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A Trend Analysis of Trade Imbalance of Indian Balance of Payment (Bop)

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ABSTRACT

Purpose- India is now getting more integrated with the worldwide economy. In 2013-14 Indian two-way external-sector transactions gone up about 113% of the country's GDP. The cross border uncertainty in the financial markets has transmitted through the various channels such as trade, finance, and confidence. Due to globalization, the developing countries like India experiences undesirable strain on its Balance of Payment (BoP). The objective of this study is to identify and analyze the factors that influence the country's BoP.

Research Methodology - This paper is based on secondary data, which is collected through various sources like report of RBI, IMF, and Economic Survey etc. The paper is Descriptive in nature.

Findings - The result will signify that what will be the degree of impact of influencing factors on country's BoP. This paper also assesses the link between trade imbalances factors and its effect on current and capital accounts of Indian Balance of Payment.

KEYWORDS Balance of Payment, Current Account, Capital Account, Trade Imbalances, External Debt.

Introduction

In the globalization era, now India is getting more integrated with the worldwide economy. In 2013-14 Indian two-way external-sector transactions gone up about 113% of the country's GDP. The balance of payments of a country is a systematic record of all transactions between the residents of a country and the rest of the world carried out in a specific period. Balance of payments (BOP) account is a kind of balance sheet of the country, which contains the records of all monetary transactions that have taken place between a country and the rest of the world. The BOP has two major classifications current account and capital account. The current account includes export, import, and transfer of fund, services and incomes. The capital account gives the information regarding foreign direct investments, external commercial borrowings; bank deposits from non-residents, external assistance, short-term debt etc. when the countries' import exceeds its export then it will cause trade deficit and opposite the case is the trade surplus **(Rana & Khurana, 2011).**

Literature Review

Authors (year)	Objective	Findings
Raschen(2014)	To idendify effect of crisis on balance of payment imbalances.	To cope up with the crisis policies for economic improvement are required to formulate and implement at early stage of downfall.
Mathew(2013)	To study trend analysis of indian balance of payment.	The current account deficit got wider due to financial crisis and fluctuation in exchange rate.
Marchetti, Ruta, The (2012)	To study the contribution of WTO to deal with trade imbalances and with the factors leading to them.	WTO-triggered trade measures possibly will form part of a broader solution to prevent the build-up of unsustainable imbalances in the future which requires addressing a "coherence gap" in global governance because trade rules only would not supply an efficient mechanism to reimburse for the weaknesses in international co-operation in macroeconomic, exchange rate and structural policies
Gourinchas (2012)	The objective of the study was to know about the implications of economizing process on the European banking sector broad and have focus on "global liquidity imbalances."	The countries having strong financial system are acting as liquidity providers and the countries having weak financial system become liquidity sink. There is an essential need to establish policies, which strengthen the financial system of the emerging market countries. So that they can cope up the global financial crisis and its impact.
Borio Claudio and Disyatat Piti (2011)	To study the link of financial crisis and global imbalances.	Excess elasticity was the fundamental weaknesses in the international monetary and the root cause of this is the loopholes in its financial system, which can be reduced by prudent fiscal policies.
Rana and Khurana (2011)	To study the component of balance of payment like-high earnings from invisibles, external commercial borrowings, and foreign direct investment.	FDI inflows, non-resident Indians (NRI) deposits, and external commercial borrowings (ECB) were remaining relatively vigorous and BOP deficit gradually reduces.
Cheung, Furceri and Rusticelli (2010)	To identify the structural factors responsible for progression of global imbalances in crisis.	The reforms in regulatory frameworks and financial markets in emerging economies can help to balance the structural factors and reduce the effect of crisis.
Obstfeld and Rogoff (2009)	To identify the causal factors behind the 2000s financial crisis and their relation with the recent financial Crisis and the global imbalances.	Economic policies and market development, real interest rate, global saving glut were the factors resposible for the both the crisis but the degree of impact of the above said were different.

Objectives

The objective of this study is to identify and analyze the factors that influence the country's trade imbalances.

Research Methodology

This paper is based on secondary data, which is collected through various sources like report of RBI, IMF, and Economic Survey etc. The paper will be Descriptive in nature**.**

$H_{01:}$ Export and Import are not the significant factor of Trade Imbalances.

Data Analysis and Interpretations
5.1 Trade Imbalances
Chart-1 Trend Projection of Indian Trade

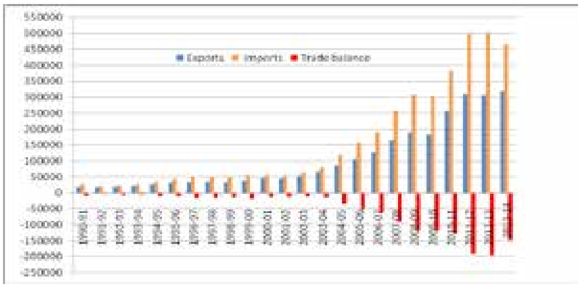

Chart-1 shows the increasing trend of Indian trade and trade imbalances. This indicates that after the execution of liberalization policies i.e. from1990-91 until 2012-13 the import has exceeds the exports. This creates greater trade imbalance and burden on the BoP accounts of the country.

Table-1: Correlations Matrix of Trade			
		Export	Import
Trade Balance	Pearson Correlation	-0.988**	-0.996**
	Sig. (2-tailed)	0.000	0.000
	N	23	23
** Correlation is significant at the 0.01 level (2-tailed).			

Table-1 shows the correlation among export, import and trade balance. The trade balance is negatively correlated with the export **(r= -0.988)** and import **(r= -0.996)** and highly significant **(p=0.000<0.05)** at 1% significance level for trade balance i.e. both moves in opposite direction and any change in export and import affects the trade balance of the country. Hence, hypothesis is rejected.

