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Byasdeb Dasgupta

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April 2013

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Abstract

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Keywords

globalisation, India, Indian economy, global capitalism, economic opening up

Aspects des dimensions extérieures de l'économie indienne à l'âge de la globalisation

Résumé

Les dimensions extérieures de l'économie indienne à l'heure de la mondialisation sont analysées dans le cadre de l'ouverture continue de l'économie dans le domaine des échanges commerciaux et des flux de capitaux. Cette étude montre qu'avec cette ouverture, les transferts de ressources financières de l'économie indienne à l'étranger ne cessent de croître. La mondialisation libérale est ainsi une manière pour le capitalisme global d'extraire un surplus de l'Inde. L'analyse indique également que la politique de réforme du gouvernement indien (illustrée par l'ouverture des secteurs de la grande distribution, du transport aérien et de l'assurance aux capitaux étrangers ainsi que par l'effort mis sur la réduction du déficit fiscal) ne sert pas la croissance mais plutôt les intérêts de la finance globale et du capital.

Mots-clés

globalisation, Inde, économie indienne, capitalisme global, ouverture économique

Sommaire

In this paper we will make an attempt to explore how the external dimensions of Indian economy has changed over time since the inception of economic liberalisation programme and its implications on the economy in terms of global capitalism and financialization. The process of globalisation has its dent on multiple facets of external links of an economy. So, external dimension of an economy does not refer to only the trade links. It also includes the links that the economy has with the global in terms of foreign capital flows. Hence, the question how far an economy is open due to globalisation will remain partial if it is viewed from the trade angle only. One has to, at least, bring into fore the foreign capital flows angle into it. We will use both the approach in this paper to measure degree of Indian economy in the globalisation period, and also make a comparison between them.

Indian economy is, of late, is regarded as one of high performing emerging economy. Along with China India is the country which is experiencing high growth rates when the entire world is reeling under deep economic recession. China and India registered 9.2% and 7.4% growth rates respectively in the year 2011 while the growth rate of the advanced countries taken together was only 1.6% with USA growing at the rate of 1.8%, European Union at 1.6% and with Japan experiencing negative growth of -0.9%.[1]

> "The big story of the last decade for India has been its arrival on the global scene. The Indian economy has broken free of the low-growth trap from the early 1980s. By the mid-1990s, following economic reforms of 1991-3, India began to appear as a player of some significance in the global economy. Then, following the Asian crisis of the late 1990s, and from the first years of the first decade of the 21st century there was no looking back. India's exports began to climb, its foreign exchange reserves, which for decades had hovered around 5 billion dollars, rose exponentially after the economic reforms and in little more than a decade had risen to 300 billion dollars. Indian corporations that rarely ventured out of India were suddenly investing all over the world and even in some industrialized countries. When, in 2009, the Group of 20 (G-20) was raised to the level of a forum for leaders, India was a significant member of this global policy group."[2]

The above is the official expression of the Government of India regarding globalised India. We need to assess the globalised economic space of India in terms of hegemonic global capitalism and also in terms of the ongoing process of financialization. In our rendition, globalisation of India is a ploy of the global capitalist and financialization processes.

The paper is organised as follows. In Section 1 we make an attempt to assess the degree of openness of the Indian economy during the globalisation period followed by an analysis of different balance of payments components since the liberalisation programme took off in 1991. Section 3 will take up the discussion of various dimensions of foreign capital flows in India in the post-globalisation period. One of the issues which remain quite significant in the context of the recent debate on black economy and black money in India is capital flight from the country. We offer here some estimates of net transfer of financial resources during the post-globalisation period in Section 4. The analysis of globalised India in terms of her economic growth and its relationship with select external variables will be taken up in the following two sections respectively, where we will try to pose an analytical understanding of the current reformist policy stance of the Government of India. The concluding section sums up the major arguments of this paper.

Section 1: Degree of Openness of the Indian Economy

One of the major aims of the economic reforms programme initiated in 1991 at the behest of the international lending organisations is to open up the economy. This means two things – (a) opening up with respect to trade flows and (b) opening up with respect to the foreign capital flows. The first opening up refers to the trade liberalisation – moving from an import substitution and import restriction regime to liberal import regime with no or few restrictions and relaxation of all kinds of supports hitherto given for export promotion like export subsidies. The second opening up stands for doing away with all sorts of capital

1. *Economic Survey*, Government of India (2011-12).

2. *Economic Survey*, Government of India (2011-12); the Chapter on "India and the Global Economy"; pp. 337.

and exchange controls so as to facilitate free and unhindered flows of foreign capital in the form of either foreign direct investment flows (FDI) or foreign portfolio investment flows (FPI) or both. These policy changes happened during 1991-95 with trade liberalisation occurring first followed by relaxation in earlier capital and exchange control regime. Not only import restrictions were withdrawn but in phases trade account and then, current account in the balance of payments were liberalised. Simultaneously, the country moved from the fixed exchange rate regime to the flexible rate one. Even capital account got partially liberalised with more liberal entry of foreign capital being allowed.[3] The economic reform in India in a sense is an attempt to integrate Indian economy with the global economy, that is to say globalise the economy. In fact, the economic reform process is dubbed as liberalisation, privatisation and globalisation (LPG) programme. Liberalisation refers to the removal of state control and regulations and state interventions in the free play of market mechanism. Privatisation stands for withdrawal of the direct productive activities of the government by selling the public sector or state-owned enterprises to the private entrepreneurs[4], and globalisation signifies economic integration of the domestic economy with the global economy which in other words means more and more inter-linkages between the domestic goods and financial markets with the global goods and financial markets.

We provide here the idea of degree of openness of the Indian economy in the post-globalisation period in terms of both trade and foreign capital flows. Degree of openness in terms of trade flows is measured here as the sum of values of imports and exports as the percentage of GDP during 1970-2012. And the degree of openness in terms of foreign capital flows is measured as the sum of FDI inflows and outflows, and FP I inflows and outflows, and the external debt inflows and outflows as percentage of GDP during 1990-2012. They are indicated below in Table 1 and Table 2 respectively.

As can be noted from Table 1 and Figure 1 below India started opening up her economy to trade flows prior to the LPG programme in 1991. The degree of openness went up from 5.38% of GDP in 1970-71 to 24.03% in 1980-81 and further to 54.81% in 1990-91 just prior to the beginning of economic reform. Over the years since 1991 it increased quite sharply from 61.86% in 1991-92 to 712.34% in 2011-12. One of the major reasons of this rapid rise in trade-related degree of openness was the trade liberalisation effectuated by the WTO rules and regulations since 1995. But as we have pointed out, India's attempt to liberalise her trade started well before 1991 during the eighties with imports regime changed from a restrictive one to liberalised one. In fact, India adopted a regime of import restriction characterised by the policy of imports substitution from the decade of fifties immediately after the Independence and followed a regime of pessimism in the initial years of Independence. There was some shift in her orientation towards to exports in the decade of seventies which is reflected in the increase of degree of openness from a mere 5.38% in 1970-71 to 24.03% in 1980-81. From the mid-eighties there was further change in policy stance towards a more liberalised import regime which gradually relaxed the restrictions on imports and increased her degree of openness by increasing imports mainly. The period after 1991-92 is different from the earlier attempt of trade liberalisation in the mid-eighties. In this period both imports and exports increased rapidly. And hence both increases in exports and imports remained crucial for her sharp increase in the degree of openness in the post-globalisation period. However, despite her sharp increase in trade related degree of openness during the LPG period, her share in world trade remained quite low although it has increased. India's share in total world exports is a mere1.5% in 2010 compared to China's share of 10.5% in the same year.[5] This

3. Till the date there is no full capital account convertibility. The Government of India constituted two committees on Capital Account Convertibility both of which were headed by Tarapore and hence, they are known as Tarapore Committee on Capital Account Convertibility. The said committee recommended introduction of full capital account convertibility in phased manner. However, the Asian Crisis in the late nineties and the global economic crisis from 2007 prevented the Government to liberalise India's capital account fully. There are still certain restrictions on capital outflow from the country. But on capital inflows from abroad there is hardly any restriction now.

