the short run strategies for meeting the challenges of globalisation on Indian foreign exchange reserves.
e. To design the long run strategies for the better use of the opportunities provided by the globalisation for Indian economy.
f. To evaluate the adequacy level of foreign exchange reserves in terms of the macro-economic stabilization in the country.

Summary

The Indian government liberalised the economy in early nineties due to a chief crisis as a result of a foreign exchange crisis which led to India almost defaulting on its loan repayments. The Government then implemented several local and extrinsic sector strategy metrics which were actually demanded by the transnational companies located in India. The new policies adopted were aimed towards opening the economy and making it market driven.

Globalisation has its own set of benefits and limitations. The chief benefits of globalisation include the following:

- Access to International markets;
- Wider range of products become available;
- Rise in the investments for developing nations to access’
- Easier to overcome cultural barriers due to easy flow of information amongst nations;
- Advancement of technologies;
- Reversal of brain drain in developing countries.
Globalisation however has its own limitations. These include:

- Loss of employment due to outsourcing or automation of industries;
- Dominancy by multinational companies on the domestic firms;
- May result in colonization of smaller nations;

The current study aimed at answering the following hypotheses:

a. Globalisation has improved the status of foreign exchange reserves in India.
b. Globalisation has a positive impact on the positions of balance of payment.
c. Increasing foreign exchange reserves are good for the health of the economy.

According to the current study, while there existed a crucial negative relation between BALANCE OF PAYMENTS and Forex reserves, On the other hand, it could not be inferred that there was any positive impact of globalisation on the Forex reserves in India.

Likewise, as per the current study it was proved that globalisation has not had any positive impact on the balance of payments in India despite globalisation having a significant impact on the balance of payments.

The current analysis also proved that while there was a non-significant slightly negative relation between Growth in Foreign Exchange Reserves and economy of a nation, it can be concluded that there was some positive effect of Growth in Foreign Exchange Reserves on growth in GDP of India.

Globalization can be referred to India with both higher and lower estimations. It has been noted as a one-way process, which has foreign enterprises being favourable towards Indian business from the day of Independence. Many foreign companies invested in India, when the policies led by GOI started favouring market and thereby seeking aims of foreign firms. These foreign firms have either left India or remained critique towards India. From historical data, it can be noted as imperative, whereby GOI, foreign companies added by governments of all the other nations identified
demands of Globalization within India and to ensure that the globalization process that takes off sustainably. Thus, in the process of comprehending policies related to liberalization noted within Indian economy, GOI handles it liberalization and never leads towards Indian globalization as the same gets presumed in past 15 years.

GOI policies must have direct foreign investment into the field of manufacturing with higher technological areas by which Indian economy remains effectively integral to globalization. With similar structure in this study, there are futuristic researches for other developing Asian countries in terms of enhancing knowledge about globalization in other Asian countries.

Globalization opens economy and thereby accelerates cross-border mobility of goods, persons, data, capital and ideas, and opens society towards infections, diseases and criminalization, drugs, pollution, etc (UNESCO).

Mixed picture emerges about the economic performance added by the employment changes, whereby the poverty and inequality makes it’s hard to generalize impact of globalization. It is thus because of globalization that the approach remain relevantly complex phenomenon. Determined results as the changes in unemployment level and poverty reflect consequences of complex issues and factors of globalization. Domestic structural factors as inequality degree in income distribution and wealth, governance quality remain important fundamental base for these results. Common error must get avoided in terms of attributing all sorts of observed results, negative and positive aspects towards globalization (as in The Financial Express, 2004).

The Government of India in 1991 embarked on liberalizations and economic reforms with a view to bringing about rapid and substantial economic growth and move towards globalization of the economy. As a part of the reforms process, the Government under its New Industrial Policy revamped its foreign investment policy recognizing the growing importance of foreign direct investment as an instrument of technology transfer, augmentation of foreign exchange reserves and globalization of the Indian economy. Simultaneously, the Government, for the first time, permitted portfolio investments from abroad by foreign institutional investors in the Indian capital market. Basically, foreign direct investment relates to direct investment in an Indian company
either through a joint venture agreement or as a wholly owned subsidiary with management interest. Foreign investment can come in two forms: Foreign Direct Investment (FDI) and Foreign Portfolio Investment. After the opening up of the borders for capital movement these investments have grown in leaps and bounds. Increased foreign inflows have a huge bearing on the stock exchange barometer index Sensex. A strong surge in foreign investment inflows helps boost the capital market.

