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Analysis of India's Balance of Payments after WTO Agreement

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Abstract: World Trade Organization (WTO) was setup in 1995 and India is the founding member of WTO. Since beginning of the discussion of WTO establishment or we can say Uruguay Round (1986 to 1994) talks most of the policy makers, politicians, thinkers and general public were opposing the proposal of India's Membership with WTO with every aspect saying WTO membership will be harmful to India. Here we will analyze the effect of WTO membership to India. The balance of payment is a statistical record of the business of one country with other countries or rest of the world. The balance of payment is one of the main indicators of the country's progress. In terms of BoP, India is experiencing deficit or ill health since very long.

Most of the trade restrictions on international trade have been separated after GATT and WTO, foreign investment allowed, and a completely new liberalized exchange management system has been introduced to take advantage of the liberalization and competition. India have chosen a very vigilant approach after overcoming the initial glitches of the closed economy. This has particularly affect the economic policies of the world's different government and the economy. Most of the WTO member country has opened up their door for free trade with WTO member countries.

Keyword: WTO, GATT, BoP, Balance of Trade, RBI

I. INTRODUCTION

The balance of payment is a statistical record of the business of other countries in the world. It is a broad term compared to trade equilibrium. Trade equilibrium means only the export and import of goods. The payment balance includes both goods and services. For most of the developing countries their balance of accounts deficit, India is no exception. Since independence, India has been facing this deficit or ill health in terms of BoP. India have chosen a very vigilant approach and after overcoming the initial glitches of the now newly liberalized economy.

BoP management is still a tough walk for policymakers. The new economic policy of the nineties aimed at opening up the economy, allowing free trade and competition, and significantly reducing the role of government in foreign trade issues. Restrictions on international trade were allowed, foreign investment was allowed, and a completely new liberalized exchange management system was brought in to take advantage of the competition and close the shortcomings of the closed, inward-looking trade policy.

The balance of payment is one of the main indicators of the country's progress. BoP shows the country's strengths and weaknesses. This will particularly affect the economic policies of the government and the economy. This paper seeks to weigh the trends and emerging challenges of India's balance of payments after inception of WTO. India was the founding member of GATT and WTO.

II. OBJECTIVE OF THE STUDY

A. To understand the history of the payment balance of India before WTO.
B. To understand the direction of the payment balance of India after WTO.
C. To find out the contributing factor for deficit in India's Balance of Payment.
D. To provide suggestions to correct a deficit in India's Balance of Payment.

III. RESEARCH METHODOLOGY

The study is based on secondary data. The data is collected from RBI and other websites and from Books available in library. Data is collected from 1970-2018 wherever possible. For presentation of data I have used tables and figures and graphs are used and for analysis absolute figures and ratios are used.

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IV. HISTORICAL HISTORICAL BACKGROUND OF BALANCE OF PAYMENTS PROVISIONS

If a member faces Balance of Payment difficulties in current account and is seeking adequate Forex Reserves for safeguarding its external financial position for its programme of economic development, General Agreement on Tariffs and Trade (GATT) 1994 permits the member to take measure to restrain imports.

The BoP are found at two places in GATT in Article XII which applies to all members and in Article XVIII which applies to developing country members.

The BoP provisions for developing countries are contained in article XVIII B of GATT 1994 and are further clarified and elaborated by: (i) The 1979 declaration on trade measures taken for Balance of Payment purposes (1979 declaration) adopted on 28 November, 1979, and (ii) The understanding on Balance of Payment provisions, contained in Annex I A of the WTO agreement.

The main purpose of these special provisions for developing countries is to provide them with the same relief and flexibility when they face problems of low inflow and small reserves of foreign exchange. It is recognised that they need foreign exchange for the development. As such, they should have the flexibility of departing from their normal obligation under GATT 1994 in order to conserve their foreign exchange and also to put the available foreign exchange to the best use in pursuit of their development objectives. The BoP provisions in GATT 1994 prescribe the conditions under which the developing countries can take specific measures and the related disciplines on notification and consultation as well as the limitation on this flexibility.

