



INDIA'S BALANCE OF PAYMENT DYNAMICS POST-LIBERALIZATION: A COMPREHENSIVE ANALYSIS

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ABSTRACT

Since 1991, many important changes have taken place in India's balance of payments. In these reforms that took place at the beginning of liberalisation, all the attention has been focused on the dependence of the market system. As a result, removal of controls, reduction of government interference, greater autonomy to private investors, reduction of dependence on the public sector, Helpful policies have been formulated to further open the economy to international trade and increase the convertibility of the rupee. Many critics have been urging that the pace of these reforms should be faster, that is, they should be increased more rapidly in this direction. Yet there is no doubt that the reformist forces are gaining strength and the spread of these reforms is getting deeper. In other words, there has been a real upheaval in the traditions of the policy-making system associated with India's economic planning and such upheaval had never happened in the Indian economy before liberalisation.

Outside India, there was a grand reception of these reforms in foreign countries, but from the very beginning, there was a fierce controversy about them within the country. This dispute was very sharp and extensive and the arguments on both sides seemed very precise and powerful.

Our ongoing policy reform discussion is focused on only one resource group related to the use or non-use of the market, the talk stops after reaching the promotion of private investment, resorting to foreign trade etc. But there are other means of development as well, especially there are many means related to the social dimension of economic activities and successes, which are not discussed in today's ongoing discussion. In this way, along with the basic error of the clarification of goals, the analysis of the means that can be helpful in achieving those goals is also being neglected nowadays. I even claim that well-organized and well-expanded promotion of these social resources, regulators of economic performance and results, will prove to be very helpful in fulfilling the limited present objectives of economic reforms.

INTRODUCTION

In this study, we are developing and establishing the arguments in favor of the need to adopt a very comprehensive pattern of economic and social changes in India.

In the modern period, the main focus of the development literature has been on the growth of economic growth i.e. Gross National Product etc. In this, the promotion of human abilities and capabilities has never been fully considered, economic growth definitely increases human capabilities, yet it is necessary to take care of two things here (1) In addition to economic growth on human capability enhancement, there are many other reasons. and (2) the achievement of growth on skill enhancement has led to a substantial increase in employment generation. Or has there been a lot of increase in employment generation due to the achievement of economic growth? Or whether an attempt has been made to reduce the deprivation and poverty of the most backward sections of the society by using the economic achievements.

It means to say that ultimately we have to evaluate various policies on the basis of whether they are enhancing the capabilities available to the general public or not. This approach is completely different from the view in which only



the growth of real income is considered important. To doubt the validity of this type of analysis method (centered on the growth of income) does not mean that there is no improvement in human ability or capacity. There is no contribution of growth of income. Our aim is to clearly define the goal and means.

In India and in many other countries nowadays, the arguments being given in favor of the policies of promotion of market places free from bureaucratic interference are mainly related to economic expansion or increase in production and income in the country. In this context, it would be appropriate to quote from the highly respected 'Bhagavathy Srinivasan Report (1993)*'. These structural reforms were necessary because we were not able to achieve adequate rates of growth of income and per capita. This makes the direction of cause-effect analysis very clear. On the other hand, the justification for focusing on production and income is based on the fact that their growth enhances the freedom of a person to live as desired. Both these factors should be taken into account in the analysis of economic development. Not only this, attention should also be paid to those policies and institutional changes which increase human abilities. The only criterion for the success of a development program is production. And there cannot be an increase in income, in this emphasis should be laid on the comfortable standard of living of the people. Just like the evaluation of the development program of any country in the world, this statement will equally apply to the evaluation and analysis of the ongoing economic reforms and policies in a country like India.

INDIA'S BALANCE OF PAYMENT AFTER LIBERLIZATION

Ahead of liberalisation, an informative survey on the Indian economy was published by The Economist magazine in its issue dated 4 May 1991. A caged lion was shown on the front page of this survey. In those days the Indian economy was going through a serious crisis. That special report began with a very blunt remark. "The future of India has never seemed so threatening in the last many years." That analysis blamed its ever-increasing bureaucracy and license raj for India's economic problems and complications. At the same time, a hope was expressed that elections are going to be held. The new government will have to face an immediate fiscal crisis and this crisis will probably force it to do the long-awaited economic reassessment, In which the most important thing will be that what should be the economic role of the government? After the new elections, the new picture which started on the study of the society, did not differ much from the scenario discussed by that magazine. The economic policies started at that time have been given the name of economic reforms.