A rich literature house is available on effect on foreign flows on the performance of domestic stock market have been carried out, however, still the world is sans any consensus on same. In the past few years, India has emerged as one of the safe investment heavens in the eyes of various foreign nations. The onus goes to the prosperous economic growth and changing and relatively more attractive foreign investment policies framed by the government. Owing to this changed scenario, where huge foreign investment flows have been witnessed in Indian market associated with increased chances of vulnerability and destabilization of an economy, a need was felt to examine the impact of Foreign Investments on the Indian Stock Market. The study has been carried out primarily to examine the impact of foreign investment flows in Indian stock market and to explore which form of foreign investment causes major fluctuations in Indian stock market.

The research intended to ascertain if globalisation has resulted in enhancing the foreign exchange reserves of India post the liberalisation process. To comprehend the above, the Balance of Payments has been used as a measure to study the impact of globalisation. The chief reason is that post globalisation the Balance of Payments would increase due to the rise in trade. This would further result in a rise or decrease in the foreign exchange reserves of the country. Thus, the researchers have developed the following hypothesis:

- **H₀**: Globalisation has not improved the status of foreign exchange reserves in India.
- **H₁**: Globalisation has improved the status of foreign exchange reserves.
The analysis made it evident that there is a negative relation amongst growth in Balance of Payments and Growth in the Foreign Exchange. Thus, it may be inferred that the hypothesis \( H_0: \text{Globalisation has not improved the status of foreign exchange reserves in India} \) is the one validated.

The study wanted to determine if globalisation positively influenced the BOP. This led to the creation of the following hypothesis:

- \( H_0: \text{Globalisation has no impact on position of Balance of Payments (BALANCE OF PAYMENTS).} \)
- \( H_1: \text{Globalisation has positive impact on position of Balance of Payments (BALANCE OF PAYMENTS).} \)

The study proved that there was a negative link between growth in Foreign Investment in India and growth of Balance of Payments. Thus it was inferred that there no impact of globalisation on the Balance of payments in India. Thus it may be inferred that the hypotheses \( H_0: \text{Globalisation has no impact on position of Balance of Payments (BALANCE OF PAYMENTS) is true.} \)

The study also wanted to determine if increase in the foreign exchange reserves was good for the economy. The main cause was that a healthy economy is one wherein the past, current and future growth prospects and results are along expected lines and higher than average past and peer performance. This resulted in the development of the following hypothesis:

- \( H_0: \text{Increasing Foreign Exchange Reserves have no effect on the health of the economy.} \)
- \( H_1: \text{Increasing Foreign Exchange Reserves has positive effect on the health of the economy.} \)

As per the results it can be concluded that there is some link amongst advancement in Foreign Exchange Reserves and development of GDP. Thus, it may be inferred that \textit{there} is some positive effect of Growth in Foreign Exchange Reserves on growth in
GDP of India. Thus the hypothesis $H_1$: **Increasing Foreign Exchange Reserves has positive effect on the health of the economy** stands validated. It can vary as per the data which can be segregated year wise, country wise or variable wise.

It can thus be inferred that rise in the foreign exchange reserves has resulted in positively impacting the health of the economy.

Gradual, yet very steady policies of reformation are attaining the advantage related to potential benefits led under Globalization. Respective phase of post reformation attained some notable milestones and also some adverse modes of consequences. Growth rate of India accelerated by 7.3 per cent in the phase of 2000-08. Indicators as payments’ balance and foreign exchange reserves offered considerable developments. Still, high rate of growth has been attained with increasing regional as well as personal inequalities. Gini coefficient related to interstate inequality increased over past years. There is a sharp increase after 1993-1994. Trends noted within Rural-urban differentials offer the gap among the urban and rural areas that are widening very fast. Consumption inequality, historically remained stable, and increased from early 90s, particularly in urban areas. Current trends under personal and regional inequalities have relevantly adverse impact over the reduction of poverty. In 1993-94 added by the phase of 2004-05, poverty and growth reduction got substantially dampened due to increase in inequalities as well as regional disparities.

