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Analysis of Balance Of Trade and Foreign Investment Since Economic Reforms In India

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Abstract
Based on secondary data, the study revealed that the economic reforms, introduced in the early 90s in India, affected both exports and imports positively. Balance of trade remained negative during post reforms period because of higher imports over exports. Imports increased in the post reforms period because of liberalizing policies and also easy availability of quality goods at lower prices in the international markets. There is no doubt about it that economic reforms have affected Indian economy positively but the objective for which this process was initiated has not been achieved yet. Economic reforms have brought shift in the composition of exports from primary products to manufacturing products which is considered to be positive outcome of these reforms. Net foreign direct investment and net foreign portfolio investment also got affected by the economic reforms.

Keywords: *Economic reforms, Balance of Trade, FDI, FPI, Exports,Imports, Trade deficit*
JEL Code: *F21, F62, F68, G11*

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I. Introduction

The long-term constraints that were building up over a few decades and debilitating the Indian economy combined with certain more recent and immediate factors led to massive fiscal and balance of payment crisis that climaxed in 1991. The crisis pushed India into initiating a process of economic reforms and structural adjustment (Chandra, Mukherjee and Mukherjee, 2008). In fact,in the 1980s, the then Indian Government initiated some reforms. But these reforms were few and incomplete. They were lacking full determination also.A process of liberalizing the control regime had started in the first half of the 1980s, under Prime Minister Indira Gandhi, and was intensified in the second half of the decade under Prime Minister Rajiv Gandhi, however these changes were incremental rather than structural (Ahluwalia, 2018).

Since July 1991, there have been dramatic changes in the trade policy regime in India. The objective of these reforms has been to enhance export performance by improving export incentives and eliminating discretionary controls (Kathuria, 1996). New Industrial Policy is a departure from the policy framework that was laid down in 1956. The new policy package whose principle elements were market friendliness, privatization and the opening up of the economy to foreign capital and trade was introduced ostensibly as a solution to the financial and balance of payments crisis that resulted from following precisely these kinds of policies in the last decade (Paranjape, 1991).These reforms enhanced the competitiveness in labour and skill intensive industries in India. It also reduced the dependence of competitive industries on inefficient domestic suppliers and infrastructure; and enhanced domestic competitive conditions (Ghemawat and Patibandla, 1998).Indian economic reforms affected the economy not only in terms of output but brought about some structural changes in the various macroeconomic variables. Due to these reforms, each of the variables, i.e., private final consumption expenditure, investment and all the GDP variables except that of services were found to be substantially higher during the post-reforms period than what they had in the absence of the reforms (Ghosh and Narayana, 2005).

The economic reforms increased both exports and importsbut, inspite of many exports promotion and import substitution measures, the volume of imports has always been more than that of exports. As a result, the balance of trade became unfavourable in India during the post globalization period. Although a push has been given to exports but economic reforms have not flourished in correcting trade imbalance. Imports have increased in the post reforms period because of liberalizing policies and also because of easy availability of quality goods at lower prices in the international markets. There is no doubt about it that economic reforms have affected Indian economy positively but the objective for which this process was initiated has not been achieved yet (Kumar and Sood, 2016).

Although the opening up of Indian economy since the early 1990s provided impetus for higher growth for most of the commodities, some products gained more than the others. India's merchandise exports were predominated by the manufacturing sector which accounted for more than three-fourth of its total exports during post-reforms period (Sahni, 2014).The share of manufactured goods as well as the proportion of high value and differential products, petroleum products increased in India's exports basket reflecting that Indian economy is being diversified and non-traditional items of exports are gaining importance. Earlier we were exporting mainly traditional and primary commodities. Now, we have made structural changes in the composition of commodities exported from India (Sinha, 2016).India has changed itself from mainly primary goods exporting country to a non-primary goods i.e., manufactured goods exporting country (Matore and Sagar, 2015).Now the manufactured goods compose major portion of the exports while petroleum and crude products contribute major portion of the imports (Singh, 2014).

Historically, India followed very cautious and selective approach regarding foreign capital, but after economic reforms in 1991, it liberalized its foreign direct investment (FDI) policy. As a result, Government of India has succeeded in attracting more FDI in India (Teli, 2014).After the economic reforms, India sought to compete with the successful Asian economies to get a greater share of the world's FDI. While the foreign investment inflow representsa substantial jump over the 1980s, it is modest compared to many rapidly growing Asian economies. While the bulk of the approved FDI is for infrastructure, the realized investment is largely in manufacture of consumer durable goods and the automotive industry seeking India's seemingly large and growing domestic market. Foreign investment in telecom and software industries has also been significant (Nagaraj, 2003).

The changing policy framework has affected the trends and patterns of FDI inflows received by the country. The magnitude of FDI inflows has increased in the absence of policy direction the bulk of them have gone into services and soft technology consumer goods industries bringing the share of manufacturing and technology intensive among them down in sharp contrast to the Asian countries (Kumar, 2005).FDI has been a major driver of economic growth in India. It is also a major source of non-debt financial resource for the development of the country. Even since the new economic policy of 1991, foreign investment has been flowing in the economy. The liberalization phase has paid rich dividends to the country. Foreign companies are eager to invest in India in order to take advantage of lower wages, tax exemptions etc. This has generated employment and helped the economy in upgrading higher and better technology (Gori, 2015).

Objectives of the study:

The study mainly analyses the balance of tradeandforeign investment since economic reforms in India. More specifically, the objectives are:

- toanalyse exports and imports of India since economic reforms.
- to study the variations in the composition of exports and imports.
- toexamine the impact of economic reforms on net FDI and FPI.
- toexaminegrowth rate of total foreign investment since economic reforms.