4. Privatisation in India is known as process of disinvestment. There is hardly any outright sale of public sector units to the private entrepreneurs. Rather, what has happened in India is selling of shares of the selected public sector enterprises in the stock market to the general public. In many cases, even after selling shares of the public sector enterprises the Government retained the majority stake. In some cases the Government altogether dissolved its ownership of the companies. So, the Indian case of privatisation is different from what has happened elsewhere – particularly in Latin America and Western Europe.

5. Economic Survey, Government of India (2011-12).

is a phase which marked a departure from India's trade dependence with erstwhile USSR and Eastern European Block to the West including USA, European Union and East and South East Asia with China becoming the largest trading partner of India. Hence, there was not only increase in India's trade related degree of openness in the post-globalisation period, but also there was increase in her dependence on West for both imports and exports. So, integration with global economy in Indian context particularly implies integration with the Western markets as far as her foreign trade links are concerned.

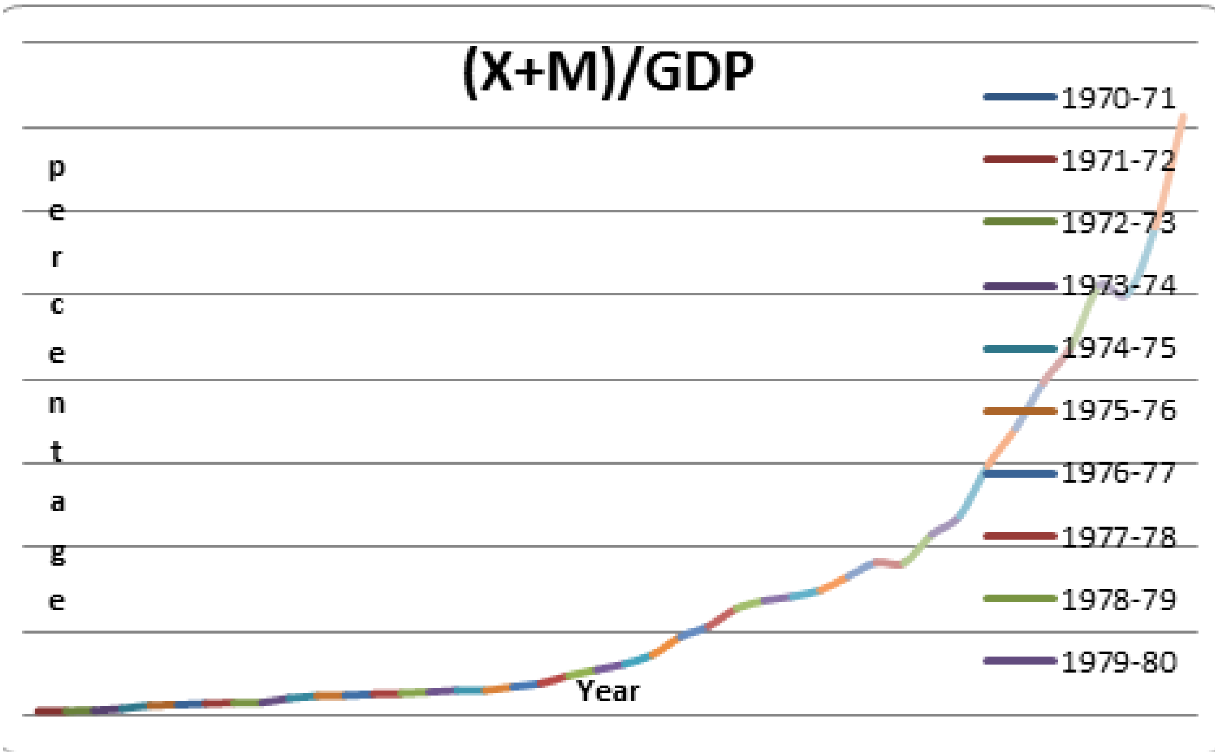
Table 1 : India's Degree of Openness in terms of Trade Flows (1970-2012)

Year	Exports (X)	Imports (M)	X + M	GDP ($)	(X+M)/GDP (in percent)
1970-71	2031.30	2162.30	4193.60	77943.91	5.38
1980-81	8484.70	15866.50	24351.20	101333.25	24.03
1984-85	9878.10	14412.30	24290.40	85620.28	28.37
1985-86	8904.50	16066.90	24971.40	82001.46	30.45
1990-91	18145.20	24072.50	42217.70	77025.75	54.81
1991-92	17865.40	19410.50	37275.90	60257.00	61.86
1992-93	18537.20	21881.60	40418.80	55573.67	72.73
1993-94	22238.30	23306.20	45544.50	48414.57	94.07
1994-95	26330.50	28654.40	54984.90	51625.03	106.51
1995-96	31794.90	36675.30	68470.20	53601.19	127.74
1996-97	33469.70	39132.40	72602.10	52961.47	137.08
1997-98	35006.40	41484.50	76490.90	53883.75	141.96
1998-99	33218.70	42388.70	75607.40	50593.75	149.44
1999-00	36822.40	49670.70	86493.10	52172.00	165.78
2000-01	44560.30	50536.50	95096.80	52131.04	182.42
2001-02	43826.70	51413.30	95240.00	52389.86	181.79
2002-03	52719.40	61412.10	114131.50	52895.62	215.77
2003-04	63842.60	78149.10	141991.70	59633.01	238.11
2004-05	83535.90	111517.40	195053.30	65571.35	297.47
2005-06	103090.50	149165.70	252256.20	73765.83	341.97
2006-07	126414.10	185735.20	312149.30	78671.38	396.78
2007-08	162904.20	251439.20	414343.40	94238.87	439.67
2008-09	185295.00	303696.30	488991.30	95590.98	511.55
2009-10	178751.40	288372.90	467124.30	93123.57	501.62
2010-11	251136.20	369769.10	620905.30	106852.40	581.09
2011-12	304623.50	489417.40	794040.90	111468.99	712.34

Source: Database on Indian Economy available at the www.rbi.org and accessed on 26th October 2012 and also, author's own calculations.

Note: Data for 2010-11 are revised and that for 2011-12 provisional.

Figure 1 : India's Trade Related Degree of Openness (1970-2012)



Source: Database on Indian Economy as available at the www.rbi.org and accessed on 26th October 2012.

Note: X – Exports and M – Imports.

Increase in India's degree of openness is most dramatic when looked in terms of the foreign capital flows. As can be seen from the Table 2 below and also from the Figure 2 in the year just before the reform began (1990-91) it was a mere 0.16% of her GDP. And in the year 1991-92 when the LPG programme was initiated it was as low as 0.24%. From less than 1% of GDP her foreign capital related degree of openness went up to become 136.28% in 2011-12. This means an increase of little more than 850 times in a span just 20 years. This, in other words, implies an increase of 42.5 times per annum during the period from 1990-91 to 2011-12. Initially this rise was due to increasing FPI flows in the direction of India. But from the latter half of the first decade of the 21st century FDI flows also have started increasing. Linking India to global capital flows is one of the major agenda of global capitalism, which works in terms of its various global circuits of capital.

