

INDIA'S EXPORT OF SERVICES DURING PRE AND POST REFORM PERIODS

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Abstract

One of the key consequences of the advance in science and technology has been the growth in trade across borders. The progress made in the field of transportation, communication and the recent ascent of the internet has opened a Pandora's Box for firms seeking to expand their businesses. The easing of the regulatory framework in conjunction with liberal policies adopted by countries across the globe has made the world a local market place. International trade in goods as well as services has largely benefited from this trend. However, trade in "goods" is different from trade in "services". The difference lies in the inherent nature of the two. Services are characterized by intangibility, invisibility, transience and non-storability, thus making them different from "goods". Of course, all these characteristics mentioned above may not apply simultaneously to a service. Moreover, "service" is a process, while "good" is an object. Hence, they can neither be easily defined, nor measured. For example, tariffs and quotas are a reflection of the barriers in merchandise trade. However, impediments to trade in services are much more difficult to define and quantify. The quality of a "service" cannot be identified before it is purchased, thus these are referred to as "experience goods". So also, for a service to be rendered, often, the supplier and the consumer need to be in close proximity. These differences between the two make trade in services different from that in goods.

Keywords: *financial services, community services, legal services, PAD, pre and post-reform periods, Foreign Trade of India*

The conventional concept of trade in services hovered around those services that could be transferred across borders. This involved a separation of the producer and the consumer, as in the case of computer software. However, later the concept was broadened to incorporate non-separated services as well, where the consumer may travel to the country of the service-provider or vice-versa. According to the traditional view of economists services are perishable and non-tradable. Therefore, there were neither any theories to address the possible problems of trade in services nor any framework for the measurement of their trade. Initially some economists like Baumol made valuable contributions to the study of "services". His "Cost Disease Theory" discusses the rising costs associated with service industries. Hill's concept of services was similar to the classical economists. He stated that services cannot be accumulated and thus need provider and user to be in close proximity. Bhagwati analyzed trade in services and focused attention on the supply side effect on the growth of the service sector; and called the supply side specialization "splintering". According to him, there are two groups of services, first one is that require the physical proximity of the user and the provider, and second group is of those services which are not essentially dependent on the physical proximity because of

technical advancement. The second type of services like banking and insurance is more in demand. Gordon and Gupta along with supply side have also discussed demand side factors which were responsible for the growth of the service sector in the 1990s. On the basis of their growth pattern, service activities are being grouped into fast growers which include IT, communication services, financial services, hotels and restaurants, community services, trade and distribution services, and trend growers which include real estate, legal services, travel, transportation, storage, personal services, and public administration and defence (PAD).

Objectives of the Study

1. To analyze the trend and growth rate of service exports of India during pre-reform and post-reform periods.
2. To identify the structural changes of service exports of India during pre-reform and post-reform periods.

Hypothesis

H_0 : There are no structural changes in India's services exports between the pre-reform period and post-reform period.

H_1 : There are structural changes in India's services export between the pre-reform period and post-reform period.

Methodology

Any social study requires a well-knit and well-planned methodology.

Period of the Study

The period of the study taken up for the analysis is a period of forty six years, from the year 1968-69 to that of the year 2013-14. The main reason for choosing this period is to know about the impact of New Economic Policy on India's service export. The whole study period had been equally divided into two sub-periods; the pre-reform period (1968-69 to 1990-91) and the post-reform period (1991-92 to 2013-14).

Sources of Data

The author had used only the secondary data for analytical purpose. The data were collected from various sources such as the various issues of Monthly Statistics of Foreign Trade of India, Foreign Trade Statistics of India, International Trade Statistics, and UNCTAD.

Statistical tools used in this Study

Statistical tools had been used to analyze the collected data and to interpret the findings of the study. The following statistical tools had been used. Linear, Semi-log and the Chow test.