II. Methodology:

The present study is based on secondary data which was compiled from various issues of Handbook of Economics and Statistics of Indian Economy, RBI Bulletins and various issues of Economic Survey of India for the period from 1990-91 to 2019-20. The statistical tools such as Time Series, Line, and Bar Diagrams are used to present the trends emerged from the data. Besides, the tabular data is analysed by using following formulas:

a) Percentage (%) $= \frac{Individual\ \ observation}{\text{Total observations}} \times 100$

b) Coefficient of correlation(r) $= \frac{\sum \text{xy}}{\sqrt{\sum \text{x2} . \sum \text{y2}}}$

c) Growth Rate (G_n)$= \frac{Yn}{Yn - Y(n-1)} \times 100$

III. Results and Discussion

This part of the paper has been divided into two parts. Part-I deals with the analysis of balance oftradesince economic reforms. The variations in the composition of exports and imports are also discussed in this part. Part-II examines the net foreign direct and portfolio investment since economic reforms.

Part-I: Analysis of Balance of Trade

The economic reforms program initiated in India in 1991 can be regarded as the most significant event in the history of economic development of India. It opened the doors of Indian economy to reap maximum benefits of globalization and international trade (Kulkarni and Bhattacharya, 2009). The Government of India initiated her reform process in 1991 and implemented the New Industrial Policy with several measures to bring out a structural breakthrough in the process of industrialization (Sampath and Kumar, 2009). Because of these policy changes, both exports and imports increased tremendously. The data on export and import for the period 1990-91 to 2019-20 is presented in Table 1.

Table1
Analysis of Balance of Trade since Economic Reforms
(In Rs.Crore)

Year	Exports	Imports	Balance of Trade	Growth rate of exports (YOY)	Growth rate of Imports (YOY)	Import as percentage of export
1990-91	32557.60	43192.90	-10635.20	-	-	75.38
1991-92	44041.80	47850.80	-3809.00	35.27	10.78	92.04
1992-93	53688.30	63374.50	-9686.30	21.90	32.44	84.72
1993-94	69751.40	73101.00	-3349.60	29.92	15.35	95.42
1994-95	82674.10	89970.70	-7296.60	18.53	23.08	91.89
1995-96	106353.30	122678.10	-16324.80	28.64	36.35	85.63
1996-97	118817.10	138919.70	-20102.60	11.72	13.24	85.53
1997-98	130100.60	154176.30	-24075.70	9.50	10.98	84.38
1998-99	139753.10	178331.90	-38578.70	7.42	15.67	78.37
1999-00	159561.40	215236.50	-55675.10	14.17	20.69	74.13
2000-01	203571.00	230872.80	-27301.80	27.58	7.26	88.17
2001-02	209018.00	245199.70	-36181.80	2.67	6.21	85.24
2002-03	255137.30	297205.90	-42068.60	22.06	21.21	85.85
2003-04	293366.80	359107.70	-65740.90	14.98	20.83	81.69
2004-05	375339.80	501064.50	-125725.00	27.94	39.53	74.91
2005-06	456417.90	660408.90	-203991.00	21.60	31.80	69.11
2006-07	571779.50	840506.30	-268727.00	25.28	27.27	68.03
2007-08	655863.50	1012311.70	-3564448.20	14.70	20.44	64.79
2008-09	840755.00	1374436.00	-533681.00	28.19	35.77	61.17
2009-10	845534.10	1363736.10	-518202.00	0.56	-0.78	62.01
2010-11	1142922.00	1683467.20	-540545.20	33.17	23.45	67.89
2011-12	1465959.20	2345463.10	-2198867.90	28.26	39.32	62.50
2012-13	1634318.10	2669162.20	-1034844.10	11.48	13.80	61.23
2013-14	1905011.20	2715434.10	-810422.90	16.56	1.73	70.15
2014-15	1896445.00	2737087.00	-840642.00	-0.45	0.80	69.29
2015-16	1716384.00	2490306.00	-773922.00	-9.49	-9.02	68.92
2016-17	1849434.00	2577675.00	-728241.00	7.75	3.51	71.75
2017-18	1956515.00	3001033.00	-1044518.00	5.78	16.42	65.19
2018-19	2307726.00	3594675.00	-1286949.00	17.95	19.78	64.20
2019-20	2218233.00	3355762.00	-1137529.00	-3.88	-6.64	66.10
Coefficient of Correlation between Export and Import (r_{xm})						0.9974

