CHAPTER VIII

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8.1 Major findings of the study

The study has broadly tried to determine the factors, which determine trade in services across different income and regional groups. The same issue has been studied for pre and post WTO period. The study also tried to understand the causality between trade in goods and trade in services among countries of different income groups. In addition to the alone, the study also looked into various aspects of India’s trade in services.

Having been introduced the research problem in chapter – I along with objectives, methodology and significance of the study, the chapter- II gave a detailed review of literature under three broad categories. The chapter-III tried to provide a global profile of international trade in services.

In chapter IV, an attempt has been made to understand the factors which determines the trade in services through panel data econometrics modeling. The models have been estimated separately for the countries in different income groups and geographical regions in order to know whether the nature and magnitude of relationship of different factors affecting trade in services differ between income groups and regions. Three different models were employed for each income group and geographical regions. These three models studied separately the impact of (i) trade in goods and foreign direct investment inflows on trade in services, (ii) trade in goods and Gross domestic product of
major trade partner on trade in services, and, (iii) trade in goods and exchange rate of
national currency in terms of US dollars on trade in services. The model has been
estimated using the data for a period of 19 years from 1985-2003 and the results of the
(Model- I that analyzed the relationship between trade in services as dependent variable
and trade in goods and foreign direct investment as independent variable revealed that it
is the trade in goods which is an important determinant of trade in services across all the
income groups and the extent of influence on trade in services by trade in goods is higher
in case of developed and high income groups. The positive influence of foreign direct
investment on trade in services is seen only in case of developing countries but that too is
very marginal.

The model II studies the effect of trade in goods and gross domestic income of major
trade partner (independent variables) on trade in services (dependent variable). This
model showed that both trade in goods and gross domestic product of major trade partner
are important determinant of trade in services across all the income groups; but the
impact of trade in goods is higher than that of gross domestic product of major trade
partner. Again, it has been observed that the extent of influence by trade in goods on
trade in services is higher in case of developed and high income countries as compared to
developing and low income countries.

The model III, studied the influence of changes in trade in goods and exchange rate as
independent variable on trade in services. The results showed that trade in goods
continues to positively influence the trade in services even in this model and the extent of
influence is higher in case of developed and high income countries. Exchange rate does influence the trade in services of developed, developing, high income and low income countries but the influence is very marginal.

The advantage of using fixed and random effects techniques for the purpose of analyzing all the three models over OLS estimates is that the impact of all the independent variables included in the study viz. trade in goods, GDP of major trade partner and exchange rate on trade in services could be better understood after having accounted for country specific characteristics in each income group. These country specific variables included in the model, in the form of dummy variables helped to account for those factors which are not included in the model as independent variables but can influence the trade in services. The very fact that in all the three models either one way or two way effect model are chosen over pooled data model suggest that fixed and random effect techniques have analysed the data more effectively when compared to OLS estimates.

When the above three models were analysed with respect to regional classification, it is observed in model I that trade in goods is a significant determinant of trade in services in all the four regions namely America, Europe, Africa and Asia. The extent of influence is higher in case of Europe and Asia. Foreign direct investment inflows marginally helped to increase the trade in services of all except countries in Asian region. The data available for Asia reveals that foreign direct investment inflows have been very negligible in these countries during the late 80’s and early 90’s.
The analysis of model II shows that even under the influence of gross domestic product of major trade partner, trade in goods was major determinant of trade in services in different regions, the influence of which is higher in case of European and Asian region. GDP of major trade partner has been positively influencing the trade in services of American, European and African region. But the percentage increase in trade in services brought about by percentage increase in GDP of major trade partner in these regions is less than the percentage increase brought out by trade in goods.

The estimation of model III with respect to all four regions suggest that trade in goods is an important determinant of trade in services. The extent of influence is higher in case of European and Asian region. An increase in exchange rate helped to increase the trade in services of American, European and African countries. However, the degree and extent of influence of exchange rate is less than that of trade in goods.