V. UNDERSTANDING ON BALANCE OF PAYMENT PROVISIONS (BOP) UNDER WTO AGREEMENT

The understanding on Balance of Payment provisions has thirteen paragraphs. The details are as follows:

A. Members confirm their commitment to announce publicly, as soon as possible, time schedule for the removal of restrictive imports measures taken for BoP purposes.

B. Member confirm their commitment to give preference to those measures which have the least disruptive effect on trade. Such price based measures shall be understood to include import surcharges, import deposit requirements or other equivalent trade measures with an impact on the price of imported goods.

C. Member will try to avoid the imposition of new QRs for BoP purposes unless, because of a critical BoP situation, price based measures cannot arrest a sharp deterioration in the external payments position. In those cases in which a member applies QRs, it shall provide justification as to the reasons why price based measures are not adequate instrument to deal with BoP situation. It also provides that not more than one type of restrictive import measure is to be taken on the same product.

D. Members confirm that the restriction imposed be administered in a transparent manner. The authorities of the importing member shall provide adequate justifications as to the criteria used to determine which products are subject to restriction. Discretionary licensing shall be used only when unavoidable, while administering QRs.

E. The committee on Balance of Payment restrictions shall carry out consultations in order to review all restrictive import measures taken for BoP purposes. The membership of the committee is open to all. The committee shall follow the procedures approved by GATT 1947 council on 28th April, 1970.

F. In respect of application of new restriction or raising the level of existing restriction by a substantial intensification of the measures, a member shall enter into consultation with the committee within four months of the adoption of such measures.

G. All restrictions applied for Balance of Payment purposes shall be subject to the periodic review in the committee subject to the possibility of altering the periodicity of consultations in agreement with the consulting member.

H. In the case of least developed countries or in the case of developing countries which are pursuing liberalization efforts, consulting may be held under simplified procedures, simplified consultation may also be held in those developing countries cases when the trade policy review is scheduled for the same calendar year.

I. All members shall notify to the general council the introduction of or any changes in the application or restrictive import measures taken for Balance of Payment purpose, as well as any notifications in time schedule for the removal of such measures. Significant changes shall be notified to the general council prior to or not later than 30 days after their announcement. All laws, regulations, policy statements or public notices shall be made available to the WTO secretariat on a yearly basis.

J. Notifications may be reviewed by the committee at a request of a member. Such reviews would be limited to the clarification of specific issues raised by a notification.

K. The consulting member shall prepare a basic document for the consultation which in addition to any other information considered being relevant. Members shall submit a written statement containing essential relevant information on the elements covered by the basic document.