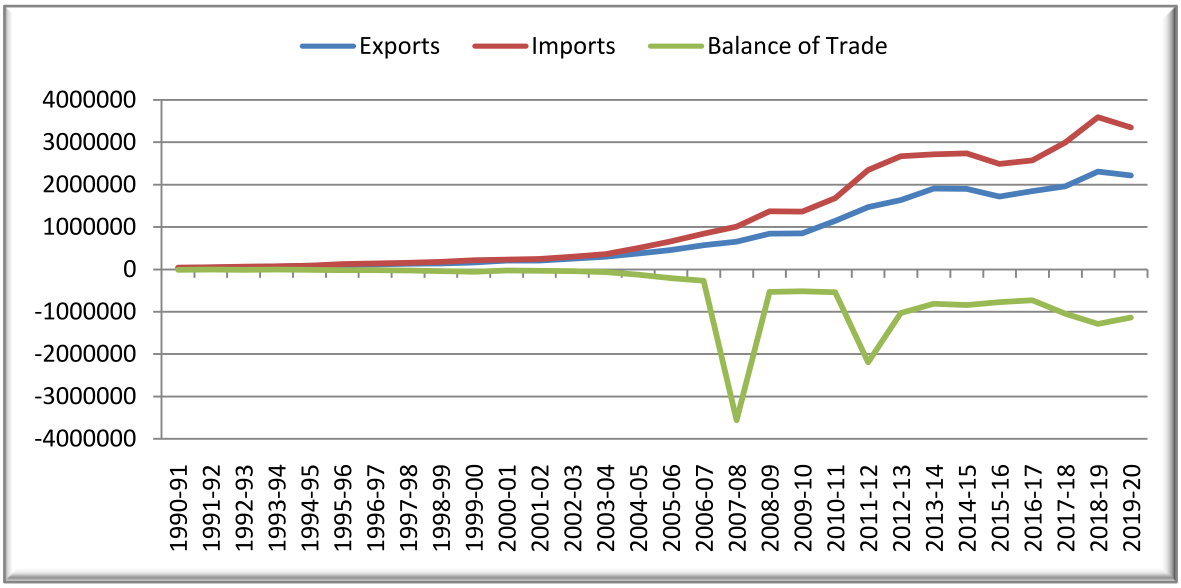
Source: Handbook of Economics and Statistics of Indian Economy (2005, 2010,2015 and 2020)

The table depicts that economic reforms affected Indian exports positively. Growth of exports picked up soon after the economic reforms were introduced in the Indian economy. The growth rate of exports declined in the mid-nineties because of East Asian Crisis. The turbulence spread rapidly from one part of the world to another. Countries like Thailand, South Korea and Indonesia were affected the most (Rao, 1998). The crisis resulted in a sharp decline in domestic demand of Indian products in these countries. Another reason of declining exports was Nuclear Explosion by India in 1998. After Nuclear Explosion in Pokhran, the US ordered sanctions against India on May13, 1998 which had a negative impact on India's exports (Wadhva, 1998; Morrow and Carriere, 1999). The failure to diversify composition of exports and the impact of worldwide depression were another cause of slowdown of exports during this period.

In the year 2001-02, economic crises were observed around the world because of terrorist attack of September 11, 2001 on the United States of America. This terrorist attack on USA had plunged the world into a deeper economic crisis by intensifying the existing global slowdown. After almost a year thing got stabilized and demand for Indian exports around the world started picking up once again. The growth rate of Indian exports picked up because of improvement in merchandise exports along with software services exports in the year 2004-05. However, the demand for Indian exports reduced inthe year 2007-08 and 2008-09 because of global financial crisis. The growth rate of Indian exports reached to a very low level of 0.56 per cent in 2009-10. Soon recovery took place and there was an upward movement in the growth of exports during the period from 2010-11 to 2013-14. Unfortunately, the things started deteriorating in the year 2014-15 and 2015-16 but next two years brought some hope to Indian exports. In the year 2019-20 because of spread of Corona virus in the world, lockdown was imposed by many countries which prevented exports and there was a negative growth of exports.

Economic reforms have affected both exports and imports tremendously in absolute terms. The ups and downs movements like exports have been observed in the growth of imports as well because of the above-mentioned reasons. These ups and downs movements are clearly depicted in the Graph 1.

Graph 1
Analysis of Balance of Trade since Economic Reforms



Note: Based on Table 1

The table and graph also show that imports have always been higher than exports during the entire reference period. Because of higher imports over exports, balance of trade has always been negative. Indian imports kept increasing because of high imports of machinery, war equipments, more demand of consumption goods, increase in the prices of crude oil etc. Incomparison to this,Indian exports remained low because of low quality of exportable goods,high foreign competition and less surplus available because of more domestic demand. A study conducted by Asam(2009) also concluded that the imports are mainly required for domestic consumption and only a part of the imports go into export production. Thus, if the import intensity of exports becomes very high then even if the exports rise at a phenomenal rate the balance of trade problems will continue to afflict the economy.

A look at the table clears that import as percentage of exports was above 90 per cent in the year 1991-92,1993-94 and 1994-95 but in between and after 1994-95, this percentage has come down and gap between export earnings and import payments has increased. This tendency also throws a light on the fact that export earnings have not been able to meet out import expenditure but they are funded from other sources also. The net result is increasing adverse balance of trade. The value of coefficient of correlation between exports and imports (r_{xm}= 0.9974) explains high degree of positive correlation between exports and imports. This simply points out that economic reforms have affected both exports and imports positively. But aggregate imports are exceeding aggregate exports because of which import liability has increased in the post reforms period and balance of trade instead of improving have deteriorated in the post reforms period. This finding of the study is also supported by another study which shows India's exports and imports have risen by significant growth rates during the liberalization period. However, trade deficits continued (Asam, 2009).

Economic reforms have also affected the composition of Indian exports. The data in Table 2 depicts the variations in the composition of exports since economic reforms. The table depicts that exports of primary products (agriculture and allied products, ores and minerals) were 23.83 per cent (almost 1/4th of the total exports) in 1990-91, which kept declining during the entire reference period and reached to 11.57 per cent in 2018-19. Whereas exports of manufactured goods (leather and manufactures, chemical and related products, engineering goods, textile and textile products, gems and jewellery, handicrafts and other manufactured goods) picked up after the economic reforms. These exports were 71.62 per cent in 1990-91 which increased to 80.70 per cent in 1999-2000. In the second decade (2000-01 to 2009-10) of economic reforms, exports of manufactured goods started declining and came down to 64.63 per cent in 2009-10. This downward trend continued in the first half of third decade (2010-11 to 2019-20) of economic reforms. But after 2015-16, exports of manufactured goods started increasing once again and reached to 70.34 per cent in 2016-17.