According to the records noted from experiences, a country needs to remain careful with its policies and must combine them as per the best way that can enable it in taking opportunity – as in avoiding pitfalls. From past century, the US attained largest economy, yet its major developments are already there in world economy, leading towards the shift of focus from the US and various rich European countries towards two Asian giants that are China and India. Economics experts conducted global envisages in reference to China and India in order to rule the world during 21st century. India, the 4th largest economy in buying power parity, will soon overtake Japan and will turn up as 3rd economic power in upcoming 10 years.
Foreign exchange reserves are the notable ability indicators in repaying foreign debt and noted for currency defines for the determination of credit ratings of different countries. Still, other funds from government are counted in terms of liquid assets being implied towards liabilities for crisis that has got stabilization funds, or else sovereign wealth funds. In case, these get added Norway with Persian Gulf States will get ranked higher and $1.3 trillion Abu Dhabi Investment Authority, UAE will remain 2nd after China. Singaporean government funds are inclusive of Government of Singapore Investment Corporation and Temasek Holdings for the creation of own investment firm noted from foreign exchange reserves.

From past decade till date, Robert Mundell, who is Economics Nobel laureate, 1999 predicted for next decade, where gold will remain as a major player in central bank reserve systems of the world. It has been realised that the world took many years to understand importance of this forecast. Currently, European central banks and the US Fed are having > 60 per cent foreign currency reserves accumulated in gold. Mundell came up with his forecast against grain from the former two decades, developed countries’ central banks are selling gold; in the year 1999, Bank of England sold ½ of official gold reserves, like other European countries. It further got reversed as the volatility of dollar, currency of official reserve forced central banks in terms of reviewing gold as the same has been noted for stabilizing reserve currency. The paradox here in case of India is its huge success efforts from 1991 in order to shore up relevant reserves that get mostly within the foreign currencies, which are attained by disruption and volatility. As dollar remains under stress at a continuous mode due to huge mode of building-up of the US economy, there is the deficit and pump priming of the Fed that most central banks and the emerging economies are looking to hedge towards their reserves. Price of gold gets inverse to values of dollar and thus Russian and Chinese central banks get steadily noted for the positions in this metal.

Increased level of FER succeeds in terms if infusing confidence among policy makers and in markets. However, capital inflow managed towards India and size of FER does not remain disproportionately large as against other countries. Basic sources of accretion related to FER turns up as the exports are noted for IT-related services added by the investment of the foreign portfolio and not to foreign direct investment (that is comparatively more stable), e.g. Singapore and China. Thus, India accumulates FER
for the attainment of precautionary aspects and safer motives, particularly after embarrassing experience noted from June 1991 that must avoid the use of reserves towards finance infrastructure. These infrastructure projects offer negative and low returns because of the difficulties — economic and political particularly in adjusting structure of tariff, introduction of labor reforms and the process of upgrading technology.

Application of FER towards finance infrastructure can have more economic difficulties with problems within monetary management. Still, in case India decides to continue the process of accumulating reserves and enhance FER returns in future, it can establish separate investment institution as per GIC.

Reserve management of India, till the payments’ balance crisis, 1991 got essentially follow traditional approach, maintaining apt imports’ level cover defined for number of months of equivalent imports to reserves. As for instance, Annual Report 1990-1991 of Reserve Bank declared import of reserves being at the shrinking level within 3 weeks by December end of 1990, and focused over import cover till 1993-1994. Approach towards reserve management, being integral to exchange rate management, added by external sector policy that was within the paradigm shift for the adoption of High Level Committee recommendations over Balance of Payments (as by Chairman: Dr. C. Rangarajan). Report from which I was the Member-Secretary, declares integrated view and made specific recommendations over the reserves of foreign currency. Extracts from the report has been noted below-