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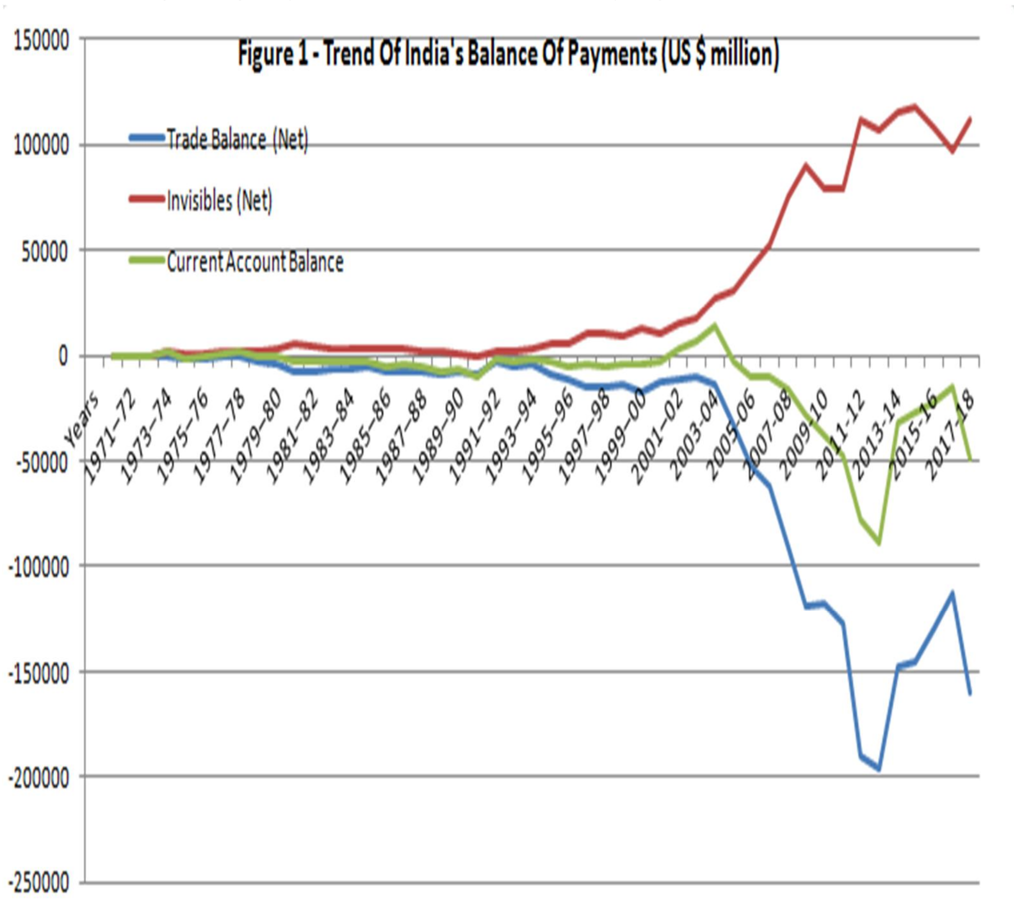
L. The WTO secretariat shall prepare a factual background paper dealing with the different aspects of the plan of consultation.
M. The committee shall report on its consultation to the general council. If a member presents a time table for the removal of restrictions, the general council may recommend that in adhering to the time schedule, a member shall be deemed to have compiled with GATT obligations.

VI. ANALYSIS OF BALANCE OF PAYMENTS OF INDIA

Historically we can say that in 1970–71 current account balance were negative except 1973–74, 1976–77 and 1977–78. It is the year 2001–2002 which had converted favorable current account balance by US$ 1351 million and for 2002-2003 it is US $ 3708 million surplus and this was continue till 2003-04 (Table-1). Later from 2004-05 again current account balance has been converted to negative. Current account balance is negative till 2018-19. Service sector is the boon to India giving regular support for lower Current Account Deficit (CAD) except 1990-91. Here most important thing is that WTO safeguards current account deficit problems. Table-1 and figure 1 indicates that there was very less difference in current account balance till 1993-94 but onwards to it the direction of change is just opposite in trade balance v/s invisibles. Surplus from export of services or invisible is increasing regularly while deficit from trade or merchandise is widening. the net CAD is average of the two and it is negative due to high merchandise import.

The current account deficit is obvious for the developing economy like India. So here there is no matter of concern that BoP is negative.

After WTO membership India is growing very fast. Our forex reserve is very high than ever before.



WTO has all type of provision to safeguard the interest of any country thru different provision in the agreement. Safeguard provisions includes Quantitative restrictions, anti- dumping duty, countervailing measures, high import duties etc. Every member country can take any action if situation warrants to do so against any of the member country. The rules and regulations of WTO works on the principle of democracy so one cannot dictate or rule over others in wrong manner. There is also provision of dispute settlement body in WTO.