A very strange thing can be observed from the table which shows that exports of petroleum products. These exports were very low 2.88 per cent in 1990-91 and kept declining in the first decade (1990-91 to 1999-00) of economic reforms. But with the start of second decade (2000-01 to 2009-10) of economic reforms, these exports started increasing and reached to 20.12 per cent in 2013-14. After that it started coming down but still remained above 11 per cent.

Table2
Analysis of Variations in Composition of Exports since Economic Reforms

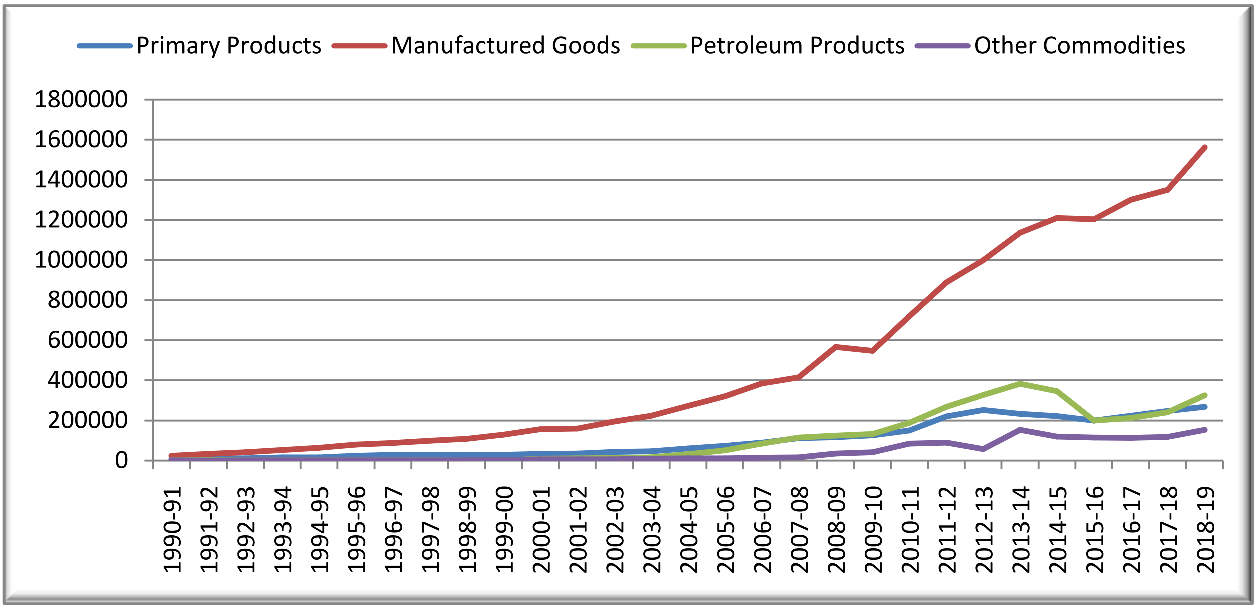
(in Rs. Crore)

Year	Primary Products		Manufactured Goods		Petroleum Products		Other Commodities		Total	
	Amount	%age	Amount	%age	Amount	%age	Amount	%age	Amount	%age
1990-91	7758.40	23.83	23319.10	71.62	937.80	2.88	542.30	1.67	32557.60	100.00
1991-92	10186.70	23.13	32413.40	73.60	1022.30	2.32	419.40	0.95	44041.80	100.00
1992-93	11218.70	20.90	40659.80	75.73	1379.30	2.57	530.50	0.99	53688.30	100.00
1993-94	15418.30	22.10	52244.60	74.90	1247.80	1.79	840.70	1.21	69751.40	100.00
1994-95	16372.60	19.80	64067.10	77.49	1309.00	1.58	925.50	1.12	82674.10	100.00
1995-96	24274.10	22.82	79433.30	74.69	1517.80	1.43	1128.20	1.06	106353.30	100.00
1996-97	28524.50	24.01	87377.40	73.54	1710.40	1.44	1204.90	1.01	118817.10	100.00
1997-98	28569.60	21.96	98659.80	75.83	1311.00	1.01	1560.30	1.20	130100.60	100.00
1998-99	29146.10	20.86	108506.20	77.64	376.20	0.27	1724.70	1.23	139753.10	100.00
1999-00	28270.90	17.72	128760.70	80.70	168.50	0.11	2361.30	1.48	159561.40	100.00
2000-01	32555.60	15.99	156858.40	77.05	8541.70	4.20	5615.40	2.76	203571.00	100.00
2001-02	34164.60	16.35	159146.40	76.14	10106.60	4.84	5600.40	2.68	209018.00	100.00
2002-03	42133.30	16.51	194764.50	76.34	12469.20	4.89	5770.30	2.26	255137.30	100.00
2003-04	45500.40	15.51	222828.80	75.96	16397.40	5.59	8640.10	2.95	293366.80	100.00
2004-05	60896.90	16.22	272872.20	72.70	31404.20	8.37	10166.30	2.71	375339.60	100.00
2005-06	72508.40	15.89	321260.80	70.39	51532.80	11.29	11115.90	2.44	456417.90	100.00
2006-07	89078.00	15.58	384261.40	67.20	84520.10	14.78	13919.70	2.43	571779.30	100.00
2007-08	110811.20	16.90	414457.70	63.19	114191.70	17.41	16402.90	2.50	655863.50	100.00
2008-09	116526.00	13.86	566402.00	67.37	123398.00	14.68	34429.00	4.10	840755.00	100.00
2009-10	125234.00	14.81	546456.00	64.63	132899.00	15.72	40945.00	4.84	845534.00	100.00
2010-11	149647.00	13.09	719863.00	62.98	188779.00	16.52	84633.00	7.40	1142922.00	100.00
2011-12	220079.00	15.01	888599.00	60.62	267915.00	18.28	89366.00	6.10	1465959.00	100.00
2012-13	251374.00	15.37	999612.00	61.13	327679.00	20.04	56597.00	3.46	1635261.00	100.00
2013-14	232353.00	12.20	1136713.00	59.67	383248.00	20.12	152697.00	8.02	1905011.00	100.00
2014-15	222000.00	11.71	1209772.00	63.79	346082.00	18.25	118591.00	6.25	1896445.00	100.00
2015-16	199569.00	11.63	1202933.00	70.09	199638.00	11.63	114244.00	6.66	1716384.00	100.00
2016-17	223870.00	12.10	1300890.00	70.34	211509.00	11.44	113165.00	6.12	1849434.00	100.00
2017-18	246763.00	12.61	1350595.00	69.03	241435.00	12.34	117722.00	6.02	1956515.00	100.00
2018-19	267059.00	11.57	1561875.00	67.68	325863.00	14.12	152868.00	6.62	2307664.00	100.00