Results and Discussion

The Table 1 expresses the services exports in India during the year 1968-69 to 2013-14. Exports of services exports had enlarged from the level of `241 crores in 1968-69 to `756 crores in the year 1975-76, further risen to `1042 crores in 1977-78 and again increased to `1567 crores in the year 1979-80. Its share to the exports had also increased from -6.22 per cent to 5 per cent, and its share enormously rose to 19.35 per cent and it had increased to 29.71 per cent during the

Table 1: India's Service Exports

| Pre Reform Period | | Post Reform Period | |
|-------------------|--------------|--------------------|----------------|
| Year | Exports | Year | Exports |
| 1968-1969 | 241 (-6.22) | 1991-1992 | 12347 (51.14) |
| 1969-1970 | 223 (-7.46) | 1992-1993 | 13721 (11.12) |
| 1970-1971 | 218 (-2.24) | 1993-1994 | 16510 (20.32) |
| 1971-1972 | 235 (7.79) | 1994-1995 | 19260 (16.65) |
| 1972-1973 | 254 (8.05) | 1995-1996 | 24748 (28.49) |
| 1973-1974 | 312 (22.83) | 1996-1997 | 26565 (7.34) |
| 1974-1975 | 504 (61.53) | 1997-1998 | 35102 (32.13) |
| 1975-1976 | 756 (5.00) | 1998-1999 | 55527 (58.18) |
| 1976-1977 | 873 (15.47) | 1999-2000 | 68137 (22.70) |
| 1977-1978 | 1042 (19.35) | 2000-2001 | 74555 (9.41) |
| 1978-1979 | 1208 (15.93) | 2001-2002 | 81739 (9.63) |
| 1979-1980 | 1567 (29.71) | 2002-2003 | 100419 (22.85) |
| 1980-1981 | 2215 (41.35) | 2003-2004 | 123175 (22.66) |
| 1981-1982 | 2466 (11.33) | 2004-2005 | 193711 (57.26) |
| 1982-1983 | 2780 (12.73) | 2005-2006 | 255668 (31.98) |
| 1983-1984 | 3384 (21.72) | 2006-2007 | 333093 (30.28) |
| 1984-1985 | 4098 (21.09) | 2007-2008 | 363000 (8.97) |
| 1985-1986 | 4051 (-1.14) | 2008-2009 | 488012 (34.43) |
| 1986-1987 | 4114 (1.55) | 2009-2010 | 454580 (-6.85) |
| 1987-1988 | 4633 (12.61) | 2010-2011 | 567273 (24.79) |
| 1988-1989 | 5726 (23.59) | 2011-2012 | 684365 (20.64) |
| 1989-1990 | 7071 (23.48) | 2012-2013 | 792488 (15.79) |
| 1990-1991 | 8169 (15.52) | 2013-2014 | 917180 (15.73) |

Source: Monthly Statistics of Foreign Trade of India.

Figures in brackets indicate percentage change.

corresponding years stated above. Exports of services exports had enlarged from the level of `2466 crores in 1981-82 to `4098 crores in the year 1984-85, further fell down to `4051 crores in 1985-86 and again increased to `8169 crores in the year 1990-91. Its share to the

exports had also increased from 11.3 per cent to 21.0 per cent, and its share had badly decreased to -1.1 per cent and it had increased to 15.5 per cent during the corresponding years. The rate of services exports had rapidly dwindled from the level of 51.1 per cent in the year 1991-92 to the level of 7.3 per cent in the year 1996-97, and then there was some improvement in the rate of increase of services exports which was 32.1 per cent in 1997-98 and it had fallen to the level of 22.7 per cent 1999-2000.

After that, India's services exports earnings had steadily enhanced from the level of `81739 crores in 2001-02 to `100419 crores in 2002-03 and further, to the level of `193711 crores in 2004-05. The rate of total services exports had dwindled from the level of 31.9 per cent in the year 2005-06 to the level of 8.9 per cent in 2007-08. Due to the global economic crisis, most of the services sector experienced a decline in the growth rate of exports in 2008-09, except for the financial services, which experienced a rise in its export growth. Travel, insurance, business services, and communication services all experienced a negative export growth. Total services exports decreased to the level of -7.1 per cent in the year 2009-10 due to the world recession. The rate of services exports had decreased from the level of 24.79 per cent in the year 2010-11 to the level of 20.64 per cent in the year 2011-12, and then there was in the rate of decrease of services exports which was 15.79 per cent in 2012-13 and it had fallen to the level of 15.73 per cent 2013-14.