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Table 1: Trend of India's Balance of Payments (US $ million)

Years	Trade Balance	Invisibles (Net)	Current Account Balance
1970–71	-545	-49	-594
1971–72	-637	-32	-669
1972–73	-217	-186	-403
1973–74	-649	2093	1444
1974–75	-1614	415	-1199
1975–76	-1367	1161	-206
1976–77	-347	1347	1000
1977–78	-698	2011	1313
1978–79	-2696	2406	-290
1979–80	-4259	3574	-685
1980–81	-7869	5065	-2804
1981–82	-7273	4094	-3179
1982–83	-6979	3572	-3407
1983–84	-6715	3499	-3216
1984–85	-5654	3238	-2416
1985–86	-7834	2967	-4867
1986–87	-7316	2756	-4560
1987–88	-7168	2316	-4852
1988–89	-9361	1364	-7997
1989–90	-7456	615	-6841
1990–91	-9437	-243	-9680
1991–92	-2798	1620	-1178
1992–93	-5447	1921	-3526
1993–94	-4056	2898	-1158
1994–95	-9049	5680	-3369
1995–96	-11359	5449	-5910
1996–97	-14815	10196	-4619
1997–98	-15507	10007	-5500
1998–99	-13246	9208	-4038
1999–00	-17098	12935	-4163
2000–01	-12460	9794	-2666
2001–02	-11574	14974	3400
2002–03	-10690	17035	6345
2003-04	-13718	27801	14083
2004-05	-33702	31232	-2470
2005-06	-51904	42002	-9902
2006-07	-61782	52217	-9565
2007-08	-91467	75731	-15737
2008-09	-118650	89923	-28728
2009-10	-117328	78917	-38411
2010-11	-127322	79269	-48053
2011-12	-189759	111604	-78155
2012-13	-195656	107493	-88163
2013-14	-147609	115313	-32296
2014-15	-144940	118081	-26859
2015-16	-130079	107928	-22151
2016-17	-112442	97147	-15296
2017-18	-160036	111319	-48717

Source: Handbook of Statistics on Indian Economy, RB, Different Issue

TABLE 2 : BALANCE OF PAYMENTS - INDICATORS

(Per cent)

Year	Trade		Invisibles		Net/ GDP	Current account		
	Exports/ GDP	Imports/ GDP	Receipts/ GDP	Payments/ GDP		Current Receipts/ GDP	Current Receipts/ Current Payments	CAD/ GDP
1	2	3	4	5	6	7	8	9
1971-72	3.2	4.1	1.1	1.2	-0.1	4.0	75.0	-1.0
1972-73	3.7	4.0	0.9	1.2	-0.3	4.4	84.7	-0.6
1973-74	3.5	4.3	3.4	1.0	2.5	4.3	82.0	1.7
1974-75	4.1	5.7	1.3	0.8	0.4	5.1	78.5	-1.2
1975-76	5.0	6.4	2.2	1.0	1.2	6.5	89.3	-0.2
1976-77	5.7	6.0	2.4	1.1	1.3	7.7	107.7	1.0
1977-78	5.3	5.9	2.7	1.0	1.7	7.6	110.3	1.1
1978-79	5.0	7.0	2.9	1.1	1.8	7.4	91.4	-0.2
1979-80	5.2	8.0	3.6	1.2	2.4	8.3	90.6	-0.5
1980-81	4.6	8.9	3.9	1.2	2.8	8.1	80.7	-1.5
1981-82	4.5	8.3	3.3	1.2	2.1	7.6	79.8	-1.7
1982-83	4.8	8.3	3.2	1.4	1.8	7.8	80.2	-1.7
1983-84	4.6	7.7	3.1	1.5	1.6	7.5	81.8	-1.5
1984-85	4.8	7.5	3.3	1.8	1.5	7.9	85.1	-1.2
1985-86	4.1	7.5	2.8	1.5	1.3	6.8	74.8	-2.1
1986-87	4.2	7.2	2.6	1.5	1.1	6.7	76.8	-1.9
1987-88	4.6	7.2	2.6	1.8	0.8	7.0	78.6	-1.8
1988-89	4.9	8.1	2.6	2.1	0.5	7.3	71.5	-2.7
1989-90	5.8	8.3	2.6	2.3	0.2	8.2	76.4	-2.3
1990-91	5.8	8.8	2.4	2.4	-0.1	8.0	71.5	-3.0
1991-92	6.9	7.9	3.6	2.9	0.7	10.3	94.3	-0.3
1992-93	7.3	9.6	3.6	3.0	0.6	10.7	87.7	-1.7
1993-94	8.2	9.7	4.1	3.1	1.0	12.2	95.6	-0.4
1994-95	8.3	11.1	4.8	3.1	1.8	13.0	91.7	-1.0
1995-96	9.1	12.3	5.0	3.4	1.5	14.0	88.8	-1.6
1996-97	8.8	12.6	5.5	2.9	2.6	14.2	91.6	-1.2
1997-98	8.7	12.5	5.6	3.2	2.4	14.2	90.9	-1.4
1998-99	8.2	11.4	6.2	4.0	2.2	14.4	93.2	-1.0
1999-00	8.3	12.3	6.7	3.8	2.9	15.0	93.0	-1.0
2000-01	9.9	12.6	7.0	4.9	2.1	16.9	96.4	-0.6
2001-02	9.4	11.8	7.7	4.6	3.1	16.9	103.8	0.7
2002-03	10.6	12.7	8.3	4.9	3.4	18.8	106.6	1.2
2003-04	11.0	13.3	8.9	4.3	4.6	19.9	112.8	2.3
2004-05	12.1	16.9	9.9	5.5	4.4	21.9	98.0	-0.4
2005-06	13.0	19.4	11.1	5.9	5.2	24.0	94.8	-1.2
2006-07	13.6	20.1	12.1	6.6	5.5	25.6	96.0	-1.0
2007-08	13.5	21.0	12.1	6.0	6.2	25.6	95.0	-1.3
2008-09	15.6	25.4	13.5	6.1	7.4	29.0	92.3	-2.4
2009-10	13.9	22.8	12.3	6.3	6.0	26.1	89.8	-2.9