Source: Handbook of Statistics on the Indian Economy (2005, 2010,2015, and 2020)

As far as the exports of other products are concerned, these exports remained very low (slightly more than 1 per cent) in the first decade (1990-91 to 1999-00) of the economic reforms.This percentage picked up in the second decade (2000-01 to 2009-10) of economic reforms and reached at 4.84 per cent in 2009-10 and further increased to 6.62 per cent in 2018-19. The variations in composition of Indian exports since economic reforms are demonstrated with the help of time graph in Graph 2.

Graph 2
Analysis of Variations in Composition of Exports since Economic Reforms



Note: Based on Table 2

The above analysis shows a positive sign for the Indian economy that the composition of Indian exports has changed over the time period because of which the role of Indian economy in the world economy has also changed. Now India exports more of manufacturing goods than primary products. As demand for primary products is less elastic than the demand for manufacturing goods, the international prices of primary products generally remain low which results in the low earnings from exports. On the other hand, prices of manufacturing goods keep increasing which results in higher earnings from exports and helps to improve the economic condition of the country.

As already indicated in Table 1 imports increased significantly since the economic reforms. Imports kept increasing because of liberalizing import policies, increasing import of machinery, war equipments, more demand of consumer goods, increase in the prices of crude oil etc. Composition of Indian imports is also affected after the economic reforms, as the data shown in Table 3.

Table 3
Analysis of Variations in Composition of Importssince Economic Reforms

(in Rs. Crore)

Year	Bulk Imports			Non Bulk Imports			Total
	Petroleum and Crude Products	Bulk Consumption Goods	Other Bulk Items	Capital Goods	Mainly Export related items	Other Commodities	
1990-91	10816.10 (25.04)	998.60 (2.31)	7649.60 (17.71)	10470.60 (24.24)	6603.00 (15.29)	6655.00 (15.41)	43192.90 (100.00)
1991-92	13126.70 (27.43)	677.30 (1.42)	7304.90 (15.27)	10434.30 (21.81)	8827.90 (18.45)	7479.00 (15.63)	47850.80 (100.00)
1992-93	17141.70 (27.05)	1467.50 (2.32)	9335.00 (14.73)	13124.80 (20.71)	12014.30 (18.96)	10291.20 (16.24)	63374.50 (100.00)
1993-94	18046.20 (24.69)	1024.70 (1.40)	9510.00 (13.01)	19581.00 (26.79)	13761.50 (18.83)	11177.60 (15.29)	73101.00 (100.00)
1994-95	18612.60 (20.69)	3592.40 (3.99)	13340.00 (14.83)	23982.40 (26.66)	13553.60 (15.06)	16889.70 (18.77)	89970.70 (100.00)
1995-96	25173.60 (20.52)	3243.50 (2.64)	19463.90 (15.87)	34554.20 (28.17)	17586.20 (14.34)	22656.70 (18.47)	122678.10 (100.00)
1996-97	35628.50	4309.70	18157.60	35223.00	21789.70	23811.30	138919.70