“It has traditionally been the practice to view the level of desirable reserves as a percentage of the annual imports - say reserves to meet three months imports or four months imports. However, this approach would be inadequate when a large number of transactions and payment liabilities arise in areas other than import of commodities. Thus, liabilities may arise either for discharging short-term debt obligations or servicing of medium-term debt, both interest and principal. The Committee recommends that while determining the target level of reserve, due attention should be paid to the payment obligations in addition to the level of imports. The Committee, recommends that the foreign exchange reserves targets be fixed in such a way that they are generally in a position to accommodate imports of three months. In the view of the
Committee, the factors that are to be taken into consideration in determining the desirable level of reserves are: the need to ensure a reasonable level of confidence in the international financial and trading communities about the capacity of the country to honour its obligations and maintain trade and financial flows; the need to take care of the seasonal factors in any balance of payments transaction with reference to the possible uncertainties in the monsoon conditions of India; the amount of foreign currency reserves required to counter speculative tendencies or anticipatory actions amongst players in the foreign exchange market; and the capacity to maintain the reserves so that the cost of carrying liquidity is minimal.” (Paragraph 6.4)

As the market was able to note the exchange rate led by Annual Report of 1995-1996 of Reserve Bank, there is the change in reserve management that further warranted and focussed import cover being supplemented with objective to smoothen volatility in respective exchange rate. This gets further reflective towards the underlying condition of the market.

Due to currency crises noted in East-Asian countries and experience volatile mode of crossing-border related capital flows get noted by Annual Report of 1997-1998 of the Reserve Bank. The report reiterated the demands into consideration factors’ host, yet noteworthy in terms of bringing towards shift of pattern leading and lagging in receipts payments in exchange of market uncertainties added focus besides reserves’ size, quality of reserves assume importance. Emphasis over this makes the Report declare unencumbered reserve assets (net of encumbrances as forward commitments, lines of credit meant for domestic entities, noted guarantees and other sorts of contingent liabilities) that must remain available for authorities in the way to fulfil different objectives of reserves.

Being integral to practical management under external liabilities, policy of Reserve Bank is to keep forward liabilities within low level as the proportion gets meant towards gross reserves added by importance over prudent reserve management with liabilities within limits of management led by Annual Report, 1998-1999 of Reserve Bank.
Annual Report of 1999-2000 of Reserve Bank stated the foreign exchange reserves management of India as the content to reflect changing composition related to the payment balance and liquidity risks related to diversified flows and all the other demands as well as introduction of liquidity risks being noteworthy.

“The policy for reserve management is built upon a host of identifiable factors and other contingencies, including, inter alia, the size of the current account deficit and short term liabilities (including current repayment obligations on long term loans), the possible variability in portfolio investment, and other types of capital flows, the unanticipated pressures on the balance of payments arising out of external shocks and movements in reparable foreign currency deposits of non-resident Indians.”

The study also proves that it is only a rise in the foreign exchange reserves which influences the economic growth up to a certain extent. The other variables including globalisation and balance of payments may have a positive or negative impact on the economic growth.

India is one of the world’s most dynamic and fast-growing economies and its growth at an annual rate of about 6per cent over 25 years (showing a 4per cent annual per capita growth) is quite extraordinary. Almost three decades back, the 80’s witnessed an absence of knowledge as to what was to follow. One hardly knew that there was going to be something better in store for poverty-struck and populated country. Simultaneously, the gimmick of tagging India with the dynamic growth of China with tags like ‘China and India Rising’ was a ploy to curtail some drawbacks more than anything else. China has certainly been ahead of India in matters related to optimum use of resources as well as registering good growth of the economy. The Asian giant’s huge development has been an outcome of its strong global trade and flow of capital.

Consequently, China has reflected a strong global impact and a dramatic one too by way of the main benchmarks of international economic relations like trade, capital flows, and energy. Table 12 explains this point perfectly. Columns 5 and 6 effectively highlight the major increase in China in the period between 2000 – 2005 while also showing, a slight rise in the international economic progress of India. As an example, one can look at China’s goods exports which jumped up by at least five times that of
India’s total goods exports in 2005. At the same time, the two countries consumed an almost equal amount of oil in the same year.

