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A Comparative Study On The Performance Of India's Merchandise Trade Before And After Demonetization

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ABSTRACT

There is a famous quote saying, "when going get tough, the tough get going". People of India would have been in such situation when formal withdrawal of currency was announced by our Prime Minister. People were chaotic, critic and what not abusive. The opposing parties found their good luck charm in saving the lost vote bank. Financial experts were worried and advised for withdrawal of their investments. Amidst all these, industrialists faced critical cash crunch and that reflected in their volume of business transactions. This research paper is an attempt like "One grain suffices to test a whole pot of boiled rice". This research paper explore the Indian Merchandise Trade performance before and after demonetization taking a comparison for the financial years 2015-16 and 2016-17 and prove the concrete evidence whether it really had an impact on the economy.

Keywords: demonetization, comparison, merchandise, economy

1. INTRODUCTION

Demonetization befalls when a country's currency is withdrawn from the circulation and terminates to be recognized for the legal transaction among the public. In simple terms, this currency is no longer be legally used and involves the old currency being replaced by a new one.

One has to understand the reasons for the huge exclamation when such measures are taken for the country's benevolence. Some of the reason are; less availability of cash in circulation, inconvenience and frustration to the general public; sudden disruptions in the business which results in the economic slowdown, panic, fraudulence in exchanging the money, disruption of normal trading activities, problems with paying bills, ATMs have to be re-calibrated and short term financial crisis for poor people. Economic development of the any country is depended on its export and import trade. One can indeed say that it's a back bone of the country and one of the crucial components for the growth. Difficulties are inevitable when measures are taken to curtail the anti-national elements, inflation and non-tax payers etc. Exports usually get affected due to cash crunch in the market. This could result in internal purchasing power and unstable economy. Despite of all these negativity, a detailed evaluation of the performance of the merchandise trade before and after the demonetization would definitely support or contradict the study.

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2. OBJECTIVES OF THE STUDY

- To compare the performance of the merchandise trade (Imports and Exports) for the year March 2015-16 and March 2016-17.
- To compare the performance of the services trade (Imports and Exports) for the year March 2015-16 and March 2016-17.

3. NEED OF THE STUDY

The supply of currency notes of all denominations has seen an increase up to 40% between the years 2011 and 2016 and higher denominations increased 76% to 109% due to falsification. Such currency is used to fund terrorists, drug smugglers and other evil groups. The following are the need of the study when such measures taken to combat these issues;

- Performance of the merchandise trade both imports and exports
- Performance of the trade in services both imports and exports
- Performance of the trade balance.

SCOPE OF THE STUDY

Though the various economic factor would be directly and indirectly affected, the study brings the insight through concrete resistant from the authenticated data consolidated by the government for the public information. Analysis of these data for the purpose of study would enlighten the actual performance of the Merchandise Trade after demonetization by comparing the performance of the previous year.

4. REVIEW OF THE LITERATURE

Mukhrjee et al. (November 2016) studied about the impact of the present government move for demonetization on the credit availability, government finance, spending and levels of various activities.

Sunita (September 2014) in her research study attempted to get insight about the reasons as well as measures adopted by the government on demonetization that was implemented in Indian context. It was a conceptual study based on secondary sources.

Sukanta Sarkar (2010) conducted a study on the parallel economy in India: Causes, impacts & government initiatives in which the researcher focused on the existence of causes and impacts of black money in India.

Paharia (1994) discussed the economics of devaluation, its effects on trade balance, inflation, terms-of-trade, and income distribution. A comparison of 1966 and 1991 devaluations and the follow-up reforms of 1991 devaluation were described.

Perviz (1987) analyzed the impact of devaluation on BOP of eleven less developed countries using the monetary approach. The impact of devaluation and the growth of money supply on

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the BOP of LDCs were examined taking 21 independent devaluations that occurred in the 11 LDCs. The analysis showed that devaluation was successful in improving the BOP of LDCs. The growth of domestic credit had also a significant effect on the BOP of LDCs.

Krueger (1983) had argued that the J-curve phenomenon occurs because of exchange rate changes. After devaluation, transactions relating to goods already in transit and under contract need completion and they dominate the short-run changes in the TB. So the TB first deteriorates and after some time, during which the elasticity have a chance to increase, the TB begins to improve.