In our rendition, these increasing flows of global capital to India are for larger and larger accumulation of capital from therein. And it works through both M-C-M' and M-M' circuits of capital accumulation *a la* Marx. While FDI inflows represent the first type, the FPI inflows represent the second type. In M-C-M' circuits of capital accumulation an initial money (M) is invested to produce some commodity (C) for the market applying a labour process and then, this commodity (C) is sold in the market and fetches a monetary sum M' such that M' > M, and the difference between M' and M viz. (M'-M) is the surplus value. This is a continuous process of surplus accumulation. On the other hand, in the M-M' circuit an initial amount of money (M) is put into use to generate a higher sum (M') directly. This is an accumulation process where surplus value (M'-M) is produced without applying any labour process and hence, it does not involve any commodity production. This type of accumulation process is observed in the financial sector say, in banks or in the stock market. Essentially therefore, FDI inflows from abroad represent the monetary flows for the M-C-M' circuits in India while the FPI inflows from abroad represent the monetary flows for the M-M' circuits in India.

Table 2 : Foreign Capital Related Openness of India (1990-2012)

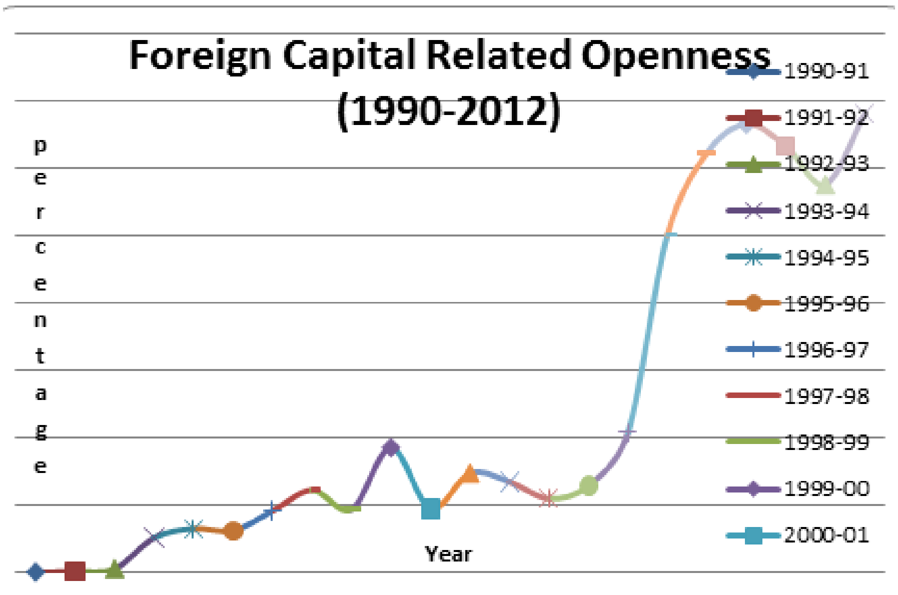
YEAR	Foreign Capital Related Openness (in percent of GDP)
1990-91	0.16
1991-92	0.28
1992-93	1.12
1993-94	10.30
1994-95	13.02
1995-96	12.45
1996-97	18.29
1997-98	24.46
1998-99	18.72
1999-00	37.11
2000-01	18.91
2001-02	29.49
2002-03	26.92
2003-04	21.93
2004-05	25.81
2005-06	41.54
2006-07	100.38
2007-08	124.68
2008-09	133.15
2009-10	126.72
2010-11	115.24
2011-12	136.28

Source: Database of Indian Economy available at www.rbi.org and accessed on 26th October 2012 and author's own calculations.

Note: Data for the year 2010-11 are revised data and that for 2011-12 provisional.

In India it is the FPI inflows in the country's stock market which remained more prominent than the FDI inflows in the post-reform period. Only after the second half of the first decade of the 21st century did FDI inflows also registered steep rise. This, in other words, implies global capitalism in India did work for the first one and half decade of the LPG programme through the (M-M') circuits. And the surplus which is generated through such circuits, as the recent experience worldwide – particularly in the advanced capitalist countries – indicates, is mostly speculative in nature with quite high rates of returns, which are rarely reaped through (M-C-M') circuits in the real sector. To our understanding, through the process of globalisation viz. opening the domestic economy to the global capital Indian economy also got linked with another global process viz. the process of financialization. The latter implies an overwhelming presence of interest of finance in every sphere of economic life of a nation and also, signifies the dominance over the real sector of the economy by the financial interests/motives. In fact, to a certain extent FDI inflows in India remained linked with this interest indirectly. According to a Planning Commission Report, almost 52% of FDI inflows in India till the year 2002 were of Mergers & Acquisition (M&A) type, which means acquisition of shares by the foreign entities in the existing domestic entities. This has some implication for the stock market in India since due to large M&A type investment in India through FDI route share prices went up significantly, which reflects the financial interest of such investment.

Figure 2



Source: Database on Indian Economy as available at www.rbi.org and accessed on 26th October 2012.

Is there any relationship between these two degrees of openness? For the period, 1990-2012, we find a strong positive correlation between them with correlation coefficient being 0.94. The trade related openness is less variable than the foreign capital related openness as the coefficient of variation for the former is 0.72 compared to 1.04 for the latter. In other words, both trade-related openness and foreign capital related openness moved together in the same direction mutually influencing each other. Hence, trade related opening up and foreign capital related opening up are not two separate and isolated processes. Rather, they are processes in tandem with each other. With more trade related opening up came the more foreign capital related opening up and vice versa. This is a unique feature in the post-globalisation period which did not happen before.

Section 2: Some Features of India's Balance of Payments in the Post-Reform Period

In this section, we intend to take up analysis of India's balance of payments in the post-reform period. Table 3 below indicates the merchandise trade balance, balance on net invisibles, current account balance and capital account balance. As can be noted from the table India's current account balance in the post-reform period remained in deficit except for a short spell from 2001-02 to 2003-04; and the magnitude of this deficit is mostly explained by her burgeoning trade deficit. In fact, current account deficit is to some extent is contained by the surplus in net invisibles account. This surplus in net invisibles is due to mainly private transfer receipts in the form of mainly remittance inflows.

Table 3 : Some Indicators in India's Balance of Payments (1990-2012)

(in US $ billion)

Year/ Item	I. Trade balance (A-B)	II. Invisibles, net	III. Current account (I+II)	IV. Capital account
1990-91	-539.28	-13.83	-553.17	410.76
1991-92	-123.32	71.40	-51.92	166.47
1992-93	-210.14	74.11	-136.03	113.27
1993-94	-128.99	92.13	-36.86	308.30
1994-95	-288.42	181.04	-107.38	291.83
1995-96	-350.40	168.01	-182.36	144.66
1996-97	-418.17	287.79	-130.38	322.12
1997-98	-426.96	275.55	-151.41	275.61
1998-99	-320.99	223.13	-97.85	200.16
1999-00	-414.38	305.26	-109.12	257.81
2000-01	-277.26	217.93	-59.32	189.92
2001-02	-245.29	317.34	72.06	177.11
2002-03	-219.96	350.52	130.56	218.93
2003-04	-294.49	596.82	302.33	372.21
2004-05	-743.70	689.20	-54.51	631.76
2005-06	-1176.96	952.43	-224.54	565.85
2006-07	-1363.63	1152.52	-211.12	1019.07
2007-08	-2212.10	1831.53	-380.59	2609.55
2008-09	-2747.25	2105.62	-641.65	80.09
2009-10	-2441.94	1653.18	-788.76	1066.46
2010-11	-2855.98	1851.19	-1004.79	1290.20
2011-12	-4065.77	2391.23	-1674.55	1399.63

Source: Database on Indian Economy as available at www.rbi.org and accessed on 26th October 2012.