Source : *Handbook of Statistics on Indian Economy, RB, Different Issue*

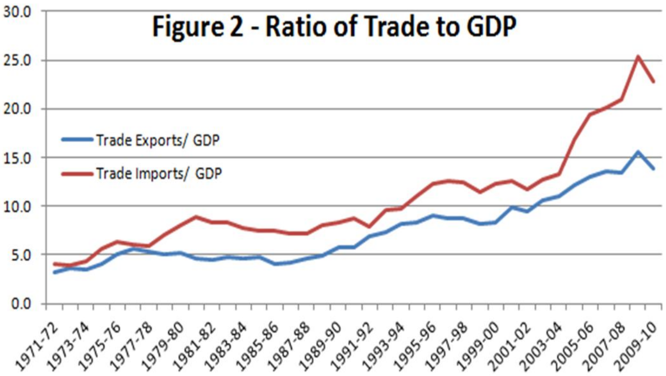

Table 2 column 1 & 2,3 shows the ratio of trade export and trade import to GDP. With the help of data we can infer that before WTO membership Export/GDP Ratio were highest 8.3 in 1993-94 while it was lowest 3.2 in 1971-72. After WTO membership 1998-99 the ratio was 8.2 and it is regularly increasing with some exception. In 2008-09 it is 15.6 which is very good from progress in export point of view. Now when we see the Import/GDP ratio it is always higher than export. It has reached to 25.4 of GDP in 2008-09. there is positive correlation between export and import most of the time from 1979-80 to 2005-06. the has been widened from 2006-07 to 2009-10.

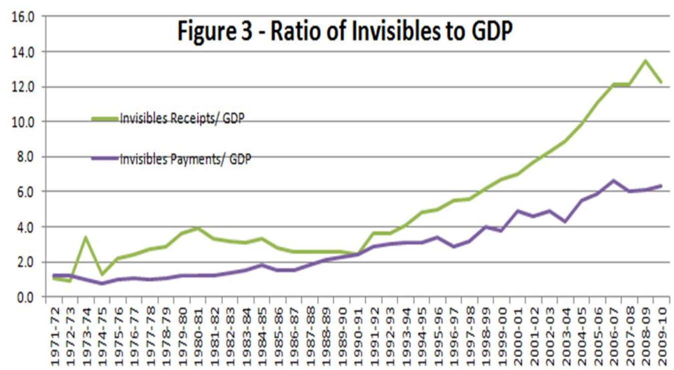

Table 2 column 1 & 4-5 shows that before and after WTO membership invisibles export were always higher except 1990-91 when it was equal. The invisible export rate is also in increasing order since 1990-9. It is the invisible or service sector which is helping the Indian economy in balancing or maintaining the deficit in a manageable range.