	(25.65)	(3.10)	(13.07)	(25.35)	(15.69)	(17.14)	(100)
1997-98	30341.20	5513.00	19113.10	36407.20	25693.00	37108.90	154176.30
	(19.68)	(3.58)	(12.40)	(23.61)	(16.66)	(24.07)	(100.00)
1998-99	26919.30	10619.40	18121.10	42341.40	30000.80	50329.90	178331.90
	(15.10)	(5.95)	(10.16)	(23.74)	(16.82)	(28.22)	(100.00)
1999-00	54648.60	10473.10	20010.10	38849.90	39507.60	51747.20	215236.50
	(25.39)	(4.87)	(9.30)	(18.05)	(18.36)	(24.06)	(100)
2000-01	71496.50	6593.20	17005.40	40846.80	36815.40	58115.50	230872.80
	(30.97)	(2.86)	(7.39)	(17.69)	(15.95)	(25.17)	(100.00)
2001-02	66769.90	9744.60	20123.90	47130.20	39393.70	62037.40	245199.70
	(27.23)	(3.97)	(8.21)	(19.22)	(16.07)	(25.30)	(100)
2002-03	85367.00	11668.10	20563.20	65325.10	49913.60	64368.90	297205.90
	(28.72)	(3.93)	(6.92)	(21.98)	(16.79)	(21.66)	(100.00)
2003-04	94520.00	14120.10	26740.20	83994.30	58436.00	81297.10	359107.70
	(26.32)	(3.93)	(7.45)	(23.39)	(16.27)	(22.64)	(100)
2004-05	134094.00	13949.50	42469.20	112935.50	76812.50	120803.90	501064.50
	(26.76)	(2.79)	(8.48)	22.54)	(15.33)	(24.11)	(100.00)
2005-06	194640.00	12248.50	63561.20	166761.50	82530.20	140667.50	660408.90
	(29.47)	(1.85)	(9.62)	(25.25)	(12.50)	(21.30)	(100.00)
2006-07	258571.80	19430.80	104057.80	212985.90	80868.70	164591.30	840506.30
	(30.76)	(2.31)	12.38)	(25.34)	(9.62)	(19.58)	(100.00)
2007-08	320654.50	18517.40	114761.60	285209.30	83675.90	189493.00	1012311.70
	(31.68)	(1.83)	(11.34)	(28.17)	(8.27)	(18.71)	(100.00)
2008-09	419968.00	22883.00	184636.00	330384.00	146860.00	269705.00	1374436.00
	(30.56)	(1.66)	(13.43)	(24.04)	(10.69)	(19.62)	(100.00)
2009-10	411649.00	42759.00	138376.00	312485.00	148355.00	310111.00	1363735.00
	(30.19)	(3.14)	(10.15)	(22.91)	(10.88)	(22.74)	(100)
2010-11	482282.00	40345.00	165610.00	357876.00	244253.00	393100.00	1683466.00
	(28.65)	(2.40)	(9.84)	(21.26)	(14.51)	(23.35)	(100.00)
2011-12	743075.00	55853.00	231519.00	475507.00	248697.00	590812.00	2345463.00
	(31.68)	(2.38)	(9.87)	(20.27)	(10.60)	(25.19)	(100.00)
2012-13	920456.00	77369.00	250468.00	497577.00	254882.00	672361.00	2673113.00
	(34.43)	(2.89)	(9.37)	(18.61)	(9.53)	(25.15)	(100.00)
2013-14	997885.00	80347.00	280869.00	522659.00	259061.00	574613.00	2715434.00
	(36.75)	(2.96)	(10.34)	(19.25)	(9.54)	(21.16)	(100.00)
2014-15	842874.00	95237.00	332678.00	550570.00	261802.00	653926.00	2737087.00
	(30.79)	(3.48)	(12.15)	(20.12)	(9.56)	(23.89)	(100.00)
2015-16	540505.00	108975.00	328659.00	610705.00	250931.00	650531.00	2490306.00
	(21.70)	(4.38)	(13.20)	(24.52)	(10.07)	(26.12)	(100.00)
2016-17	583217.00	119866.00	287655.00	658602.00	280839.00	647496.00	2577974.00
	(22.62)	(4.65)	(11.16)	(25.55)	(10.89)	(25.15)	(100)
2017-18	700321.00	113541.00	347556.00	735610.00	365809.00	738196.00	3001036.00
	(23.33)	(3.78)	(11.58)	(24.51)	(12.19)	(24.60)	(100.00)
2018-19	986260.00	96469.00	421820.00	888649.00	368727.00	832448.00	3594371.00
	(27.44)	(2.68)	(11.73)	(24.72)	(10.26)	(23.16)	(100.00)

Source: Handbook of Statistics on the Indian Economy (2005, 2010,2015 and 2020)

The tableshows that the imports of petroleum and crude products wereslightly more than one-fourth (25.04 per cent) of the total imports in 1990-91. Imports of these products increased to 30 per cent or more during the period from 2005-06 to 2013-14, specifically in 2012-13 they were 34.43 per cent and in next year increased to 36.75 per cent, but after that these imports reduced. From the above data, it is clear that imports of petroleum and crude productsremained in the range of one-fourth to one-third of total imports in the period under study.

Imports of bulk consumption goodssuch as cereals and cereal preparations, edible oils, pulses and sugar were 2.3 per cent in 1990-91 which marginally increased in the following years and reached to 5.95per cent in 1998-99, but from 2004-05 imports of these products started falling and reached to the lowest level 1.66 per cent in 2008-09.After that there was again upward movement. Imports of bulk consumption goods were 2.68 per cent in 2018-19.Other bulk consumption goods (fertilizers, nonferrous metal, paper, paper boards, manufactures including news print, crude rubber, pulp and waste paper, metalliferous ores, iron and steel) were17.71 per cent in 1990-91. These imports kept falling and reached to the lowest level of 6.92 per cent in 2002-03. Other bulk consumption goods were 11.73 per cent in 2018-19.

As far as imports of non-bulk imports are concerned,these imports include capital goods, export related items and other commodities. Out of these items, the highest imports were of capital goods which consist of manufactures of metals, machine tools, electric and non-electric machinery, computer goods, transport equipment and project goods. Theshare of imports of capital goodswas24.24 per centof the total imports in 1990-91. These imports increased to 28.17 per cent in 1995-96,after that they declined towards the end of first decade (1990-91 to 1999-00)of economic reforms.In the second decade (2000-01 to 2009-10), the imports of capital goods started increasing and again reached to 28.17 per cent in 2007-08. After that the imports of these products declinedand finally reached to 24.72 per cent in 2018-19.

Imports of export related items (precious and semi-precious pearls, organic and in organic chemicals, textile yarn, fabrics, made-up etc.) remained in the range of 15 to 18 per cent of the total imports during the period from 1990-91 to 2004-05. From 2005-06, these imports started falling and reached to low level of9.56 per cent in 2014-15 with the slight improvement in the subsequent years. The imports of these items were 10.26 per cent in 2018-19.Imports of other commodities which comprises of Gold and silver, artificial resins and plastic material, professional scientific controlling instruments, coal, coke and briquettes, non-metallic mineral manufactures and others were 15.41 per cent in 1990-91. These imports kept increasing most of the times and finally reached to 23.16 per cent in 2018-19.