There are also many other reasons that justify these outcomes. Basically, over the past quarter century, China has shown a per capita growth of a quantum almost double that of India’s – 8 per cent as compared to 4 per cent. Also, India has registered growth for which the causes have been identified as domestic consumption than by external demand as compared to China. Finally, the growth of China has been fostered largely by the fast growth of labour-centric manufactured exports. In case of India, it has been observed that, mostly non-tradable kind of growth has been stronger and more conspicuous. (Share of manufacturing in the GDP in 2004 was about 16 per cent in India when it touched about 40 per cent in China).

With regard to services, China steered ahead of India in terms of the total services exports in 2005. India showed a similar growth pattern in its software exports which multiplied four times – from $6 billion in 2000-01 to almost $24 billion in 2005-06. Despite this and ample media coverage, the IT/ITES sub-sector made up for less than even 3 per cent of India’s GDP with about 1.3 million people working for it. The sector is unable to hold on its own to be able to turn around the Indian economy. And though there is ample potential for the software export growth, it is unable to step up the actual pace of expansion due to reasons such as increase in competitors and more importantly, an anti-outsourcing feeling that is growing fast in importing nations.

Such remarks imply that India’s economic progress creates some problems for the globe. One would simply acknowledge another view that identifies India trudging behind China by almost 10-15 years, thereby suggesting that around the time India’s economic working arrangement with global economy will keep up with China (Bhalla, 2007).

The future will most look like the experience seen this far. India’s economic rise in terms of global commerce, capital as well as energy will most probably be consistent and sustained.
To sum up, it can be said that during the post globalisation period, India has improved the growth of its total GDP, per capita GDP, saving rate, investment, service sector, service trade, balance of payment and foreign investment regime. But, globalisation did not prove beneficiary for the improvement in India's agricultural and industrial sectors. Hence, it can be said that whatever the growth has been attained by the Indian economy during the post globalisation period, it seems to be a very little success if compared with other developing countries like China. Thus, the lesson of recent experience of globalisation is that India must carefully choose a combination of policies that best enables it to take the opportunity - while avoiding the pitfalls.

The Economy of India is the tenth largest in the world by nominal GDP and the fourth largest by purchasing power parity (PPP). The country's per capita GDP (PPP) is $3,339 (IMF, 129th) in 2010. Following strong economic reforms from the post-independence socialist economy, the country's economic growth progressed at a rapid pace, as free market principles were initiated in 1991 for international competition and foreign investment.

The country which was termed underdeveloped till a few decades back has shown the world its great potential. Moving along slowly with accurately measured footsteps India is surely treading on. The policy-makers of the country realized at the right time their age old ideas and beliefs and started moving towards the direction of growth. Over the years numerous steps have been taken to rationalize taxes and reduce red-tapism in the country. The recent all round growth and development has made people across the globe realize the importance of the country as a well read and powerful economy. With its galloping GDP figures India forced other powerful economies to sit up and take notice of it. The country today, despite all odds is showing signs of health, wealth and vigor.

Backed by sound economic policies and information technological advancements, the South-East Asian countries have prospered as their employment growth rate has increased tremendously. One fine example of this phenomenon is India which continues to have a economic growth rate of 8 per cent or more per year.

- Easy access to foreign capital and increased foreign direct investment lays down the foundation for a competitive and yet, thriving market.
Since the players increase in the market, the consumers not only get better products but also at a cheaper price. And hence, one of the benefits of globalization is low inflation rate which helps the country to have a stabilized economy.

Poverty has reduced in the Asian countries which have adopted liberalized economic policies.

Companies from other countries bring their products with their technologies. Newer technologies in IT, production and research cuts down the production cost, and increases sales. Moreover, it also sharpens the skills of the local labor force.

For those who predicted otherwise, India is one of the fastest growing countries today. Its population which was once the most talked about subject has actually turned the tables for India. With a host of economic advantages, a well educated and young population India is all set to rule and give the superpowers a run for their money.