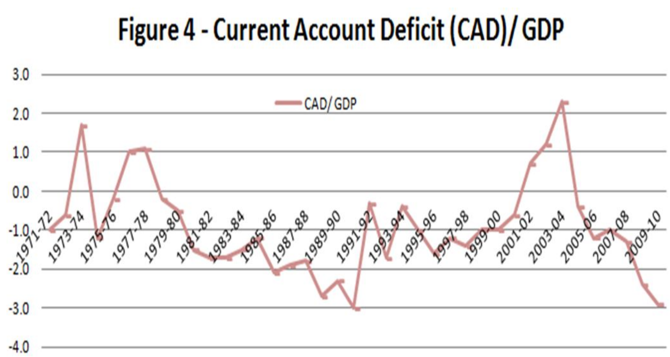

Table 2 column 1 & 9 shows that before WTO membership CAD/GDP Ratio highest unfavorable was (-3.0) in 1990-91 while highest favorable was (1.7) in 1973-74. after WTO membership CAD/GDP Ratio highest unfavorable was (-2.9) in 2009-10 while highest favorable was (2.3) in 2003-04. So, it is self explanatory that in terms of GDP ratio the BoP position has become better. We

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can also conclude that at least there is no negative effect as it was envisaged before 1995. The fluctuations are also in the same line as we can see in the figure 4 except 1973-74, 1977-78, 1991-92, 2003-04 and 2009-10.

Figure 5 - Current Account deficit/GDP from 2010-19

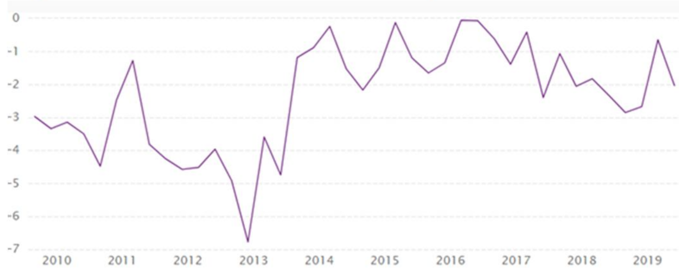

Figure 5 shows that CAD/GDP ratio has reached to (-7) in 2013 but afterwards it has improved very much and now it is below (-2)

VII. CONCLUSION

The Trade account and the invisibles account have critical role in avoiding BoP crisis. One of the goals of becoming member of WTO is to boost exports of goods and services, which does not seem to be happening in case of goods export. Given the liberal imports due to commitment with WTO, the trade deficit remains a matter of concern. So far the current account position has been worsen and is unfavorable. Since 2004–2005 because of unfavorable current account balance India can initiate quantitative restrictions or any other discriminatory measures on import of goods and services. In fine it is clear that WTO has neither favorable nor unfavorable impact on India's Economy and for future it is hoped that current account balance will be positive because of huge export of goods and services and low imports. India has to make strategy to utilize the opportunities available after WTO agreement. Conclusively we can say that BoP provisions allow governments to restrict imports. The use of quotas limits choice for consumers, the imposition of import surcharges increases price for consumers. The use of such measures needs to be strictly controlled so that consumers, particularly in the developing world, do not suffer unduly. The use of import restrictions justified by Balance of Payments provisions, but in reality for closet protectionist reasons, must also be discouraged. The agreement is certainly a step in the right direction, although the decreasing use of such measures by developing countries makes the issue less important than it once was.