Although 'The Economist' has been very generous in discussing India's unlimited possibilities to some extent, the analogy of a caged lion for the Indian economy has been very accurate from the point of view of many views on India. India has its own glorious historical tradition of commercial trade and excellent production, even in the era of industrial revolution, Lancashire had to resort to a lot of cleverness and rigging to compete with India's highly advanced cotton textile industry. India's labor force has always been endowed with that unique talent, with whose support whenever there is a need. It has adapted to new technological challenges with ease. Indian entrepreneurs and businessmen have been very successful outside India in many types of economic activities, whether it is running nearby consumer stores or great progress in industry and trade, Where there is even a little opportunity, the Indians dominate completely. Hence the excellence of Indians in other countries. The successes and the inability to do much on the land of India at least show that some animal or the other is definitely imprisoned here.

In the economic reforms initiated in the second half of the year 1991, emphasis has been laid on dismantling both the license raj and the ever-progressive bureaucracy. Although the reform work could not go on as fast as it was expected, still serious efforts have been made in this direction. This also raised the hope that as the conditions become favourable, this work will be speeded up. As a result of this liberalization, there has been a great increase in the exports of some sectors and there has been a considerable improvement in the foreign exchange reserves. The world community has also welcomed them fiercely. Foreign investors have shown great enthusiasm and these new policies have been hailed as very good from a financial point of view. This enthusiasm was not limited only to those commentators who have been interested in Indian events for a long time, It has also had an impact on American business interest groups, often living far and wide. The world's most influential magazine Forbes (May 23, 1994) even put it on its front page and said, "India may prove to be the best emerging market".

The Indian economy has been modest in terms of growth, even in the post-reform years, 1991–94, with rates of growth of gross national product, gross domestic product, and industrial production much lower than in the previous decade.



. Though there has been some improvement in the GDP growth rate, which the government has been touting time and again, it has not yet reached the pre-reform eighties level.

The central issue is not to maintain normal level of economic growth rate as a whole, the real issue is the commitment of the country to the all-participatory economic growth process. Growth rates of Gross National Product and Gross Domestic Product can accelerate. Such symptoms are also visible to some extent, but due to widespread illiteracy, backwardness related to health care and many other important promises and lacks, the country seems to be crippled from economic and social point of view. Limit barriers to wider participation in the overall growth process will not be overcome for a long time. As it has been discussed before. The cage that holds the Indian economy captive is not made of shackles of bureaucracy and hyperactivity of the government. Due to this, the chain of illiteracy, malnutrition, ill health, social disparity and due to these, public disinterest and political inaction are also tied.

Thus in the formulation of the problem the tendency of the bureaucracy to grab everything in its fist could not be denied. It is also not being said that there is no need for fundamental economic reforms. Our emphasis has been on the comprehensive nature and scope of economic development. This comprehensive form is linked to the enhancement of social opportunities. These opportunities could greatly increase as the use of the bond cancellation market increases. But the good use of these enhanced opportunities will be possible only when some basic abilities are easily accessible to the members of the society. These abilities are especially related to literacy and education. These include primary education, health, social security, gender equality. Land rights, democracy etc. at the local level are also included. The kind of public activism that is required for rapid dissemination of these qualifications was neither seen in India before the reforms, nor has it been seen after the reforms. So it is not enough to open the door of the cage, the real essence of freeing the lion from the cage lies in going much further than this liberalization.

CONCLUSION

India's balance of payment dynamics underwent significant transformations following the era of economic liberalization that began in the early 1990s. The liberalization policies initiated by the government aimed to integrate the Indian economy with the global markets, promote international trade, attract foreign investments, and boost economic growth. As we conclude the analysis of India's balance of payment after liberalization, several key insights emerge.

Firstly, the liberalization measures facilitated a surge in foreign trade, with India becoming a major player in the global market. The export sector, particularly in services like IT and software, experienced remarkable growth, leading to a positive impact on the current account balance. Additionally, the relaxation of import restrictions allowed Indian consumers and businesses to access a wider range of goods and services from abroad, thus influencing the overall trade balance.

Secondly, foreign direct investment (FDI) became a crucial driver of India's economic development after liberalization. The ease of doing business and the implementation of investor-friendly policies attracted substantial FDI inflows into the country. These investments not only contributed to capital account surpluses but also played a pivotal role in modernizing industries and infrastructure.

However, despite the positive changes, India continued to face challenges in managing its balance of payment. Persistent trade deficits, particularly in merchandise trade, have been a concern, as the country's import requirements, especially for crude oil and electronics, remained substantial. Furthermore, fluctuations in global commodity prices and external economic conditions often influenced India's balance of payment position.

In conclusion, India's balance of payment after liberalization reflects a mixed picture of success and challenges. The liberalization policies undoubtedly facilitated economic growth, diversification of trade, and increased foreign investment. However, the country's continued reliance on imports and occasional trade deficits underscore the need for ongoing policy efforts to enhance export competitiveness and reduce import dependency. Furthermore, prudent macroeconomic management and targeted reforms are essential to ensure a stable and sustainable balance of payment position, supporting India's continued integration into the global economy and its journey towards inclusive and robust economic growth.



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