Note: Data for the year 2010-11 is revised and that for 2011-12 is revised.

As can be noted from the above table India enjoyed surplus in her capital account balance and this surplus more than outweighed her deficit in the current account. In the year 2008-09, the year when global crisis erupted, the surplus in capital account was quite small compared to the other years and also, with respect to the current account deficit of that year implying overall deficit in that year.

Table 4 below indicates some of the relevant external variables as percent of GDP at current market prices of India.

Table 4 : Selected Indicators of India's External Sector (2006-11)

(As percent of GDP at market prices)

		2006-07	2007-08	2008-09	2009-10	2010-11
1	Exports	13.6	13.4	15.2	13.4	14.8
2	Imports	20.1	20.8	25.0	22.0	22.6
3	Trade Balance	-6.5	-7.4	-9.7	-8.7	-7.8
4	Invisible Balance	5.5	6.1	7.5	5.9	5.0
5	Goods and Services Balance	-3.4	-4.2	-5.3	-6.0	-4.9
6	Current Account Balance	-1.0	-1.3	-2.3	-2.8	-2.7
7	ECBs	1.7	1.8	0.6	0.1	0.7
8	FDI (net)	0.8	1.3	1.8	1.3	0.6
9	FPI (net)	0.7	2.2	-1.2	2.4	1.8
10	Total capital account (net)	4.7	8.6	0.5	3.8	3.7

Source: Economic Survey, Government of India (2011-12); p. 134.

Note: (1) ECBs – External Commercial Borrowings

(2) Data for 2010-11 are partially revised.

From this table the following conclusions can be drawn regarding India's external economic dimensions in recent time from 2006-07 to 2010-11:

1. During the reform period her import intensity (measured as total imports as percent of GDP) compared to her export intensity has increased more.
2. The increasing trade deficit is the result of her relatively more increase in imports than exports although the latter has increased considerably too but still lags behind the imports.
3. Her trade deficit, which is at -7.8% of GDP, is considerably high which is largely compensated by her surplus in net invisible balance so as to produce relatively smaller deficit in her current account.
4. However, in recent time the current deficit as percent of her GDP is more than -2% which is quite worrisome. In fact, in recent time her import coverage of foreign exchange reserves (in number of months) has gone down from a peak of 14.4 months in 2007-08 to 9.6 months in 2010-11. Although the situation has not reached the crisis point, given the long persisting global recession and the increasing trend in her import intensity this may prove to be of some concern in future. The situation may get aggravated if rupee slides steeply vis-à-vis US dollar which happened in 2012. And in uncertain and volatile global economic situations this cannot be predicted ahead of time. The import scenario has worsened for India as she relies on imports for 75% of her domestic oil demand and recently due to (i) the political crisis in the Middle East and the North African states and (ii) downward

fluctuating rupee against US dollar oil import bill has gone up significantly.[6]

5. As can be noted from the Table 4, of the two types of global capital flows – FDI and FPI, on net basis as percentage of GDP FPI remained still the more prominent flow with share of FDI remaining above 1% of GDP during 2008-09 and 2009-10 came down below that level in 2010-11.

6. From the increasing import-intensity of India vis-à-vis her exports we feel that the global capital is more interested in the large domestic market of India which is represented by a significant number of middle-income earning people. So, in addition to selecting India as a base of production the global capital represented by the large multinational corporations want to sell their products in the Indian market and to reap the surplus therein by converting commodity (C) produced elsewhere into monetary value (M'). This is quite similar to the trade pattern that India had during the colonial period when the colonial ruler used to treat India as market for its finished products and source of raw materials. In fact, if we look at the principal exports and imports of India we find that she imports more value-added products that she exports, the latter including significantly raw materials like iron ores.[7] This pattern of trade is significantly contributing drain of financial resources from India with which one finds some similarity with the colonial pattern of trade under the British Rule.

7. Finally, it can be opined that given the overwhelming importance of FPI flows vis-à-vis the FDI flows India has been drawn into the process of financialization from the very beginning of the economic reform process. Financialization in the literature is defined as the overarching presence of finance and/or financial motives in every sphere of economic life of a nation. This is in practice found in desires of making high returns from any investment at a very short spell of time through speculative means. One of the best ways to do so is in the stock markets. But financialization is more than investment in stock markets. It implies also reaping financial gains or returns through the different circuits of finance employing different financial instruments. Financialization warrants deregulation of finance. In India, some degree of financial deregulation has happened with banking sector, capital market and insurance sector reforms. But compared to the West (including Japan) the degree of deregulation is less. India is still to have full capital account convertibility. But the financialization as a process can be felt in India with shift in the orientation of the major financial institutions[8] and from the growing importance of the stock markets in Indian economy. Major policy decisions in the post-reform period are guided by the ups and downs in stock market – especially the downs therein, which is a major shift in policy stance propelled by the process of financialization. And the health of economic fundamentals is treated as per the trend in stock market as reflected in terms of movements of the major stock indices like BSE Sensex and NSE Nifty. We also find the growing cases of financial scams in the economy which is a recurring event in any financialized economy.[9]

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6. One may find some similarity of the present situation with the situation in 1990-91 when India's external payments crisis was aggravated by the Gulf War. But the situation now has not reached that crisis level. The point is that in the current globalised scenario Indian economy is not insulated from the global factors – the point quite often missed by many. In fact, Sen (1994) quite sharply highlighted this point – the overwhelming influence of global factors in shaping India's external economic dimensions.

7. This is not to deny that India does not export value-added products. In fact, one of her principal exports is gems and jewellery. However, as far as imports are concerned in the post-globalisation period barring petroleum they consist of high value added products made in foreign economies.

8. First of all, public sector scheduled commercial banks' shares were sold to the general public at the stock market with the Government still retaining the majority stake. Secondly, these banks have been asked to be more and more profit-oriented. Earlier when these banks were nationalised in 1969 and also in 1980 they became more social objective oriented. Thirdly, we find banking businesses in India are getting intertwined with many non-banking activities which is what has happened in the West in the age of financialization.

9. For example, one can cite in this context the Harshad Metha scam in the stock market in the early nineties and Satyam scam in the second half of the first decade of the 21st century.