It can be observed from the above discussion that the demand for petroleum and crude products has increased in the post reforms period. Demand for these products increases with the increase in population and developmental activities which have increased manifolds in the recent decades. There is no substitute of petroleum products so their imports cannot be reduced. It can also be observed that imports of capital goods and export related commodities have also increased which is in fact a good sign for the Indian economy. Better machines and technology will increase production at low cost in the country and quality of production will also improve.Imports of export related commodities will increase production of exportable commodities and compensate for the loss by increasing export earnings.

Part-II: Analysis of Net Foreign Direct and Portfolio Investment

As mentioned earlier, that this part of the paper discussesthe net foreign direct and portfolio investment since the economic reforms.Before the economic reforms, foreign direct investment (FDI) was allowed only in a defined list of high priority industries and each application needed to be cleared on a case-by-case basis, with foreign equity limited to 40 per cent. FDI was now freely allowed up to 51 per cent and higher limits were considered on the merits of each case. The government alsoannounced that it would seek foreign investment pro-actively in areas where it could make a major contribution (Ahluwalia, 2018).The data in Table 4 shows the trend of net foreign direct and portfolio investment since 1990-91. This data is also presented with the help of bar diagram in Graph 3.

Table4
Trend of Foreign Investment since Economic Reforms

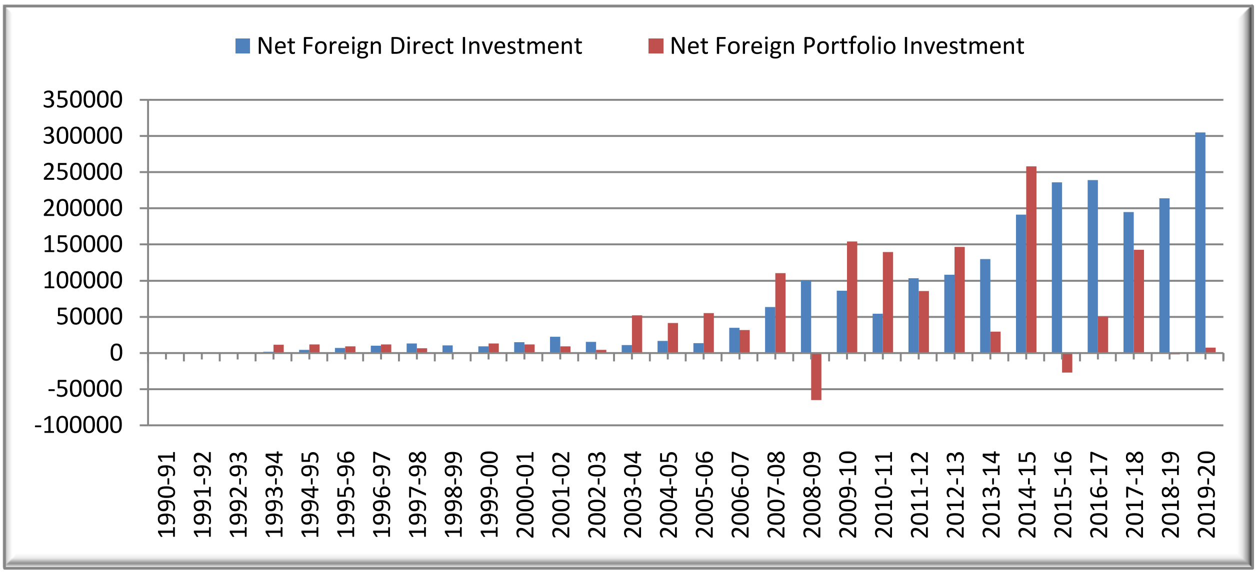
(In Rs. Crore)

Year	Net Foreign Direct Investment (1)	Net Foreign Portfolio Investment (2)	NetForeign Investment (1+2)	Percentage Growth in Net Foreign Investment (Yoy)
1990-91	174 (94.05)	11 (5.95)	185 (100.00)	-
1991-92	316 (96.93)	10 (3.07)	326 (100.00)	76.21
1992-93	965 (56.33)	748 (43.67)	1713 (100.00)	425.46
1993-94	1838 (14.11)	11188 (85.89)	13026 (100.00)	660.42
1994-95	4126 (25.57)	12007 (74.25)	16133 (100.00)	23.85
1995-96	7172 (43.83)	9192 (56.17)	16364 (100.00)	14.33
1996-97	10015 (46.00)	11758 (54.00)	21773 (100.00)	33.05
1997-98	13220 (66.38)	6696 (33.62)	19916 (100.00)	-8.53
1998-99	10358 (102.54)	-257 (-2.54)	10101 (100.00)	-49.28
1999-00	9338 (41.59)	13112 (58.41)	22450 (100.00)	122.26
2000-01	14924 (55.80)	11820 (44.20)	26744 (100.00)	19.13
2001-02	22630 (70.90)	9290 (29.10)	31920 (100.00)	19.35
2002-03	15594 (77.59)	4504 (22.41)	20098 (100.00)	-37.04
2003-04	10944 (17.42)	51898 (82.58)	62842 (100.00)	212.68
2004-05	16745 (28.84)	41312 (71.16)	58057 (100.00)	-7.61