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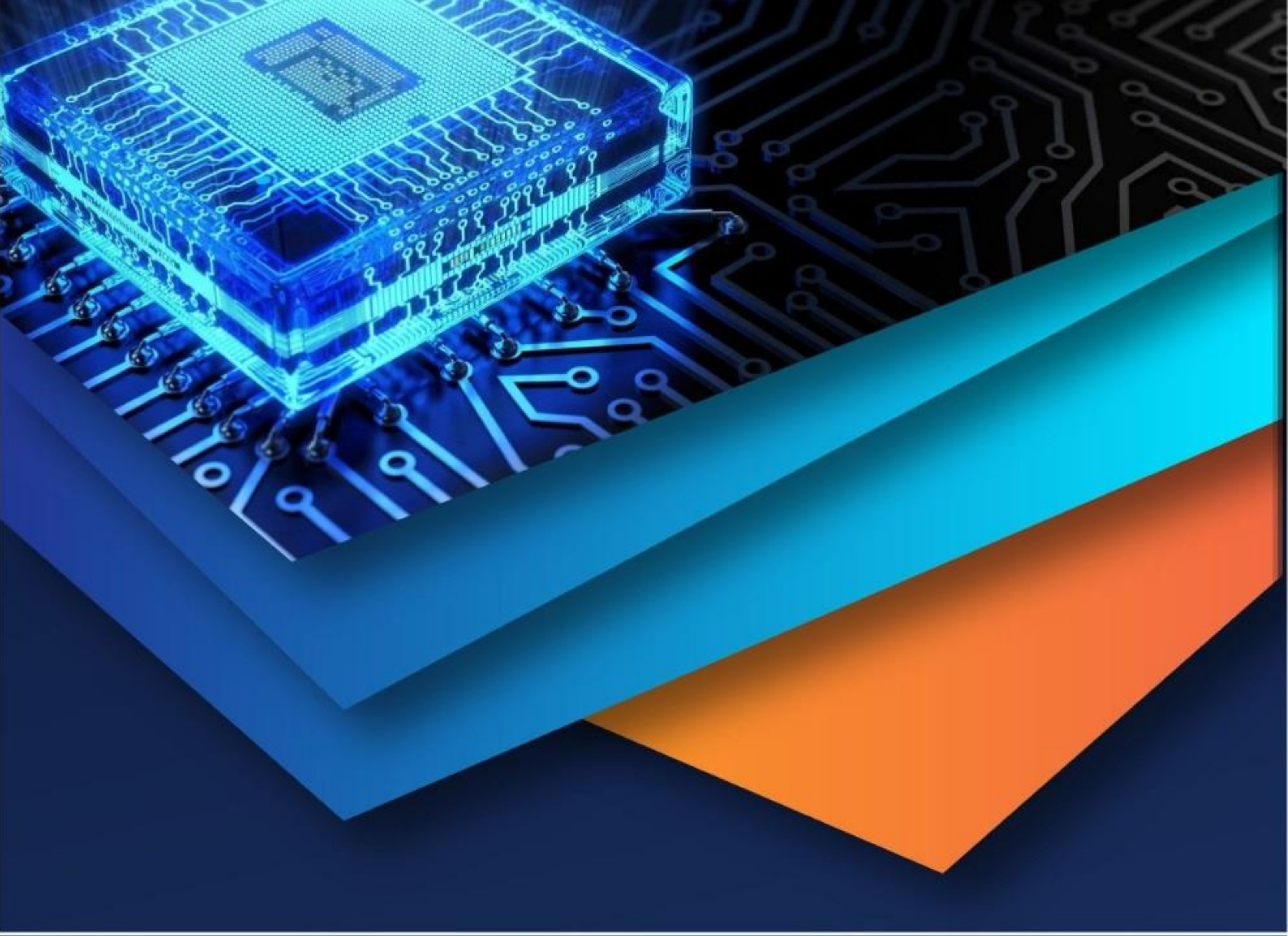

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