Table 5 : Banking Capital in the Capital Account of India's Balance of Payments (1990-91 to 2011-12) (in US Dollar millions)

Year	Banking Capital	Commercial Banks	Assets of Commercial Banks	Liabilities of Commercial Banks	NRI Deposits of Commercial Banks	Others	Assets minus Liabilities	NRI/ Liabilities (in percent)
1990-91	682	904	-364	1268	1537	-222	-1632	121.21
1991-92	567	138	229	-91	290	429	320	-318.68
1992-93	3826	2930	1073	1857	2001	896	-784	107.75
1993-94	2264	1658	-844	2502	1207	606	-3346	48.24
1994-95	-334	-626	-962	336	172	292	-1298	51.19
1995-96	763	938	-385	1322	1104	-175	-1707	83.51
1996-97	2229	2225	-870	3095	3350	4	-3965	108.24
1997-98	-893	-1260	-2195	935	1125	367	-3130	120.32
1998-99	699	-447	-1397	950	961	1146	-2347	101.16
1999-00	2127	2304	790	1514	1540	-177	-724	101.72
2000-01	-1961	-1882	-4174	2292	2316	-79	-6466	101.05
2001-02	2864	2660	-444	3104	2754	204	-3548	88.72
2002-03	10425	10135	5113	5022	2978	290	91	59.30
2003-04	6033	6501	789	5712	3642	-468	-4923	63.76
2004-05	3874	3979	-47	4026	-964	-105	-4073	-23.94
2005-06	1373	442	-3175	3617	2789	931	-6792	77.11
2006-07	1913	1581	-3494	5075	4321	332	-8569	85.14
2007-08	11759	12112	6894	5217	179	-353	1677	3.43
2008-09	-3246	-2774	-2902	128	4289	-471	-3030	3350.78
2009-10	2083	1927	1838	89	2922	157	1749	3283.15
2010-11	4962	4432	-3297	7729	3238	530	-11026	41.89
2011-12	16226	16049	-593	16641	11917	177	-17234	71.61

Source: Database on the Indian Economy as available at the www.rbi.org and accessed on 26th October 2012 and author's own calculations.
Note: NRI/Liabilities – NRI deposits of banks as percent of their total liabilities. All the figures in the table are on net basis that means the figure arrived at subtracting debit side entry from the credit side entry. Data for 2010-11 is revised and that for 2011-12 is provisional.

Table 5 above indicates the position of banking capital in the capital account of the balance of payments of India. Note that (from column 8 of the table) assets net of liabilities of the Indian banks are negative most of years during the reform period. Of late, in fact the gap between assets and liabilities has widened. One of the major reasons for this negative difference between banking assets and liabilities is the growing NRI deposits in India's commercial banks with reforms in the banking sector which has liberalised such deposits. Note that these deposits are significantly increasing the foreign exchange reserves of the country which in other words implies that a sizeable portion of India's foreign exchange reserves pose liability to her as any deposit in banks is its liability. So far so good. NRIs have retained their confidence in the Indian economy. And interest rates that could be offered to them on such deposits remained quite attractive vis-à-vis the interest rates elsewhere in the world. However, with turn of events both in the global as well as national space the situation may get altered and if the NRIs start losing their confidence in the banking system of the country the situation may endanger a crisis in future.

Table 6 : Net Income Flows in the Current Account of the India's Balance of Payments (From 1990-91 to 2011-12) (in US Dollar millions)

Year	Income	Investment Income	Compensation of Employees	GDP ($)	Income/GDP	Investment Income/GDP
1990-91	-3752	-3752	0	77025.75	-4.87	-4.87
1991-92	-3829	-3829	0	60257.00	-6.35	-6.35
1992-93	-3423	-3423	0	55573.67	-6.16	-6.16
1993-94	-3270	-3270	0	48414.57	-6.75	-6.75
1994-95	-3431	-3431	0	51625.03	-6.65	-6.65
1995-96	-3205	-3205	0	53601.19	-5.98	-5.98
1996-97	-3307	-3307	0	52961.47	-6.24	-6.24
1997-98	-3520	-3459	-61	53883.75	-6.53	-6.42
1998-99	-3544	-3569	25	50593.75	-7.00	-7.05
1999-00	-3559	-3695	136	52172.00	-6.82	-7.08
2000-01	-5004	-4664	-340	52131.04	-9.60	-8.95
2001-02	-4206	-3844	-362	52389.86	-8.03	-7.34
2002-03	-3446	-3544	98	52895.62	-6.51	-6.70
2003-04	-4505	-3757	-748	59633.01	-7.55	-6.30
2004-05	-4979	-4095	-884	65571.35	-7.59	-6.25
2005-06	-5855	-5262	-593	73765.83	-7.94	-7.13
2006-07	-7331	-6762	-569	78671.38	-9.32	-8.60
2007-08	-5068	-4433	-635	94238.87	-5.38	-4.70
2008-09	-7110	-6626	-484	95590.98	-7.44	-6.93
2009-10	-8039	-7247	-790	93123.57	-8.63	-7.78
2010-11	-17310	-16398	-912	106852.40	-16.20	-15.35
2011-12	-15987	-16465	477	111468.99	-14.34	-14.77

Source: Database on Indian Economy as available at www.rbi.org and accessed on 26th October 2012 and author's own calculations.
Note: Data for the year 2010-11 is revised and that for the year 2011-12 is provisional. Figures are on net basis in the table.A

Another area of concern for India in her current account in the balance of payments is the net income flows – particularly net investment flows. Table 6 above indicates the net income as well as net investment flows to India during the period from 1990-91 to 2011-12. Note that both net income and net investment income flows to India remained negative during the reform period. Also, barring few years, net compensation to employees was negative. These mean on these three counts there is flow of financial resources from India and this outward flow has increased unabated over time. Both net income and net investment flows as percent of GDP are quite high in recent time as can be seen from the table. The Table 7 below indicates the correlation coefficients between net income and net investment income as percentage of GDP with trade related degree of openness and foreign capital related openness respectively. Note that the correlation coefficient in each case is negative and is more than the value 0.5. So, this means with more and more degree of openness measured either in terms of trade routes or foreign capital routes more and more net outflows of income including investment income have taken place during the period under consideration. So, India is paying abroad more factor incomes than it is actually receiving. Note also that the values of the correlation coefficients are higher in case of trade related degree of openness than in the case of foreign capital related degree of openness. One would expect it to be other way round. Note that we have already found a high degree of positive association between the two different degrees of openness and also, we have noticed that trade related openness so far is more than the foreign capital related degree of openness. So, it is quite natural to have high negative association between net income/net investment income and trade related openness than between foreign capital-related one.

Table 7 : Correlation Matrix between Net Incomes with Degrees of Openness (From 1990-91 to 2011-12)

	Trade Related Degree of Openness	Foreign Capital Related Degree of Openness
Net Income/GDP	-0.73	-0.58
Net Investment Income/GDP	-0.68	-0.54

Source: Author's own calculations from the data sourced from the Database on Indian Economy available at www.rbi.org and accessed on 26th October 2012.

Table 8 below provides the trend of net transfers (both official as well as private) in the current account of the India's balance of payments. Note that with liberalisation and globalisation Indian economy is gainer in terms of receiving net transfer flows from abroad. With official transfers remaining stable during the period under consideration, it is the net private transfers to India which increased rapidly over the reform years. This is due to large remittance inflows by the Indians working abroad. In fact, India is the largest recipient of remittance income from abroad at the moment. We find very high positive degree of association between total transfers and the two degrees of openness and also between the private transfers and the degrees of openness as can be seen from Table 9 below. To our understanding this is so because after 1991 sending money back home has been made much easier in India. And with the technological advancement

Table 8 : Net Transfers in the Current Account of the India's Balance of Payments (From 1990-91 to 2011-12) (in US Dollar million)

Year	Transfers	Official Transfers	Private Transfers	GDP ($)	Transfers/GDP	Private Transfers/GDP
1990-91	2530	461	2069	77025.75	3.28	2.69
1991-92	4242	459	3783	60257.00	7.04	6.28
1992-93	4215	363	3852	55573.67	7.58	6.93
1993-94	5633	369	5264	48414.57	11.63	10.87
1994-95	8509	416	8093	51625.03	16.48	15.68
1995-96	8852	345	8507	53601.19	16.51	15.87
1996-97	12777	410	12367	52961.47	24.13	23.35
1997-98	12209	379	11830	53883.75	22.66	21.95
1998-99	10587	307	10280	50593.75	20.93	20.32
1999-00	12638	382	12256	52172.00	24.22	23.49
2000-01	13106	252	12854	52131.04	25.14	24.66
2001-02	15856	458	15398	52389.86	30.27	29.39
2002-03	16838	451	16387	52895.62	31.83	30.98
2003-04	22162	554	21608	59633.01	37.16	36.23
2004-05	20785	260	20525	65571.35	31.70	31.30
2005-06	24687	194	24493	73765.83	33.47	33.20
2006-07	30079	254	29825	78671.38	38.23	37.91
2007-08	41945	239	41706	94238.87	44.51	44.26
2008-09	44798	232	44567	95590.98	46.86	46.62
2009-10	52045	254	51791	93123.57	55.89	55.62
2010-11	53140	16	53124	106852.40	49.73	49.72
2011-12	63494	25	63469	111468.99	56.96	56.94

Source: Database on Indian Economy as available at www.rbi.org and accessed on 26th October 2012 and author's own calculations.
Note: Data for the year 2010-11 is revised and that for the year 2011-12 is provisional. Figures are on net basis in the table.