Chapter five tries to study whether factors determining trade in services in pre and post WTO period are same or different. To begin with the classification of income groups, the study during the pre WTO for model I revealed that when the impact and influence of trade in goods and foreign direct investment inflows was studied, trade in goods was important determinant of trade in services. The extent of influence on trade in services of trade in goods was almost similar across all the income groups. Trade in services of developing and low income countries depend on foreign direct investment inflows but to a very marginal extent.
When the same model was studied in post WTO period trade in goods continued to be important determinant of trade in services while, the extent of influence was higher in case of developed and high income countries.

When the two above periods were compared it was found that the influence of trade in goods on trade in services was higher during the post WTO period. This can be related to different policies pertaining to trade liberalization taken up by WTO since its emergence.

Pre WTO study of model II for all income groups shows that of the two variables trade in goods and Gross domestic product of major trade partner, it is trade in goods which again proves to be important determinant of all the income groups. Though the extent of influence of trade in goods on trade in services is found to be similar across all income categories, Gross domestic product of major trade partner did help to increase the trade in services of developing, high and upper middle income countries, but the extent of increase was very low when compared to increase in trade in services due to increase in trade in goods.

During the post WTO period, the study of the same variable and their relation with trade in services showed that trade in goods is an important determinant of trade in services and the extent of trade in goods on trade in services is higher in case of developed and high income countries. It means that the increase in trade in services due to increase in trade in goods is higher in case of these two income groups compared to income groups.
The comparison of the two period showed trade in goods had higher influence on trade in services after the emergence of WTO. The post WTO situation also reveals that increase in trade in goods helps to increase trade in services more than the impact of other factors included in the model.

The analysis of the model III in the pre WTO period revealed that trade in goods is an important determinant of trade in services and before the emergence of WTO, impact on or increase in trade in services due to increase in trade in goods is same across all income groups.

Post WTO analysis for the same model showed that the trade in goods continue to determine and influence trade in services but the impact of influence was found to be higher in case of developed and high income group showing that when trade in goods increases the trade in services of these income groups increases more than that of other income groups.

WTO has definitely helped to increase trade in services as is revealed by all the model studied in post WTO era and the increase in trade in services due to increase in trade in goods is higher in post WTO than in Pre WTO period.

The main finding of the study on pre and Post WTO period for regional groups are as follows:
Model I shows that trade in goods determine trade in services in all regions and the impact of trade in goods does not vary much over different regions. Foreign direct investment has increased the trade in services of only European and African countries but the effect is very marginal. The country specific policies affecting trade in services have changed over time. The emergence of WTO did not change the scenario much in all regions except European countries. It means that trade in goods continued to be major determinant of trade in services in all regions. The impact of trade in goods on trade in services increased considerably incase of European countries.

The analysis of the model II found that in pre WTO period compared to gross domestic product of major trade partner, trade in goods is a major determinant of trade in services. The degree of influence of trade in goods is little higher incase of Asian countries as compared to other regions. During the post WTO period the important determinant of trade in services under the influence of gross domestic product of major trade partner is trade in goods. The degree of influence or in other words, the extent of increase in trade in services due to increase in trade in goods is higher incase of European countries. An interesting finding in this model is that the impact of trade in goods on trade in services in Asian and African countries has decreased in post WTO compared to pre WTO period.

Model III findings in regions revealed that trade in goods are an important determinant of trade in services. The extent of increase in trade in services due to increase in trade in goods is similar in all regions except Europe, where it is found to be low. Post WTO scenario shows that trade in goods continued to be major determinant of trade in services.
The impact of influence of trade in goods on trade in services is similar in all regions, but in case of Asia the influence of trade in goods on trade in services declines in post WTO regime.

In chapter six, an attempt is made to know if there exist causal relation between trade in goods and trade in services of different countries. From each income group five countries were randomly selected. The results of causality test across different income groups did not follow any uniform pattern. In high income countries, if we consider the case of Singapore, there exist bilateral causality between the trade in goods in trade in services means the two cause each other. Out of the remaining four, only in case of Sweden the causality runs from trade in services to trade in goods.

