CHAPTER 6

CONCLUSION, FINDINGS, POLICY IMPLICATIONS, LIMITATIONS AND FUTURE SCOPE OF THE STUDY

6.1. Conclusion of the Study

In present study entitled 'Role of Financial Development in Trade of Manufacturing Goods of BRICS Countries' put an exclusive attempt to examine the role of financial development in exports of manufacturing goods of BRICS Countries. But prior to examining this role, an attempt was also made to measure the level of financial development of BRICS countries. In this study, three objectives were set and successfully achieved. The first objective of the study was to analyze trend and pattern of all variables used in the study. Second and third objective of the study were to construct the financial development index of BRICS countries and to examine the role of financial development in exports of manufacturing goods of BRICS countries respectively.

Therefore, firstly, trend and pattern of all variables used in the study was analyzed with the help of simple line chart. The line charts show that variables of financial development have improved over the study period of each BRICS countries. But this improvement did not occur smoothly as some variables improved with minor fluctuations and some have suffered very high fluctuation during the study time period. On the other side, manufacturing exports of Brazil, Russia, India and South

Africa have decreased and only China' manufacturing exports have increased over the study period.

Secondly, to measure the financial development of BRICS countries a financial development index of each BRICS country was constructed by applying PCA approach. While constructing financial development index three variables were considered namely market value of domestic listed companies as percentage of GDP, domestic Credit to private sector as percentage of GDP and broad Money as percentage of GDP. And PCA approach was used to construct index. Results of financial development index reveal that financial development of South Africa is highest among BRICS countries during study period, which is followed by China. Russia's financial development index value are lowest among BRICS countries during study period and the pattern of financial development index of Brazil and India is very similar to each other except few initial years of the study period. Financial development of China made highest growth among BRICS nations. Financial development of each BRICS country increased over the study period but the rate and pattern of growth is different for each country.

And finally, the role of financial development in manufacturing exports of BRICS countries was analyzed with the help of ARDL model. To examine it, empirical analysis was done with a set of procedures. In that process, at first, stationarity of data was checked and based on stationarity results, ARDL model was selected to check the relationship between financial development and manufacturing exports of BRICS countries. Bounds test for co-integration (ARDL model) results revealed that that only

China's financial development and manufacturing exports have co-integration, and in other BRICS countries financial development and manufacturing exports do not have co-integrating relationship. Long-run and short-run estimates (ARDL model) of China also show significant and positive relationship. To check the direction of causality between financial development and manufacturing exports of China VAR Granger causality test was applied and result of the same revealed that financial development of China promotes manufacturing exports of China. At last, diagnostic tests proves that model don't suffer from any misspecifications.

Based on study results of the study, it is evident that among BRICS countries only in China financial development promotes manufacturing exports. So, it can be said that one of the important reason for China's success in manufacturing sector is China's financial sector development. While developing financial sector, China has focused so much on pooling of savings from household through banking system and diverting them towards the manufacturing sector (Chenn, 2003). China also focused on increasing intermediation efficiency which also helped in channelizing more funds towards the manufacturing sector. Other BRICS countries governments should learn from China's government and they should also put financial sector development on policy makers agenda to boost manufacturing exports of country.

6.2. Findings of the Study

The findings of the study are very mixed in nature, few of them are very shocking and interesting in nature and few others also validate few studies. Based on the study conducted, major findings identified, are mentioned below:

1) In this study, three variables namely domestic credit to private sector (% of GDP, market capitalization (% of GDP) and broad money (% of GDP) are considered to construct the financial development index of BRICS countries. During trend and pattern analysis of these three variables of financial development index, it is found that market capitalization is highly volatile for most of the BRICS countries due to sub-prime crisis. Domestic credit to private sector (% of GDP) and broad money (% of GDP) also increased for all BRICS countries but at different pace.

2) In this study, manufacturers exports (% of merchandise exports) is used as a proxy of manufacturing exports for the BRICS countries. While looking at the trend of manufacturing exports in BRICS countries, it is found that only China's manufacturing exports increased during the study period. In remaining BRICS countries (Brazil, Russia, India and South Africa), manufacturing exports declined over the study period.