(information technology) these transfers take almost no time to reach India from abroad. One of the major reasons for growing surpluses in the net invisible accounts of the balance of payment is this growing private transfer from abroad on net basis. With more and more opening up, such transfers are also growing as the values of correlation coefficient in Table 9 indicate.

Table 9 : Correlation Matrix between Net Transfers and Degrees of Openness

	Trade Related Degree of Openness	Foreign Capital Related Degree of Openness
Net Transfers/ GDP	0.94	0.94
Net Private Transfers/GDP	0.90	0.90

Source: Author's own calculations from the data sourced from the Database on Indian Economy available at www.rbi.org and accessed on 26th October 2012.

So, summing up our arguments in this section, we can assert that on various counts financial resources are flowing out of India during the reform period. One such major source is income – particularly net investment income. Similarly, the position of the banking capital in the capital account of the balance of payments is characterised by asymmetry between assets and liabilities with the latter outweighing the former. This remains a matter of concern especially if a crisis hits the Indian economy in future. We offer in this paper an estimate of net transfer of financial resources (henceforth, NTR) from India during the reform period. But before that we will provide some critical analysis of foreign capital flows in India during the reform period.

Section 3: Foreign Capital Flows in India during the Reform Period

In this section we offer some analysis of foreign investment flows as occurred during the reform period. Foreign capital to India flows in the form of both FDI flows and FPI flows. In Table 10 below we indicate the net FDI and net FPI flows from 1990-91 to 2011-12. Column (3) of the table shows the total net foreign investment in India which is the sum of net FDI and net FPI inflows. A negative sign indicates outflow from India on net basis. The reform period under consideration is also marked by foreign investment by India abroad which is indicated in the column (6) of the table. As can be noted from the first decade of the 21st century foreign investment abroad peaked up and is growing. Till 2006-07 net FPI inflows dominated over net FDI inflows. After that FDI inflows (net) surpassed the FPI inflows (net). In fact, in 2008-09 net FPI inflows to India were negative signifying FPI outflows on net basis from India. This is the year when the global crisis erupted and foreign investors withdrew their investments from different stock markets to take the money back home.

Net FPI flows to India remained more volatile than net FDI flows during the period under consideration as the coefficient of variation of net FPI flows was 1.55 which is higher than that of the net FDI flows (1.25). In general, FPI flows are more volatile than the FDI flows. FPI flows are subject to whims and fancies of (a) the stock markets of the host countries, (b) whims and fancies of the global stock markets, and (c) above all, the global economic conditions. With adverse conditions resulting from any one of these three factors foreign portfolio investors take no time to withdraw their investments from the host countries' stock markets. This has happened in India during the Asian crisis and as well as during the global crisis which surfaced during the second half of the first decade of the 21st century.

Table 11 below indicates the net FDI and net FPI flows as percent of GDP. It can be seen from the table that both FDI and FPI flows have registered continuously growing percentages of GDP during the period under consideration starting from a very low figure in 1991-92. Also along with FDI and FPI, foreign investment abroad from India as percentage of GDP has increased substantially from 1990-91 to 2011-12. Note that it is from 1994-95 which means three years after the initiation of the economic reforms foreign investment abroad (net) has started occurring. Of late, we find that this investment is half the net FDI inflows.

What we observe that net FDI and net foreign investment abroad during the period under consideration are highly correlated in the opposite direction with correlation coefficient being -0.96. With net FPI flows foreign investment abroad has lower correlation (-0.53). It is to be noted that the trade related degree of openness and net foreign investment abroad are highly and negatively correlated (-0.87). We find a low correlation (0.48) between net FDI and net FPI flows. Net FDI flows, on the other hand, are highly correlated with trade-related degree of openness with correlation coefficient being 0.91. Net FPI flows are relatively less correlated with the trade related degrees of openness with correlation coefficient being 0.60. The result is an expected one.

Table 10 : Foreign Investments in India
(From 1990-91 to 2011-12) (in US Dollar millions)

Year	Foreign Investment	Foreign Investment in India	Foreign Direct Investment in India	Foreign Portfolio Investment in India	Foreign Investment Abroad
1990-91	103	103	97	6	0
1991-92	133	133	129	4	0
1992-93	557	557	315	242	0
1993-94	4233	4233	586	3647	0
1994-95	4807	4922	1343	3579	-115
1995-96	4615	4804	2143	2660	-188
1996-97	5964	6154	2842	3312	-190
1997-98	5353	5390	3562	1828	-37
1998-99	2312	2412	2480	-68	-100
1999-00	5117	5191	2167	3024	-74
2000-01	5862	6791	4031	2760	-929
2001-02	6686	8146	6125	2021	-1460
2002-03	4161	6015	5036	979	-1854
2003-04	13744	15678	4322	11356	-1934
2004-05	13000	15298	5987	9311	-2298
2005-06	15528	21395	8901	12494	-5867
2006-07	14753	29743	22739	7004	-14990
2007-08	43326	61998	34728	27270	-18672
2008-09	8342	27884	41737	-13853	-19542
2009-10	50362	65485	33109	32376	-15123
2010-11	39653	57355	25884	31471	-17703
2011-12	39231	50362	32953	17409	-11131

Source: Database on Indian Economy as available at www.rbi.org and accessed on 26th October 2012 and author's own calculations.

Note: Data for the year 2010-11 is revised and that for the year 2011-12 is provisional. Figures are on net basis in the table.

Table 11 : Foreign Investment in India as Percent of GDP (in percent)

Year	FI/GDP	FIIA/ GDP	FDI/ GDP	FPI/GDP	FIA/ GDP
1990-91	0.13	0.13	0.13	0.01	0.00
1991-92	0.22	0.22	0.21	0.01	0.00
1992-93	1.00	1.00	0.57	0.44	0.00
1993-94	8.74	8.74	1.21	7.53	0.00
1994-95	9.31	9.53	2.60	6.93	-0.22
1995-96	8.61	8.96	4.00	4.96	-0.35
1996-97	11.26	11.62	5.37	6.25	-0.36
1997-98	9.93	10.00	6.61	3.39	-0.07
1998-99	4.57	4.77	4.90	-0.13	-0.20
1999-00	9.81	9.95	4.15	5.80	-0.14
2000-01	11.24	13.03	7.73	5.29	-1.78
2001-02	12.76	15.55	11.69	3.86	-2.79
2002-03	7.87	11.37	9.52	1.85	-3.51
2003-04	23.05	26.29	7.25	19.04	-3.24
2004-05	19.83	23.33	9.13	14.20	-3.50
2005-06	21.05	29.00	12.07	16.94	-7.95
2006-07	18.75	37.81	28.90	8.90	-19.05
2007-08	45.97	65.79	36.85	28.94	-19.81
2008-09	8.73	29.17	43.66	-14.49	-20.44
2009-10	54.08	70.32	35.55	34.77	-16.24
2010-11	37.11	53.68	24.22	29.45	-16.57
2011-12	35.19	45.18	29.56	15.62	-9.99

Source: Database on Indian Economy as available at www.rbi.org and accessed on 26th October 2012 and author's own calculations.