5. RESEARCH METHODOLOGY

The study is based on secondary sources of information collected from articles, newspaper and Press Information Bureau published by Ministry of Commerce & Industry, Government of India. Graph and Percentile method is used for the analysis.

LIMITATIONS OF THE STUDY

- This study compares only the volume of the trade between the years and ignores other unquantifiable issues.
- This is only an observational study and has limitations with the availability data.

ANALYSIS AND INTERPRETATIONS

Demonetization is a decision which affects the existing practice that would result in chaos among the population. The limited availability of the cash poses lots of threat to the transactions in the market. Demonetization of September 8th, 2017 witnessed people's tolerance for the betterment of country and the patience for the post turmoil to upheave the economy. But with all this muddles, one should observe the post effects by comparing current data with the previous data.

PERFORMANCE OF MERCHANDISE TRADE FOR THE YEARS MARCH 2015-16 AND 2016-17

EXPORTS (INCLUDING RE-EXPORTS)
PROVISIONAL

YEAR	US $ MILLIONS	INR RS. CRORE
2015-16	22911.74	153558.85
2016-17	29232.05	192571.13
% Growth (2016-17/2015-16)	**27.59**	**25.41**

(Source: Ministry of Commerce & Industry)

TABLE NO 1

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EXPORT GROWTH CHART FOR THE YEAR 2015-16 AND 2016-17

FIGURE NO 1

INTERPRETATION

The above chart depicts that the export trade for the year 2016-2017 is 27.59% than the previous year. This infers that there was a growth in export trade despite implementation of the demonetization. In continuation with the double digit growth exhibited by exports during February 2017, exports during March 2017 have shown a significant growth of 27.59 per cent in dollar terms valued at US$ 29232.05 million as compared to US$ 22911.74 million during March, 2016.

IMPORTS
PROVISIONAL

YEAR	US $ MILLIONS	INR RS. CRORE
2015-16	27310.28	183038.67
2016-17	39669.22	261327.71
% Growth (2016-17/2015-16)	**45.25**	**42.77**

(Source: Ministry of Commerce & Industry)

TABLE NO 2

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EXPORT GROWTH CHART FOR THE YEAR 2015-16 AND 2016-17

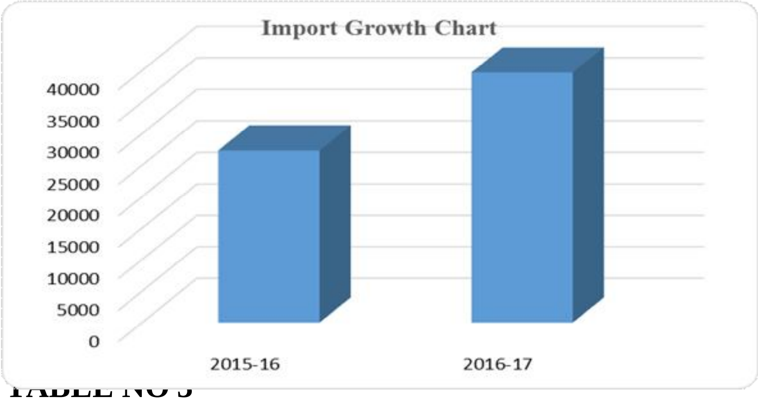

TABLE NO 3

INTERPRETATION

The above chart depicts that the import trade for the year 2016-2017 is 45.25% more in dollar terms and 42.77% more in rupee terms value. This infers that the cash available in the market were adequate. More imports signify the purchasing power of the buyers. This purchasing power was higher for the given year 2016-17 than 2015-16.

PERFORMANCE OF SERVICES TRADE FOR THE YEARS MARCH 2015-16 AND 2016-17

US$ MILLIONS

	2015-16	**2016-17**
Exports (Receipts)	12895.00	13060
Imports (Payments)	7905.00	7235
Trade Balance	**4990.00**	**5825**

(Source: RBI Press Release)

TABLE NO 3

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SERVICES TRADE CHART FOR THE YEARS 2015-16 AND 2016-17

FIGURE NO 3

The above chart and table infers that the trade balance was positive and higher than the previous year. The receipts were higher than the payments. This depicts that the services in the trade were very strong.