Table-1a: Correlations Matrix of Export and Import		
		Import
Export	Pearson Correlation	0.998**
	Sig. (2-tailed)	0.000
	N	23
**Correlation is significant at the 0.01 level (2-tailed).		

Table-1a indicates the correlation between export and import. The export and import are positively correlated (r=0.998) i.e. both moves in same direction. Import is the significant for export. On any increase or decrease in export there will be increase or decrease in import also. This has also experience in trend analysis chart from 1990 to 2013.on increase in import the government restructure their policies to boost up export so that the trade imbalance remains in control.

Table-2:Regression Analysis of Export, Import and Trade Balance

Table-2a: Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1 (Export)	0.988[a]	0.976	0.975	9567.826
2 (Import)	0.996[a]	0.991	0.991	5835.463
a. Predictors: (Constant), Export & Import				
b. Dependent Variable: Trade Balance				

Table-2a shows the model fit summary for export and import for trade balance. The value of 'R' is the correlation value of export, import and trade balance. The R^2 value determines strength of association between the two variables. The contribution of export and import in trade balance of the country are 97.6% and 99.1% respectively. The adjusted R^2 value determines the fitness of model. The model is fit 97.5% for export and trade balance and 99.1% import and trade balance.

Table-2b: ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1 (Export)	Regression	7.811E10	1	7.811E10	853.294	.000[a]
	Residual	1.922E9	21	9.154E7		
	Total	8.004E10	22			
2 (Import)	Regression	7.932E10	1	7.932E10	2.329E3	.000[a]
	Residual	7.151E8	21	3.405E7		
	Total	8.004E10	22			
a. Predictors: (Constant), Export, Import						
b. Dependent Variable: Trade Balance						

Table-2c: Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11783.283	2898.118	-0.988	4.066	.001
	Export	-0.637	0.022		-29.211	.000
2	(Constant)	7531.157	1697.905	-0.996	4.436	.000
	Import	-0.391	0.008		-48.263	.000
a. Dependent Variable: Trade Balance						

$Y= a + b X$ - (1)
$Y=11783.283 + (-0.637X)$ - (2)
$Y=11783.283 - 0.637X$ - (3)
$Y=7531.157 + (-0.391X^1)$ - (4)
$Y=7531.157 - 0.391X^1$ - (5)

In the above equation Y, X and X^1 are the trade balance, export and import respectively. The trade balance in country's balance of payment is not dependent on export and import only but also varies with a constant value (a) 11783.283 and 7531.157 that creates imbalance in BoP.

5.2 Causes of Trade Imbalances

The causes of these variations are the factors like exchange rate, interest rate, domestic currency devaluation, and export and import opportunities for the business. In India Trade imbalance leads to current account deficit around 2% of GDP, which has financed through private capital flows and foreign direct investment (Bery, 2012).This is due to differences in cross-country saving patterns, investment patterns and the degree of risk or liquidity of diverse assets. The trade imbalances may positive or negative **(Marchetti, Ruta & Teh, 2012).** The current account deficit generates positive imbalances for country. This is the sign of growth and investment opportunity for the countries like India. The current account surplus is the negative trade imbalance for the economy because it leads to excess cash inflow without having any opportunity for future investment. The developed economies with current account surplus seek investment avenues in the developing economies having deficit current account. The saving pattern of a country may leads to cost burden without having any investment pattern. Excessive saving creates 'saving glut' in a country and may cause currency devaluation. The exchange rate flux is also the cause of currency devaluation, which affects the trade balance by reducing both imports and exports. Due to domestic currency devaluation, import becomes costlier and prices of foreign products increases. In this circumstances export of the domestic country increases and trade deficit improves. India has to make less effort for tuning the current account balances. India has to improve their global policy for capital movements and exchange rate regimes to safeguard economy by foreign capital movements. These policy improvements establish a 'safety net' for the country (Bery, 2012). since 2006-10 there was 1.5 times increase in import as compared to export. this trend becomes alomost double in 2011-12 and continued through to the first quarter of 2013-14. The reason for this trade deficit in the first quarter mainly due to larger imports of gold and silver in the first two months of 2013-14. The government and RBI took a series of coordinated measures to endorse exports, hold back imports predominantly those of gold and non-essential goods, and improve capital flows. Due to these measures taken by indian government and RBI exports pick-up about Rs. 80000 cr. per quarter and temperance in imports to Rs. 114000 cr. per quarter in the latter three quarters. This led to noteworthy retrenchment in the trade deficit to Rs. 30k-33k cr. per quarter in these three quarters. Overall this resulted in an export performance of Rs. 318600 cr. in 2013-14 as against Rs. 306600 cr. in 2012-13; a decrease in imports to Rs. 466200 cr. from Rs. 502200 cr. in 2012-13; and a drop in trade deficit to Rs. 147600cr. , which was lower by Rs. 48000cr. from the 2012-13l. As a share of GDP, trade deficit on BoP basis was 7.9% of GDP in 2013-14 as against 10.5% in 2012-13.

Conclusions

In the era of globalisation, the country have both opportunity and threat. The trade among the countries results trade imbalances for the domestic country. Export and import are the two significant factors for trade imbalances.The gap between the export and import creates trade imbalance.It may cause trade surplus or trade deficit. Due to factors like exchange rate volatility,currency devaluation,economic disequilibrium,global crisis the trade deficit gets wider.It also reduces the growth of the country.to improve this situation the government and RBI has taken corrective measures.they announces new policies,cuts the rates,promoted the export and discourages the export.the result of these policies has reflected in the trade balance of 2013-14,in which the trade deficit has narrow down.

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