In case of upper middle income countries, out of five in three countries trade in services is causing trade in goods, while in Malaysia there is bilateral causality and in Mauritius the trade in goods cause trade in services. Existence of causality between the two variables means when trade in services increases trade in goods will definitely increase. In case of lower middle income countries, there exist bi-directional causality for one country, while for remaining four in two countries trade in goods causes trade in services and vice versa in remaining two. While in case of low income groups, in all the five countries trade in goods is causing trade in services. Thus for all the countries in high and low income group it is trade in goods which is causing trade in services.
In chapter seven, the trade in services with reference to India is discussed. Since 1990, it has been observed that service exports as percentage of world exports has been continuously increasing. The share of India’s service exports in world service exports has increased from 0.58% in 1990 to 1.39% in 2003. Service exports in India are increasing at a rapid pace and in recent years it has made India net exporters of services.

It has also been observed that service exports since 1990 as a percentage of GDP have increased. The increase in percentage has been from 1.81% in 1990 to 4.23% in 2003. The major contribution to India’s service exports has been made by software services, though often services such as consultancy services, tourism and travel related services, distributor services, communication services, etc., have also contributed towards this service export growth of India.

The study revealed that the share of receipts of different services to total non factor service exports have undergone a change since 1950’s, the share of miscellaneous service exports which include services such as tourism, consultancy, software services, etc., increased from 30.33% in 1950 to 71.84% in 2003. While the share of services supplied by government decreased from 21.34% in 1950 to just 0.89% in 2003. This is a welcome change as it shows larger involvement of private sector in area of service exports and this can be attributed to economic reforms process initiated by India. The share of travel services increased from 5.61% in 1950 to 14.30% in 2003. But the share of transport and insurance services decreased from their 1950’s level.
When growth rate of service exports was calculated for three different periods viz 1956-1971, 1972-1987 and 1988-2003, it was found that growth rate was highest in case of 1988-2003 period and similarly there has been significant increase in service exports of India in 1972-1987 compared to its level in 1956-1971. During the same period, the merchandise exports of India did increase, but the increase was much less than that of increase in service exports. This shows that service exports is contributing significantly to India’s total exports in world market.

In an attempt to know the factors determining trade in services of India, it was found that trade in goods is significantly determining the trade in services of India and the results based on partial adjustment model does show a presence of dynamic behaviour.

8.2 Conclusions of the Study

The above study brings out certain valid conclusions. Firstly, while the share of developed nation in trade in services has already been higher, the developing nations are fast catching up with the developed nations. Besides, the trade in services seems to be more balanced between the developed and developing countries than the trade in goods.

Secondly, it may be concluded from the panel data regression analysis on different income groups that i) the trade in goods is a major determinant of trade in services, ii) though the impact of trade in goods on trade in services is almost same for developed countries and developing countries, in general, it is slightly higher for developed and high
income countries, iii) the factors like foreign direct investment inflows, gross domestic product of major trade partner and exchange rate play some role in determining trade in services for some income groups but the role is very insignificant for all income groups, iv) it is interesting to note that foreign direct investment inflows along with trade in goods determines the trade in services of the developing countries.

Thirdly, panel data regressions on geographical regions enable us to conclude that i) trade in goods is the most important determinant of trade in services for all regions, viz., America, Europe, Africa and Asia ii) the extent of influence of trade in goods on trade in services also does not vary much between the regions, iii) the foreign direct investment inflows and exchange rates also, though marginally, influences the trade in services in the regions of America, Europe and Africa.

Fourthly, econometric analysis on factors determining trade in services in pre and post WTO periods leads to the following major conclusions: i) in pre WTO as well as post WTO period, the trade in goods determined the trade in services for all income groups, ii) the impact of factors other than trade in goods on trade in services is mixed in both pre and post WTO periods and would not enable us to make a valid conclusion, iii) in the case of geographical regions also, factors determining the trade in services in the pre and post WTO periods are same, iv) the trade in goods had a higher influence on trade in services in the post WTO period for all income groups. This is an important conclusion.
Thus, the econometric analysis of panel data helps to conclude that trade in goods is an important determinant of trade in services across different income and regional groups. The influence of trade in goods on trade in services is higher in case of developed and high-income countries and in case of European and Asian region and in the post WTO period.