2005-06	13425 (19.52)	55357 (80.48)	68782 (100.00)	18.47
2006-07	34910 (52.27)	31881 (47.73)	66791 (100.00)	-2.89
2007-08	63776 (36.57)	110619 (63.43)	174395 (100.00)	161.11
2008-09	100106 (285.51)	-65045 (-185.51)	35061 (100.00)	-79.90
2009-10	85983 (35.83)	153967 (64.17)	239951 (100.00)	584.38
2010-11	54101 (27.96)	139381 (72.04)	193482 (100.00)	-19.37
2011-12	103167 (54.66)	85571 (45.34)	188738 (100.00)	-2.45
2012-13	108186 (42.48)	146467 (57.52)	254653 (100.00)	34.92
2013-14	129969 (81.41)	29680 (18.59)	159650 (100.00)	-37.30
2014-15	191219 (42.58)	257853 (57.42)	449072 (100.00)	181.29
2015-16	235782 (113.04)	-27203 (-13.04)	208579 (100.00)	-53.55
2016-17	238913 (82.56)	50482 (17.44)	289394 (100.00)	38.75
2017-18	195052 (57.76)	142632 (42.24)	337684 (100.00)	16.69
2018-19	214036 (100.88)	-1857 (00.88)	212179 (100.00)	-37.17
2019-20	304820 (97.63)	7395 (2.37)	312215 (100.00)	47.15

Source: Handbook of Statistics on the Indian Economy (2005, 2010,2015 and 2020)

Graph3
Trend of Foreign Investment since 1990-91



Note: Based on Table 4

The tableclearly depicts that netforeign direct investment was very low in the beginning,i.e.,Rs. 174 crorein 1990-91 which increased to Rs. 304820 crores in 2019-20. Between the years under study, various ups and downs have been observed from the table. Nuclear Explosion in Pokhran in 1998 also negatively affected the net foreign direct investment. Because of this, Net FDI reduced from Rs. 10358 crore in 1998-99 to Rs. 9338 crore in 1999-00. Another major downward trend is observed in net FDI in 2009-10 and 2010-11 due to global financial crisis which resulted in world-wide depression. Soon recovery took place and there was an upward movement in the Net FDI.The table further reveals that some growth has been observed in the net foreign portfolio investment as it was Rs. 11 crores in 1990-91 and reached to Rs. 7395 crores in 2019-20. Net FPI was also found negative in 1998-99, 2008-09, 2015-16 and 2018-19.In these mentioned years, the outflow of foreign portfolio investment was higher than inflow of such investment. The reasons for the negative net foreign portfolio investment can be related to changing political scenario of the country and global financial crisis. It is also clear from the table that net foreign investment rose from Rs. 185 crore in 1990-91 to Rs. 312215 crore in 2019-20 with downward variations in 2004-05, 2006-07, 2008-09, 2010-11,2011-12,2013-14, 2015-16, and 2018-19. Such variations in theforeign investment inflows can also be attributed to the negative net FPI

The above discussion demonstrates that net foreign investment is increasing with the passage of time but there are frequent fluctuations over the study period which is also explained by the percentage growth year over year.

IV. Conclusions and Policy Implications:

The above analysis reveals that economic reforms introduced in the early 90s in India, affected both exports and imports positively. Indian exports increased because of improvement in the quality of the products and increasing size of the market after adopting liberalized policies. On the other hand, imports increased because of higher demand of machines, tools and equipments. Demand of petroleum products and crude oil kept increasing in the post reforms period which increased the size of import bill over export earnings. Balance of trade remained negative during post reforms period because of higher imports over exports. Fluctuations in balance of trade have been observed in the study period. Main reasons of these fluctuations are East Asian crisis in the early nineties which had deep impact for the next five-six years. Nuclear explosion in 1998 had done damage to Indian exports as sanctions were raised against Indian products by USA. In the year 2001, economic crisis were observed around the world because of terrorist attack on USA. World-vide depression because of Global financial crisis in 2008-09 brought miseries to Indian exports. Economic reforms have brought shift in the composition of exports from primary products to manufacturing products which is considered to be positive outcome of these reforms. Net foreign direct investment and net foreign portfolio investment also got affected by the economic reforms butvariations have been observed in net FDI and FPI. Such variations in theforeign investment inflows can also be attributed to the negative net FPI.

The following policy implications have been emerged on the basis of the above discussions.

- Although economic reforms increased Indian exports, but the value of Indian exports remains very low in comparison to the Indian imports. Therefore, efforts must be made by the Government of India to give push to export promotion process by giving it prime importance andby improving the competitiveness among export industries. These exporters should be provided cheaper finance and efficient technology. There is a need of infrastructure development. The Special Economic Zones should be developed by simplifying laws, rules and procedures and also by reducing bureaucratic control and red-tapism. Maximum utilization of installed capacity should be ensured so as to minimize costs and generate surpluses for exports without pushing up the prices of domestic supplies.Diversification of exports is also suggested for increasing Indian exports. Some measures like trade fairs, exhibitions be organized internationally to increase exports. Skill development programmes should be organised for the surplus labour class in the country.
- To curb the problem of trade deficits there is also need to reduce the volume of imports. For this, efforts should be made to develop import substituteindustries. Imports can be substituted by indigenous products by encouraging R&D activities in the country. Machinery and equipments should be imported on the basis of cost benefit ratio.
- Efforts should be made to create peaceful and politically stable environment so that foreign investment in our country is increased. Foreign collaborations should be encouraged to bring more foreign investment in the country. Indian investors should be discouraged for investing abroad; they should be motivated to invest in the country. Employment oriented industries should be established with foreign investment. Last but not the least, unnecessary bureaucratic controls and corruption discourage foreign investment. Thus, the situation demands to check these evils.

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