Long run Relationship between Trade in Goods and Trade in Services of India

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LONG RUN RELATIONSHIP BETWEEN TRADE IN GOODS AND TRADE IN SERVICES OF INDIA

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Abstract

The exchange of goods, services and capital across the borders of different countries is known as international trade. This type of trade is important as it promotes and encourages the growth, movement and purchase of different goods and services from one country to another. This means that what one country does not have it can purchase from another country. International trade has economic, political and social importance for the countries engage in it and it has been on the rise in the recent years. With the advent of globalisation and subsequent opening up of trade, the international trade pattern has acquired a new shape across geographies. An increase in both economic and trade liberalisation paid off well for India, as its trade to GDP ratio has increased last few years. The present study made an attempt to estimate long run relationship between trade in goods and trade in services of India. The study found that there exist a long run relationship between trade in goods and trade in services of India.

Key Words: Trade in Goods, Trade in services , Johansen Cointegration Test

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Introduction

After economic reform in 1990's, trade in goods and trade in services forced towards new direction. Before 1990, international trade theorists have tended to neglect services as a subject in its own right. The economics of the tertiary sector has been traditionally regarded as part of the domain of development economists. However, this omission is now being quickly corrected as the problem of liberalizing trade in services has gained prominence on the agenda for international negotiations. The current debate on issues related to trade in services is also changing the view that services are 'non-tradable'. While some services are indeed non-traded, others, such as insurance and transportation, have been sold across international borders for hundreds of years. The fact that the volume of trade in services has been low historically in relation to the volume of trade in goods may be attributed to trade barriers, both natural and legal, which have restricted a firm's freedom to establish it abroad for the purpose of providing a service. The freedom of establishment is particularly important because most services have the special feature that makes essential the physical presence of the provider in proximity of the user. However, technological progress in the communications and information sectors has, in a number of cases, eliminated the need for the provider of a service to be within physical proximity to the user. In other cases, where physical proximity remains essential, organizational innovation and technical progress in the transportation industry have reduced the cost of delivering some services across international borders to the point where such transactions have become economical.

Review of Literature

Chaudhuri (2003) has stated that critical commitments made by India in infrastructure services, such as telecommunications, financial, transport, distribution and energy. India has not scheduled transport, distribution and energy under the GATS. In the telecommunications and financial services where India has made some commitments, study found the liberalisation committed too little. In fact the commitments are less liberal than the policy changes which actually have been introduced. For example, the extent of foreign investment committed under the GATS in Indian companies providing telecommunications services is 25 percent, though under the policy announced, it can be higher. The study recommended that the trust of India's commitment should be to further liberalise infrastructure services to dilute government monopoly and to open up the domestic economy to greater foreign participation to enhance efficiency and competitiveness and liberalisation may not be shared by many readers who would like to see the liberalisation process more critically and not to support it independent of its impact on the country's employment and income. After all despite the

virtues of liberalisation, the developed countries have not liberalised the imports of cheap mode 4services because of the adverse impact that this will have on their domestic employment.

Biswajit and De (2008) have found that during the 1990s, India's service sector grew at an average annual rate of 9 per cent, ahead of the growth rate of industry at 5.8 per cent per annum and that of agriculture at3.1 per cent per annum. In India, the service sector contributed approximately 68.6 percent of the overall average real GDP growth (Service Value Added) in the past five years between 2002-03 and 2006-07. In 2006-07, it was growing at 11.2 per cent on year; services (including construction) constituted 61.5 per cent of Indian GDP. Also significant is the fact that service sector growth in India is broad-based and cross-Sectoral services growth and productivity. Data from India's National Accounts Statistics indicate that the share of communications sub-sector increased from 1.7 per cent to 7.5 per cent, while banking and insurance sub-sectors increased their share from 9.2 to 11.3 per cent; this contrast starkly with the fact that shares of all other traditional services either declined or at best remained same.

Sebastien (2009), has analysed trade flows in intermediate goods and services among OECD countries and with their main trading partners. Combining trade data and input-output tables, bilateral trade in intermediate goods and services is estimated according to the industry of origin and the using industry for the period1995-2005. Trade in intermediate inputs takes place mostly among developed countries and represents respectively 56% and 73% of overall trade flows in goods and services. Gravity regressions indicate that in comparison to trade in final goods and services, imports of intermediates are more sensitive to trade costs and are less attracted by bilateral market size. Results from production function regressions and from a stochastic frontier analysis suggest that a higher share of imported inputs leads to productivity gains in domestic industries and reduces inefficiencies in the use of technology. Further findings are that the activities of multinational enterprises can be associated with higher trade flows of intermediate inputs and with a higher ratio of foreign to domestic inputs in using industries.

Prabir (2013) has performed an empirical analysis of the linkages between India's services trade flow and the barriers it faces. The results of the analysis showed that the linkages between services exports and services trade barriers are multiple and complex. The study indicated that the income of the partner country (importing country) is crucial for services exports from India. The findings of the study suggested that improved services trade

facilitation helps unlock unrealized trade potential; more effective policy approaches toward improved trade infrastructure are, therefore, needed to facilitate services exports from India.

Statement of the Problem

Like many other developing countries goods and service sector has undoubtedly become the most important sector in Indian economy. This can be attributed to the contribution of nation's GDP growth, employment creation and generating export revenues, thereby contributing to the overall development of the economy. Hence, the present study.

Objective of the Study

- To examine long run relationship between trade in goods and trade in services of India

Hypothesis of the Study

- There is no long run relationship between trade in goods and trade in services of India

Methodology of the Study

The study depends on secondary data, collected from UNCTAD. To examine long run relationship between trade in goods and trade in services of India Johansen Cointegration Test was used.

Results and Discussion

To test unit root or non-stationary ADF and PP test were used The results of both test at the level both variable have unit root that is, they are non-stationary. Hence the 1st difference has taken for both trade in goods and trade in services. In ADF and PP test, both trade in goods and trade in services are stationary at first difference, that is, both variables are integrated order one. Since goods and services are integrated of the same order (1).

Table 1 Johansen Cointegration Test for Trade in goods and Trade in Services (Johansen Maximum Likelihood Estimation)

Hypothesized No. of CE(s)	Trace Statistic		Max Eigen Statistic	
	Value	P Value	Value	P Value
No Cointegration Equation	39.346	0.000	37.630	0.00
At most one Cointegration Equation	1.715	0.19	1.7151	0.19

Johansen Cointegration test for trade in goods and trade in services are given in table 1. It is based on the maximum likelihood estimates of Vector Auto Regression (VAR) of order 0 and 1. As observed in table the probability value of both Trace and Max Eigen statistics is less than 0.05 percent level of significance the null hypothesis was rejected and alternative hypothesis was accepted. Thus, there is at most one cointegration equation exists between trade in goods and trade in services. Hence it is concluded that there exist a long run relationship in trade in goods and trade in services of India.

Major Findings of the Study

- Study found that In ADF and PP test, both trade in goods and trade in services are stationary at first difference.
- It is observed that there exist a long run relationship in trade in goods and trade in services of India.

Conclusion

India's merchandise exports in the last few years have registered significant growth. Export led growth has become a key thrust for the trade in India. Trade in goods and trade in services has major role creating countries economic growth and progress.The study discussed about the long run relationship between trade in goods and services of India. The result of the study revealed that there is a long run relationship between trade in goods and trade in services of India.

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