PERFORMANCE OF THE TRADE BALANCE

MERCHANDISE TRADE

The trade deficit for March 2016-17 was estimated 10.95% lower than the deficit of March 2015-16.

SERVICES TRADE

As per RBI's Press Release, the trade balance in Services was positive and 16.73% higher than the previous year.

OVERALL TRADE BALANCE

Overall trade balance has enriched. Analyzing merchandise and services together, overall trade deficit was 14.49% lower than the previous year.

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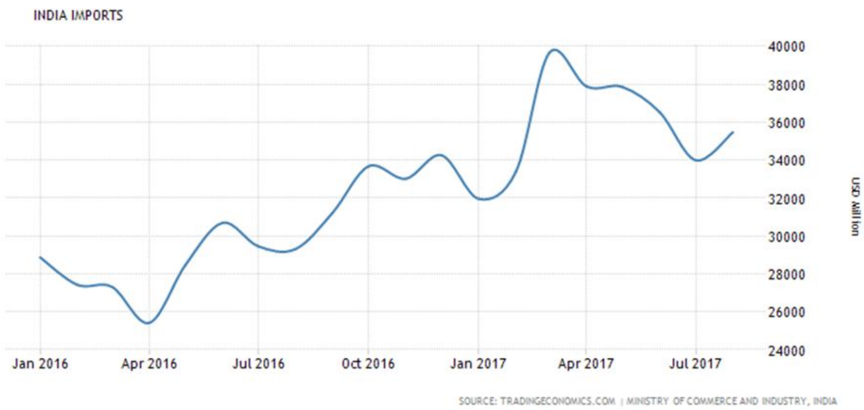

FIGURE NO 4

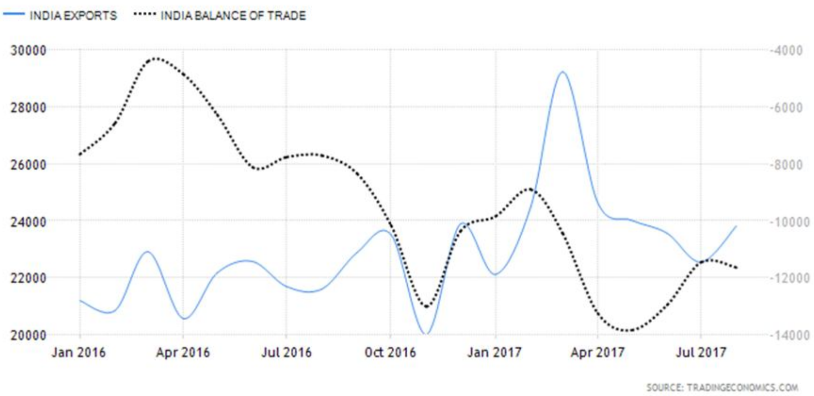

FIGURE NO 5

The above two charts on Exports, Imports and Balance of trade explains the trend that was comparatively on a healthier side post demonetization.

4. FINDINGS

- The export trade for the year 2016-2017 is 27.59% than the previous year. This infer that there was a growth in export trade despite implementation of the demonetization.
- The import trade for the year 2016-2017 is 45.25% more in dollar terms and 42.77% more in rupee terms value. This infers that the cash available in the market were adequate.
- The trade balance was positive and higher than the previous year. The receipts were higher than the payments. This depicts that the services in the trade were very strong.
- Analyzing merchandise and services together, overall trade deficit was 14.49% lower than the previous year.

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5. CONCLUSION

The study observed that there was no much significant reduction on the performance of the Indian trade post demonetization. Exports from India advanced 10.3 % from a year ago to USD 23.82 billion currently which supports all the measures taken by the central government post demonetization. Future looks promising with the double digit growth in 2017, in contrast to the marketing challenges. The Department of Commerce has announced increased support for export of various products and included some additional items under the Merchandise Exports from India Scheme (MEIS) in order to help exporters to overcome the challenges faced by them. So the study supports the trials made by the central government and provides the substantial backing that the decision implemented was appropriate. It would have caused inconvenience for a shorter period of time due to less availability of cash transaction. However, on the wider prospective one cannot undervalue an effort taken for the furtherance of country.

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