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A COMPARATIVE STUDY ON IMPACT OF TRADE IN GOODS AND TRADE IN SERVICES OF INDIA AND CHINA

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Abstract

China and India are rapidly growing, labor-abundant economies with very different export mixes. China is more integrated into global production sharing for manufactures, while services exports are more important for India. Even assuming India integrates more comprehensively into global production chains, there will be opportunities for rapid growth in both countries. Improvement in the range and quality of their exports can create substantial welfare benefits for the world, and for China and India, and can offset the terms-of-trade losses otherwise associated with rapid export growth. Most countries will need to respond to increased competition in some sectors, and to greater opportunities in others.Economies are integrated within the international division of labour at different levels. How should the level of importance of international trade for a country be specified to compare it with other economies? This is being done by operationalizing the term openness degree, showing the importance of a country's international trade by economy openness indicators. Hence, a high openness degree of an economy represents a high level of participation within the international interlocking of trade. The present paper tries to assess impact of trade in goods and trade in service of India and. The study found that impact of trade in goods on trade in services is very high in china compare to India.

Keywords*: labor-abundant economies, global production chains, terms-of-trade losses, international trade, economic rise, third markets*

Introduction

The rapid economic rise of China, followed by that of India, has led to a new balance of power in the world economy. Their rise has driven attention to other developing and transition economies which also have a high actual or potential growth, based on cheap labour, opening up to foreign technology and capital, economic liberalisation and market regulation. The emergence of these new players is challenging the supremacy of the old economic powers (US, Europe and Japan) which used to dominate the international trade of goods and services and control financial resources.

The rapid economic growth of China and India has received enormous attention. Key feature of the economic growth of China and India has been even more rapid growth in their trade. While policy makers are frequently concerned about the competition from their rapidly expanding exports or entranced by the opportunities created by their expanding imports - little quantitative research designed to provide a comprehensive assessment of these impacts is available. In some cases, the growth of China and India has created enormous opportunities for their trading partners. In others, it has created strong competition either in home markets, or in third markets.

The expansion of China's and India's trade is quite different from the expansion of developing country exports considered in much of the traditional development literature that focused on the deterioration in the terms of trade associated with expanding exports of primary commodities

Examining China's and India's trading patterns although it turns out that both have been quite successful in expanding their exports and imports, they have done this in very different ways. Broadly, China has relied primarily on exports of manufactures, frequently as part of an East Asian production sharing network. By contrast, India has concentrated more heavily on services. Within manufactures, China has relied heavily on exports of finished goods, while India has focused much more on exports of intermediate inputs. India's exports are frequently of capital- and skill-intensive goods, while China has emphasized exports of labor-intensive goods - although these are increasingly sophisticated (Rodrik 2006).

Accelerated growth in China and India may create opportunities for some and threaten others and the outcomes may differ depending on whether this growth is accompanied by quality improvements and variety expansion, and whether it is driven by physical or capital accumulation.

Why is International Trade Important?

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.

Role of WTO

Since the General Agreement on Trade in Services (GATS) was reached in 1993, progress has been made among WTO members to open up their trade in some key services sectors. Despite the agreement reached, barriers to trade in many services sectors remain significant in most countries. This means potentially large gains for many countries are possible from further liberalisation in services trade.

The GATS reached during the Uruguay Round of trade negotiation (UR) is perhaps the most important development in the multilateral trading system since 1948, when the General Agreement on Tariffs and Trade (GATT) came into effect. The GATS extends internationally agreed rules and commitments into a rapidly growing area of international trade, services. To some extent, the GATS goes even beyond the GATT: it extends the GATT's free trade principles to cover not only border measures, but also regulations relating to access by foreign service suppliers to a host region's domestic markets. In this regard, the GATS represents a major step beyond the GATT. On the other hand, however, unlike the GATT, many of the GATS rules apply only to selected sectors in which scheduled commitments are made by the members (WTO Secretariat, 1999).

Understanding the issues involved in services trade liberalisation requires an assessment of the unique features of services trade. Services are different in nature from goods. Unlike goods, services cannot be separated, geographically, and consumed away from their producer. International trade in services, therefore, is different from international trade in goods. According to the GATS, international trade in services can be conducted in any of the four different modes of delivery: cross-border supply; consumption abroad; commercial presence in the consuming country; and the presence of natural persons (WTO Secretariat, 1999). Among these four modes, only the first one coincides with trade in goods. Unlike trade in goods, however, cross-border supply is not the most important mode of trade for many services. If free access of foreign firms to a country's domestic market is granted, services trade via commercial presence of foreign suppliers is most likely to expand, or exceed its conventional trade via cross-border delivery.