3) Based on financial development index results, it is evident that financial development of all BRICS countries has improved over the study period. But the growth rate and pattern of financial development are different for each country. Among BRICS countries, financial development of China increased

most and in smooth manner. Financial development of South Africa increased in most volatile manner. Russia's financial development is lowest among BRICS nations. And financial development of Brazil and India are very close and similar to each other during most years during the study period.

4) Bounds test of co-integration results revealed that there is co-integration between financial development and manufacturing exports of China, which also validates the supply side hypothesis. In case of remaining BRICS countries, co-integration does not exist between financial development and manufacturing exports.

5) Long run and short run estimate results also revealed that financial development and manufacturing exports of China have significant and positive relationship in both long-run and short-run.

6) Based on direction causality test results, it is found that that there is unidirectional relation between financial development and manufacturing exports of China. And the direction of causality is that financial development of China promotes manufacturing exports of China, which validates the supply side hypothesis.

6.3. Policy Implications of the Study

The findings of the present study have interesting policy implications. As financial development plays significant role in the manufacturing exports in the given circumstances. Therefore, the variables which determines the level of financial development in an economy must be taken care of during the policy formulation. In the view of this and on the bases of present study, the researcher suggests following measures that can be adopted and implemented:

1) Based on PCA results, it is evident that all the three variables of financial development play a significant role in financial sector development of BRICS nations. So, the government of BRICS nations should focus with balanced approach while developing financial sector as both the sources (stock market and banking system) are equally major sources of capital financing for the firms.

2) A standard financial development index can be developed for all countries as till now there is no standard financial development index is developed for the world economies. A standard financial development can help to understand financial development of a country. A standard financial development index can also make financial sector development comparison easier and better.

3) Reduced transaction and monetary costs and a well-developed financial system enhance intermediation efficiency (Pagano, 1993) which in result causes better allocation of funds to mainly manufacturing sector and leads to growth of this sector. In case of China, it seems valid. So, while improving financial development cost reducing factors should be kept in mind.

4) China has attained this financial depth because of expansion of household savings and monetization of economy (Chenn, 2003) and these pooled savings

are main source of bank loans. Other BRICS countries should also focus on expanding household savings which can lead to increased channeling of funds to manufacturing sector.

5) Decentralization of power to local bodies can help a country to produce manufacturing goods in better ways as regional governments are more aware of local issues and can process information better than center and it also allows institutional changes on experimental scale, thus protects rest of the economy from disruption (Xu, 2011). Decentralization of power to local bodies can also help in increased competition among local bodies and which can be vital in attracting FDI and introduce some other innovative (Jun et al., 2007). China has applied this decentralization of power policy for manufacturing sector and gained success too with it. So, other BRICS countries can also adopt this policy as it can help in attaining success in this sector.

6) One of the reasons for China success in manufacturing exports is setting up of mega SEZs for attaining advanced technology and FDI which also made use of China's abundant labor. SEZs have a vital role in converting China into trade surplus nation as more than 95 percent of China's exports come from SEZs. So, following China's footsteps remaining BRICS countries also can set up more and mega SEZs with flexible labor laws and FDI focused.

7) Like China, Other BRICS countries should also focus more on attracting FDI in manufacturing sector as FDI can have positive spillovers in many ways over a long period of time. FDI gets attracted with better physical infrastructure, less bottlenecks for FDI and trade openness (Seekat and Varoudakis, 2007).

6.4. Limitations and Future Scope of the Study

Although the objectives of this study have been fulfilled, but still there are certain areas which can be addressed in future research and which are limitations of this study. Some limitations of this study are mentioned below:

1) This study is conducted on post economic reforms period in BRICS countries. Further study can be conducted in pre-economic reforms period also.

2) Time period of the study is 26 years which is a small sample size. Data series can be extended for further study.

3) To measure the financial development only three indicators were considered in this study but practically financial development is very broad in nature and more variables are needed to get the exact picture of financial development. For future research a financial index can be constructed by considering greater number of financial sector variables.

4) In this study, effect of financial development is checked on manufacturing exports only. To know the exact effect of financial development on trade of manufacturing goods, effect of financial development should also be checked on manufacturing imports. So, for further research effect of financial development can also be checked on manufacturing imports also.

5) In this study, only five countries are considered. In future, this study can be done on more number of countries.