Table 2: Trend and Growth Rates of Service Exports in India

| Period | Linear Model | | | | |
|--------------------|----------------|----------------|----------|----------------|------|
| | b | Standard Error | T | R ² | |
| Pre Reform Period | 324.067 | 26.505 | 12.226** | 87.7 | |
| Post Reform Period | 37060.507 | 3728.387 | 9.940** | 82.5 | |
| Whole Period | 12673.585 | 1736.769 | 7.297** | 54.8 | |
| | Semi-log Model | | | | |
| | b | Standard Error | T | R ² | CGR |
| Pre Reform Period | 18.2 | 0.007 | 26.311** | 97.1 | 19.9 |
| Post Reform Period | 20.9 | 0.004 | 48.686** | 99.1 | 23.2 |
| Whole Period | 19.3 | 0.002 | 86.124** | 99.4 | 21.3 |

Source: Author's own calculation.

**Significant at one per cent level

The Table 2 demonstrates the total services exports in India during the year 1968-69 to 2013-14. The annual average growth rate was found to be accelerated from 18.2 per cent per annum during the pre-reform period to 20.9 per cent per during the post-reform period. During the overall study period, the growth rate achieved by total services exports was 19.3 per cent per year. In absolute term or in money term on an average, India's services exports augmented from ` 324.067 crores per year during the pre-reform period to ` 37060.507 crores per year during the post-reform period. Total services exports recorded a growth of ` 12673.585 crores per annum during the whole study period.

As far as the compound growth rate of total services exports was concerned, it rose from 13.1 per cent per annum during the pre-reform period to 24.4 per cent per annum during the post-reform period and during the whole study period it was 22.1 per cent per annum. The values of 't' were found to be statistically significant at one per cent level for all periods. The R² values were found to be satisfactory for all periods. From the above results, it is important to note that the annual average growth of India's total services exports had increased by more than 25 times during the post-reform period than that of in the pre-reform period.

Structural Changes of India's Services Exports Before and After the Period of Economic Reforms

The Chow Test

Table 3: Growth Rates of India's Services Exports Pre and Post Reform Periods

| Period | R ² | F | t | ESS | Decision |
|--------------------|----------------|----------|--------|-------|--------------------------|
| Pre Reform Period | 97.1 | 892.262 | 26.311 | 1.012 | Rejected Null Hypothesis |
| Post Reform Period | 99.1 | 2370.358 | 48.686 | 0.392 | |
| Whole Period | 99.4 | 7417.344 | 86.124 | 1.796 | |

Source: Author's own calculation.

H₀: There are no structural changes in India's services exports between the pre-reform period and post-reform periods.

H₁: There are structural changes in India's services exports between the pre-reform period and post-reform periods.

Substituting the values we get

$$F = \frac{S_5 / k}{S_4 / (N_1 + N_2 - 2K)}$$

$$F = 5.862$$

At five per cent level, F (2, 42) = 3.15

The theoretical value of 'F' at the 95 per cent level of significance with V₁ = 2, V₂ = 42, degrees of freedom was found to be 3.15. The computed 'F' value was found to be greater than the critical 'F' value, and hence the null hypothesis was rejected and the Chow test therefore seemed to support that there had been a structural change in respect of the services exports of India's over the period 1968-69 to 2013-14. In other words, the regression had shown that the intercept as well as the slope co-efficient had not remained the same over study period 1968-69 to 2013-14.

Conclusion

Indian economy has made rapid strides in the process of globalization; Globalization is increasing the integration of national markets and the interdependence of countries for a wide range of worldwide services. Several factors have engendered such a transition including the liberalization of tariffs and other barriers to exports; autonomous unilateral structural reforms; technological innovations in transport and communications; international development cooperation; and the strategic use of policies, experimentation and innovation. The performance of India export during 1968-69 to 2013-14 is laudable. There is structural change in India's services export after the introduction of New Economic Policy.

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