Review of literature

Xiaoling Hu and Yue Ma (1999), made an attempt to the analysis of China's trade data, in this study reveals that intra- industry trade is an important component of China's international trade in manufactured goods and that China's intra-industry trade index varies significantly across the trading partners and across industries. The study shows that intra-industry trade takes place not only between China and developing countries with similar factor endowments and tastes but also between China and developed countries.

Ying Fan (2011), the study examined the impact of the global financial crisis on the People's Republic of China(PRC's) services trade, discusses policy responses by the government. The main findings of the study is that although the global economic and financial crisis spawned a synchronized recession leading to a contraction in the PRC's services trade, the crisis has had a moderate effect on the PRC's trade in services because of the lower internationalization of services. The PRC's trade surplus in goods decreased and its trade deficit in services increased after the crisis.

Van der Marel (2012) study has looked into the determinants of comparative advantage in services. Using a country sample of 23 countries, which represent the bulk of services trade that takes place in the world. The results show that although mid-skilled labour constitutes no direct determinant for services specialization, countries with a relative greater stock of this factor will find it nevertheless easier to export services than goods. Services deregulation needs to go hand in hand with good governance and a better regulatory framework that pushes for private policy development. This is what we call reregulation. Liberalization and de-regulation of services markets as such is not enough since these service markets need qualitatively better government and regulatory governance to develop comparative advantage. However, compared to goods not all types of regulation appear to be a more important source of comparative advantage in services. Services are often used as inputs of further production.

Statement of the Problem

China and India are leading the shift in the centre of economic gravity towards Asia, and the economic prospects of economies throughout the world have become increasingly dependent on sustained demand in the two Asian giants. Indeed, both countries are aiming at adjusting their growth and development strategies. However, adjusting growth and development strategies is complex and difficult from both economic and political economy perspectives. Both countries have important and prominent role for creating economic growth through international trade. In this aspect study tries to compare export and import of trade in goods and trade in services of both countries.

Objective of the Study

To examine the impact of trade in goods on trade in services of India and China.

Hypothesis of the study

H_0: There is no impact of trade in goods on trade in services of India and China.

H_1: There is animpact of trade in goods on trade in services of India and China.

Methodology of the Study

The present study will use secondary data the data were collected from Annual Reports of UNCTAD, The study period from 1990 to 2013, and the structure of the data is Time Series.

Econometric Analysis

The impact of trade in goods on trade in services of India and China analysed by employing simple linear regression model.

Results and Discussion

To assess the impact of trade in goods on trade in services of India and China two separate simple regression were run. That result is given below.

India's Trade in Goods = $\beta_0 + \beta_1$India's Trade in Service + μ_t (1)

Chinas Trade in Goods = $\beta_0 + \beta_1$ Chinas Trade inService + μ_t (2)

Table 1: Regression result of Trade in Goods and Trade in Services of India and China

Dependent variable	Independent variable	β_1 value	R	R^2	t value
India's TG	India's TS	2.547	0.994	0.988	44.422*
Chinas TG	Chinas TS	8.139	0.993	0.993	57.405*

Regression Result of the Trade in Goods and Trade in Services of India and China is reported in the Table 1. Regression result reveals that India's trade in goods is predicted to increase 2.547when the trade in services aregoes up by one and at the same timechina'strade in goods is predicted to increase 8.139when the trade in services are goes up by one. Coefficient values of both countriestrade in services are statistically significant at one percent level. Comparing the both countries Trade in goods and Trade in services , impact of goods on trade in services very high in china.ie., 8.139 percentage.

Major findings of the Study.

- The study found that impact of trade in goods on trade in services of India is 2.547 percentages.
- The study found that impact of trade in goods on trade in services of China is 8.139 percentages.
- The study revealed that impact of Trade in goods on trade in services very high in china.ie. 8.139 percentages.

Conclusion

India and China display different economic size and level of income per capita, and contrasting international specialisation. During the past two decades, both have successfully integrated into the world economy. They have changed the balance of international supply and demand in primary products, manufactured goods and services. The development of their new specialisation has enhanced their positions in international trade negotiations.

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