As far as the economic scenario is concerned India is surely on a roll. The last twenty years have really proved extremely beneficial for India. The country now stands only after Brazil as far as GDP ranking is concerned. India has replaced Russia and grabbed the second position in the global forefront mostly due to the strategic planning and huge amount of expenditures on education in India. India GDP 2012 is expected to cross the 8 per cent mark and move to 9 per cent GDP growth rate.

India is the second largest populated country in the world sheltering over one billion people. Although India has not had a striking 10 per cent year over year economic growth as its neighbor China it has still managed to grow at a nominal rate. India's GDP growth has been slow but careful.

According to trade pundits India will take the third position as Far as GDP growth in concerned by 2020 replacing Germany, the UK, and Japan. Only United States and China will be ahead of it.
Limitations

The current study undertaken had to deal with several limitations. These limitations have been outlined subsequently:

i) Mistakes while gathering the data: It is anticipated that some mistakes occurred when the author assessed the collected data. On the other hand, it is possible to mitigate such mistakes by using careful selection techniques during the procedure related to data analysis.

ii) Limited financial resources: Several financial resources were required conducting the current research. However since the available resources were limited, the current study was impacted adversely.

iii) Time constraints: The limited time available to conduct the current study resulted in limiting the activities which were supposed to be undertaken extensively. Limited time for the research did not permit the researchers to conduct the research activities in a comprehensive manner which would have had an adverse impact on the study undertaken.

iv) No proper research available: Another limitation was less availability of related research conducted on this particular subject hence the data and relation had to be developed by the researchers themselves by using varied data sources.

v) Legal and ethical limitations: It was essential to ensure that the researchers assured that the data they gathered was kept secure and employed solely for lawful purposes. They also had to guarantee that the data would be kept for as long as it was necessary. Furthermore, the researchers had to stick to the directives laid down by other regulatory authorities to ensure that they behaved ethically when handling the sample populace. However, it was possible to nullify the above limitations to a great extent if they were considered carefully and the data would have been evaluated very carefully.
Directions for Future Research

The current theme discussed was an absorbing and engaging one. There are varied sides and viewpoints to be considered in terms of globalisation being successful. There were several reasons why India decided to opt for globalisation. Its impacts were also many. The main causes have been highlighted in the literature review section of the study. The current study can be used by individuals willing to study Globalisation and its impact on India. Thus, the current study can be used as a foundation to build other studies pertaining to the current topic.

The extant study is based on financial data available in varied journals. It is recommended that all future studies need to expand their scope. Studies undertaken in the times to come must also be expanded to include other nations and study the impact of globalisation on the other nations – developing and developed. Further, it is recommended that future studies must utilise the opinions of people from the economy to comprehend the real impacts of globalisation on the varied aspects. Future studies could use questionnaires or the interview technique to gather data from several people including politicians, businessmen, students and others. It also becomes essential to add quantifiable results for the theme. Any study related to the theme in the future must also be expanded and conducted in other developing nations.

India tried to integrate with the world economy as soon as it became a sovereign state but with its own terms and conditions. However, over these years, India has slowly been pressured by the several external forces like the foreign governments, foreign corporations and international agencies to integrate on their terms. The roots of the present globalization process in India lie way back in the 1980s. India started to liberalize trade in 1977-78. This open policy increased the number of items in the Open General License (OGL).

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liberalize trade in 1977-78. This open policy increased the number of items in the Open General License (OGL).

From the historical observations, it is imperative that the GOI, the foreign companies and the governments of other nations have to recognize and respect the need for both Globalization of India and globalization in India in order to ensure that the globalization process takes off in a balanced and sustained manner. Hence, while undertaking policies on liberalization of Indian economy, the GOI has to take care that liberalization does not lead to globalization of India alone as it has been presumed in the past 15 years.

The policies of the GOI should be able to direct foreign direct investment into manufacturing sector and high technology areas through which the Indian economy can effectively be part of the globalization process worldwide. With similar framework of our study, further research may be conducted on other developing countries in Asia to enhance our understanding of globalization process in other countries of Asia.

Thus any studies in the future would have a lot of scope for modification and further expansion. All researchers intending to study the topic have a variety of domains to select and proceed with their studies.