Chapter 6

Major Findings and Policy Implications of the Study

6.1 Conclusion

The main purpose of this empirical study was to examine performance of manufacturing trade of India and to find out the casual linkages between manufacturing trade and financial development of India over the period from 1992-2014. This study attempted to prove that in developing county like India, Financial development affects the manufacturing exports where the share of manufacturing exports is not much in total exports of India and financial development is not yet as much in other developing nations such as China and Japan.

While working on the first objective of the study which is measuring the performance of manufacturing exports and trade balance of India the results are showing very improved results for India since LPG (Liberalization, Privatization and Globalization) Model adoption by India. In case of Manufacturing exports which is presented in Table and figure 3 in the form of contribution of manufacturing exports in GDP as percentage of GDP since 1992 to 2014. Manufacturing exports are showing increasing trend over the years from 1992 to 2014 with few up and down fluctuations in between. In 1992 manufacturing exports were 4.9% and it reached to 10.8% in 2013 which is showing the improved health of manufacturing exports over the years. But again in 2014 it came down to 3.01% from 10.8% because of adverse effect of fall in crude prices, the relative appreciation of rupee against dollar, slower economic growth of world trade and narrow base of manufacturing exports of India.

And in case of Trade balance of India which is taken in the form of percent of GDP since 1992 to 2014. India trade balance is in negative which means that India is importing more than its exports. India trade balance's deficit has increased since 1992 with some improvement in between 2006 and 2008 and again after 2010. In 1992 trade balance of India was – 1.25% of GDP and this deficit increased to -9.8% again for two years it improved to -7.4% but in 2012 it came to its lowest – 10.72% but after this lowest point it again recovered and reached to -6.91.

Second objective is the main objective of the study where the purpose is to examine the casual linkages between manufacturing trade and financial development of India over the period from 1992- 2014. But before moving to objective an important task was to measure the financial development into best possible manner. So after doing lot of literature review we selected four variables to measure financial development which are Broad money as percent of GDP (M3), Bank Credit as percentage of GDP (BC), Market Capitalization percent of GDP(MC) and Financial Innovation(FIN) Rousseau and Wachtel, (1998) Xu (2000), Fase and Abma (2003), Rioja and Valve (2004), Rahman (2004), Tahir (2008). After selecting these four variables a FDI (Financial Development Index) has been constructed (Lazer.D). Financial development is showing an increasing trend from 1992 to 2014 whose values lies between 22.52 to 49.47.Values going towards 100 shows that financial development is improving over time. In case of India financial development was increasing smoothly but due to fall in market capitalization decline 2007 onwards financial development too has shown fluctuating trend of decreasing first then increasing again followed by falling again.

The study revealed positive long run correlation between the financial development and manufacturing exports on the other hand there is no correlation between financial development and Trade balance of India. After identifying the long run relationship between financial development and manufacturing exports vector error correction model applied to find out the short run relationship between financial development and manufacturing exports and the results of vector error correction model showing that there is short run relationship between financial development and manufacturing exports. And in case of financial development and trade balance vector auto regressive (VAR) model applied as there was no co-integration between them for the period of 1992- 2014.

The multivariate Granger causality test was also employed to identify the direction of causality between the financial development and manufacturing exports for the period of 1992 to 2014. The Granger causality test showed a unidirectional relationship between financial development and manufacturing exports where financial development affects the manufacturing exports between the periods of 1992 to 2014.

6.2 Major Findings of the Study

Findings of this study reveal that there is co-integration between financial development and manufacturing exports of India where financial development has unidirectional relationship with financial development (FD effecting ME). And there is no short run causality between financial development and manufacturing exports which is similar to the findings of **Beck T. (2002)** where he also tried to find out the relationship between financial development and trade in manufactures. His study consists of data for 65 countries over the period 1966 to 1995. He finds that countries with a higher level of financial development experience higher shares of manufactured exports in GDP and in total merchandise exports and have a higher trade balance in manufactured goods. The long-run impact of financial development on manufacturing exports appears to be stronger than its short-term impact. On the other hand financial development does not effect and trade balance of India.

6.3 Policy Implications

After going through review of literature and looking at the nature of relationship between the variables below given suggestions can be provided to the government for the policy implication purpose-

- Financial innovation can be increased by introducing mandatory provisions for cashless transactions in government and private organizations which will lead to promotion of digital payments among their employees.
- Financial market access should be increased by increasing awareness in India with the help of introducing compulsory financial literacy courses in school or at college level while considering future so that it should not be limited among few cities of India and to specific gender only
- Export awareness should be promoted among entrepreneurs by organizing exports awareness fairs for entrepreneurs at small tows too because lot of entrepreneurs does not know how to exports.
- Government should ensure the stability of export policies and these should not be affected by change in government and ministers.
- Credit should be given at lower rates for the export purpose to the entrepreneurs.
- Export infrastructure should be promoted in India in terms of joining all export potential markets with airport or ports so that transportation cost could be decreased and information awareness related infrastructure too needs to be increased so that information can be made available to entrepreneurs.
- A fund should be developed by the government for the distribution purpose for those outlets which are situated in difficult markets.

6.4 Limitations of the Study

Some of the limitations of the study are mentioned below-

- Time period of the study 1992- 2014 which is just 23 years and after post-reform period only it could have been extended to more than 23 years and also could have been divided into pre- reform period and post- reform period.
- To measure the depth of financial development of India only 4 indicators have been selected but in real financial development is beyond these 4 parameters. So other variables also could have been included to measure the depth of financial development index.
- In this study financial development's effect is checked only on manufacturing exports and trade balance of India. Financial development's effect could have been checked on manufacturing imports also.