Section 4: Net Transfers of Financial Resources from India during the Reform Period

We offer in this section an estimate of net transfer of financial resources from India. Our hypothesis is that globalization in India in terms of opening her markets for the foreign goods as well as foreign capital has led to transfer of financial resources abroad, which we will try to prove here. We measure net transfer of financial resources (henceforth, NTR) as follows:

$$NTR = TB + NI + NFII + NFIA + NL + NBC + NRDS + NOC + NEO$$

where TB is trade balance, NI is net invisibles, NFIA is net foreign investment in India, NFIA is net foreign investment abroad, NL is net debt flows, NBC is net banking capital flows, NRDS is net rupee debt service, NOC is net other capital flows, and NEO is net errors and omissions.

A negative sign in NTR signifies outflow of financial resources from India on net basis while a positive sign indicates inflow of financial resources to India on net basis. We have provided two different estimates of net transfers of resources – (1) net transfer of financial resources (NTR) and (2) net transfer of financial resources excluding the net invisibles (NTRWONI) – as can be seen from the Table 12 below. Barring the years 1990-91, 1995-96, 2008-09, and 2011-12 there are positive NTRs which represent inward flows of financial resources to India on net basis. However, excluding net invisibles, net transfers of financial resources (NTRWONI) have been negative most of the years during the period under consideration. The years when NTRWONIs were positive are 1993-94, 1994-95, 2003-04 and 2007-08. This shows during the globalisation period there is net transfer of financial resources from India which vindicates our hypothesis. Note that NTRWONI has increased in absolute terms over the years. This is also reflected when NTRWONI is expressed as percent of GDP (the last column of Table 12). In fact, in recent years, NTRWONI has remained more than the GDP of the country – a fact which always remains foreclosed.

Our second hypothesis is that with more opening up of the economy, net transfer of financial resources also rises – the fact which have tried to capture in terms of the correlation coefficient between net transfer of financial resources (both NTR and NTRWONI) and degree of openness (both foreign trade related degree of openness and the foreign capital related degree of openness). One can see from Table 13 below that NTR and both the degrees of openness have low correlation. But NTRWONI and foreign trade related degree of openness and also, NTRWONI and foreign capital related degree of openness are highly and negatively correlated. This vindicates our hypothesis that with more openness more resources are getting transferred from India.

Table 12 : Net Transfer of Financial Resources from India
(From 1990-91 to 2011-12) (in US Dollar millions)

Year	NTR	NTRWONI	GDP	NTR/GDP (in percent)	NTRWONI/GDP (in percent)
1990-91	-2492	-2250	77025.75	-3.24	-2.92
1991-92	2599	979	60257.00	4.31	1.62
1992-93	-590	-2511	55573.67	-1.06	-4.52
1993-94	8535	5638	48414.57	17.63	11.65
1994-95	5787	107	51625.03	11.21	0.21
1995-96	-1222	-6669	53601.19	-2.28	-12.44
1996-97	6793	-3403	52961.47	12.83	-6.43
1997-98	4511	-5497	53883.75	8.37	-10.20
1998-99	4222	-4986	50593.75	8.34	-9.85
1999-00	6402	-6741	52172.00	12.27	-12.92
2000-01	5869	-3925	52131.04	11.26	-7.53
2001-02	11757	-3217	52389.86	22.44	-6.14
2002-03	16985	-50	52895.62	32.11	-0.09
2003-04	31421	3620	59633.01	52.69	6.07
2004-05	26159	-5073	65571.35	39.89	-7.74
2005-06	15052	-26950	73765.83	20.41	-36.53
2006-07	36606	-15611	78671.38	46.53	-19.84
2007-08	92165	16434	94238.87	97.80	17.44
2008-09	-20080	-111685	95590.98	-21.01	-116.84
2009-10	13441	-66581	93123.57	14.43	-71.50
2010-11	13050	-71598	106852.40	12.21	-67.01
2011-12	-12830	-124434	111468.99	-11.51	-111.63

Source: Database on Indian Economy as available at www.rbi.org and accessed on 26th October 2012 and author's own calculations.
Note: Data for the year 2010-11 is revised and that for the year 2011-12 is provisional. Figures are on net basis in the table.

Table 13 : Correlation Matrix between Net Transfers of Financial Resources and Degrees of Openness in India during the Reform Period

	Foreign Trade Related Degree of Openness	Foreign Capital Related Degree of Openness
Net Transfer of Resources (NTR) as percent of GDP	0.10	0.14
Net Transfer of Resources without Net Invisibles (NTRWONI) as percent of GDP	-0.79	-0.74

Source: Author's own calculations from the data sourced from the Database on Indian Economy available at www.rbi.org and accessed on 26th October 2012.

Section 5: Some Concern with Economic Reforms in India

The economic reform measures in India can best be described as been characterised by neoliberal agenda which emphasises on (a) replacing state-determined market regime with free competitive market, (b) replacing public sector with private sector and (c) attracting foreign capital for growth. The neoliberal policy is entirely growth-centric – the growth which has remained jobless and inequality augmenting.[10] We will make an attempt to estimate the relationship between economic growth and degree of openness in India, and also between net transfer of financial resources and economic growth in India during the reform period. Later, we will try to understand analytically the implications of policy stance offered by the Government of India in recent time.

We find some correlation between the economic growth rate[11] and the degree of openness during the reform period, which to our understanding implies both economic growth rate and degree of openness have mutually influenced each other. Although the correlation coefficients are not very high but they are positive and significant. The correlation coefficient between economic growth rate and the foreign trade related degree of openness is 0.52 while that between growth rate and the foreign capital related degree of openness is 0.53.

But when correlations are calculated at the absolute levels they produce little bit different results. The correlation coefficient between GDP at factor costs (in US dollar) and the sum of value of exports and imports from 1990-91 to 2011-12 is found to be quite high and positive (0.94). Similarly, the correlation coefficient between GDP and sum of foreign capital flows, which is the sum of credit and debit side entries of FDI, FPI and foreign investment abroad, is found to be 0.93. This implies the mutual associations between volume of GDP and foreign trade flows and foreign capital flows remained quite high during the reform period.

Also, we find some between association between net transfer of financial resources (NTR) and economic growth rate with the correlation coefficient between them being 0.44 which is not very strong. The mutual association between economic growth rate and the net transfers of financial resources without net invisibles is even less strong and insignificant with the correlation coefficient between them being only -0.21. This in other words means net transfer of resources occurred during the reform period irrespective of whether growth has taken place or not. Rather, they may be mutually associated with non-growth factors – one of them may be the rupee-dollar exchange rate.

When correlation coefficients are measured at the absolute levels between GDP and NTR and also between GDP and NTRWONI the result gets partially changed. The correlation coefficient between GDP and NTR still becomes quite low at 0.13. On the other hand, the correlation coefficient between GDP and NTRWONI at the absolute levels turns out to be negative and high at -0.77. The latter signifies with more growth more net outward flows from India and vice versa. But at the absolute level there is not much mutual association between GDP and NTR. So, growth triggers very little inward resource transfer and vice versa.