Fifthly, the causal relation between trade in goods and trade in services did not follow any clear and unanimous pattern across the different income groups. However, the study provides ample evidence to conclude that trade in goods causes trade in services.

Sixthly, in the case of India, it may be concluded that the i) service exports is increasing at a faster rate than merchandise exports and the rate of growth is higher in recent years. The service exports is contributing significantly to India's total exports in the world market, ii) the trade in goods is significantly affecting the trade in services of India, iii) the trade in goods and the trade in services show dynamic relationship and short term and long term implications.

8.3 Implications of the Study

The study has far reaching implications in the context of trade and economic growth. The broad objective of the study was to find precisely whether the trade in services depends on trade in goods along with other factors. The study tried to understand this
dependence across income group, regions and pre and Post WTO periods. This is the context in which one has to look at the implications of the study.

i) The trade in services is going to be the engine of economic growth in developed as well as developing countries. The growth of trade in services can bring down the gap between developed and developing countries. The labour rich developing countries are going to get the maximum benefits from the service trade growth. Therefore, the implications are far reaching as far as developing countries are concerned. The developing countries need to identify and develop the service sectors of their comparative advantage. The movement of natural persons under Mode-IV of service trade is going to play an important role in future course of time.

ii) the study has, in general, implications for individual countries across all income groups and geographical regions. Since trade in goods is found to be a major determinant of trade in services, the present drive for liberalisation of international trade in goods should continue at country level. Tariff reduction and measure to promote trade in goods must get more and more attention. If there is more trade in goods, the trade in services in the form of transport, travels and financial services would also increase. Unless a country open up its trade in goods, the improvement in trade in services would be difficult. Countries need to participate effectively in multilateral and bilateral negotiations in their own interest and in the interest of the world economy.
iii) The study has far reaching implication as far as the WTO is concerned. WTO's present strategy of paying more attention towards trade in goods rather than trade in services in different ministerial conferences is somewhat justified. The growth of trade in goods would bring forth more trade in services. Since the dependence of trade in services on trade in goods is more in post WTO period, as per findings, the implications are that WTO trade liberalization measures should continue.

iv) the result of the study has implication in a developed and developing country perspective. Since the factors determining the trade in services are more or less the same for developed and developing countries, a similar kind of policies can be pursued by the both in order to promote trade in services. However, the impact of trade in goods on trade in services is high for developed and high income countries. Its implication is that the developing countries should give more efforts to remove the bottlenecks in the trade in services.

v) study has much wider implications for India. India is a major exporter of services. India’s service export has gone up mainly after the trade reform since 1991. If India has to increase its service exports further, the trade liberalisation should continue. Besides, there should be special efforts to liberalise the service sector trade also. Through multilateral negotiations at WTO level, India should try to get more access to the markets of developed countries. India should also try to have more and more bilateral negotiations and agreements like we had with Singapore in order to promote the trade in services.
8.4 Limitations and Future Scope

The present study has the following weaknesses

a) The findings of the study was subject to the assumption that the data collected on trade in services is reliable and accurate. Since the growth of trade in services is a recent phenomenon, the data available is for only 19 years. Time series data for more than 30 years or so would have enhanced the reliability and the utility of the findings.

b) The study has not considered the dynamic relationship if any, existing between trade in goods and services through dynamic econometric modeling framework. It would have enhanced the richness of findings by bringing in short and long-term implications.

Since the research in international trade in services in the stage of infancy, this study provides ample scope for further research in this area. There is scope to go for similar country specific studies with help of more elaborate econometric techniques. There is also scope for future research in specific area of service trade like tourism, financial services. Studies can also be conducted on impact of trade in services on economic growth of a country.