10. See Sunanda Sen and Byasdeb Dasgupta (2009), *Unfreedom and Waged Work – Labour in India's Manufacturing Industry,* SAGE, New Delhi.

11. Data for economic growth rate has been sourced from the Economic Survey, Government of India (2011-12) from Table 1.2 in page A.4. Here the growth rate refers to the annual growth rate of Gross National Product at factor costs at 2004-05 prices.

Another macroeconomic variable which is quite important in the present day context is the exchange rate. We find some significant relationship between the exchange rate at the levels and GDP, Sum of the value of exports and imports, Foreign Capital Flows, Net Transfer of Financial Resources (NTR) and Net Transfer of Financial Resources without Net Invisibles (NTRWONI) with the correlation coefficients being 0.30, 0.52, 0.49, 0.26 and -0.37 respectively. Hence, there is to some degree mutual association between the exchange rate of rupee against US dollar and the remaining variables mentioned above.

Therefore to a certain extent growth and exchange rate are the two variables which influence and also get influenced by the degrees of openness and also by the net transfers of financial resources.

Following Sen (1994), we can write in the context of an open small economy,

> $g = s/[k – (RT/Y)]$ where g refers to the GDP growth rate, s the savings propensity, k the capital output ratio, RT the resource transfer and Y the GDP.12

Now, RT is nothing but the difference between imports (M) and exports (X) or (M-X) which is the negative of trade balance TB = (X-M) = NX where NX stands for net exports.

Now, current account balance (CAB) can be written as:

> CAB = TB + NI where TB = X-M = -RT and NI is net invisibles.

Now, we can write RT = NI – CAB

Now, from the national income identity for an open economy we have:

> $Y = C + I + (G-T) + (X-M)$ where C is the consumption expenditure, I is the investment expenditure, G is the government expenditure, and T is the tax revenue.

Or $Y = C + I + FD –RT$ where $FD = (G-T)$ is fiscal deficit.

Therefore, we can write:

> $-RT = (Y-C) – I – FD = (S-I) – FD$ where S stands for gross savings in the economy.

Putting this into the growth equation above gives us:

12. For derivation of this growth equation see Sen (1994) page 806.

> $g = sY/[kY + (S-I) – FD]$

Now, $dg/d(FD) = sY/[kY + (S-I) –FD]2 > 0$

This means in a small open economy with rise in fiscal deficit growth will rise.

We can present the result in somewhat different manner as follows:

Note that in the balance of payments of a country, $CAB + \Delta K = 0$ where stands for capital account balance indicating net capital transfers. If CAB < O then $\Delta K > 0$ indicating net capital transfers to the country. On the other hand, if CAB > O, then $\Delta K < 0$ indicating net capital transfers from the country.

Note that CAB = -RT + NI where RT = M-X

We can write –RT = CAB – NI = - ΔK – NI

Now putting this into the growth equation above we get the following:

> $g = sY/[kY + \Delta K + NI]$

Clearly then, $dg/d(\Delta K) < 0$ or even, $dg/d(NI) < 0$

This mean with growth to rise there must be fall in net capital flows or net invisibles from abroad.

Now, in the present context we can pose net capital flows as negative function of exchange rate i.e. $\Delta K = f(E)$ where we presume that $d(\Delta K)/dE < 0$. This is a standard assumption with regard to capital flows in the context of a flexible exchange rate regime. This means with exchange rate appreciation more capital will flow in and vice versa.

So, summarising our results we can comment the following:

Firstly, fiscal deficit (FD) in a small open economy fuels growth which goes against the standard claim of the neoliberal regime. Therefore, the current venture by the Government of India to cut fiscal deficit drastically may hamper the very growth centred around which the entire neoliberal agenda of India has been built in the last two decades.

Rather, as the result here indicates, may reduce growth. So, the recent opening up of the Indian economy to FDI in retail and also in other sectors like insurance and aviation how far will be able to augment growth is doubtful. In fact, in this paper we have noticed that there is not much strong relationship between the India's degrees of openness and the economic growth during the post-reform period.

Note that from the national income identity we can write:

$$FD = (S-I) + NI + \Delta K$$

For $\Delta FD < 0$, either $\Delta(NI + \Delta K) < 0$ if $\Delta(S-I) < 0$ or $0<\Delta(NI + \Delta K) <|S-I|$ if $(S-I) <0$

Note that if $\Delta(NI + \Delta K) < 0$ then there may be net transfer of financial resources from the country concerned when fiscal deficit is to be reduced.

Also, for $\Delta FD < 0$, $\Delta(NI + \Delta K) < 0$ but $> |(S-I)|$ if $(S-I) > 0$. This also signifies net transfer of capital from the country if fiscal deficit is to be reduced.

Another possibility may be for $\Delta FD < 0$, $\Delta(NI + \Delta K) < 0$ and $(S-I) > 0$ but $|\Delta(NI + \Delta K)| >|(S-I)|$. This also may trigger off net outward capital transfer from the country if fiscal deficit is to be reduced.

This is not to say that there will not be any net outward capital transfer if fiscal deficit is raised. Note that for $\Delta FD > 0$ either $\Delta(NI + \Delta K) > 0$ and $(S-I) > 0$ or, $\Delta(NI + \Delta K) < 0$ and $(S-I) > 0$ and $|\Delta(NI + \Delta K)| < |(S-I)|$. The second case represents net outward flows of capital from the country when the fiscal deficit rises.

Hence, we find her some connection between the fiscal deficit and net capital transfer to the country. We observe from our above analytics that capital may flow out of the country on net basis when fiscal deficit is reduced. Even there is a chance that capital may flow out of the country when fiscal deficit is increased. We have to bear in mind that exchange rate plays a crucial role in determining net capital flows to the country. So, with depreciation there is a chance that on net basis capital will flow out of the country. And that may automatically put pressure on fiscal deficit to be curtailed. If the government is determined to stop capital outflow then one possibility is the regular intervention in the foreign exchange market by the country's central bank which the Reserve Bank of India is continuously doing. Then, that may restrict the central bank to pursue an autonomous monetary policy.[13] So, the tendency of capital to flow out of the country the pressure is there for the government to reduce fiscal deficit on the one hand and for the central bank to intervene in the foreign exchange market. Both of these pressures may partially take away (if not fully) the autonomy of the country's authority with regard to a sovereign fiscal and monetary policy. Hence, the recent reform agenda of the Indian government to open up further her economy and to reduce the subsidies to curtail the fiscal deficit do not find any logical clue as far as our analysis in this paper.

Conclusion

Summing up our major arguments in this paper, we can opine that the globalisation and financialization as two major processes of the world economy have their own dents on the external dimensions of the Indian economy. There is empirical evidence of net outward transfers of financial resources from India during the reform period. And these net transfers are highly correlated with the degree of openness of the Indian economy. To our understanding this is a ploy to accumulate more and more surplus from India by the global capitalism which works in terms various global circuits of capital.[14] Recent policy stance adopted by the Government of India by allowing FDI in retails and allowing more FDI in insurance and aviation industry and the target of slashing down fiscal deficits by cutting subsidies instead of enhancing growth may impede it. Further, these policy initiatives are sure to generate more unemployment and joblessness and hence, more socio-economic inequality in the country. Therefore, we do not find any rationale for such policy move given the external dimensions of neoliberal India. Rather, these policies in terms of our understanding will go a long way to serve the interests of the global capital.

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