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INTERNATIONAL TRADE AND ECONOMIC GROWTH

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ABSTRACT

One of the most affected and major world trends in the past two decades has been the rapid, sustained growth of international Trade. Markets have converted truly worldwide for most goods, many services and especially for financial instruments of all types. In this research paper researcher examine the studies on the influence of commercial and technological aspects, resulting from international trade on the physical accumulation and quality of productive factors. We remark that international trade and economic growth constituted two inseparable branches of economics. In this era, it is believed that international trade has a positive effect on the economic growth. At present, International Trade is a rapidly growing area of study that deals with the development and management of multinational companies. Due to Globalization, many businesses now operate in the international market place. In latest developments the international trade theory permissible us to get a better understanding of the relation between international trade and economic growth. Its role and contributions to the gross domestic earnings, employment generation, economic development and poverty reduction in developing and underdeveloped countries. The main aim of this paper is to examine in-depth the contributions and relationship between international trade and the economic growth. Furthermore, this paper recommended various policies that would encourage and increase the multiplier effect of international trades. Some policies are targeted towards exchange rates, tariffs, import and export duties, subsidies and actions that promote international trade. It is concluded that international trade is a key macroeconomic driver that must be encouraged for development of global economy from various perspectives. Some of the recommendations include the adoption of friendly and pro-active export promotion policies, availability of grants, aids, subsidies and loans, automation of the agricultural sector, adoption of flexible exchange rate, etc.The main aim of this paper is to study of international trade and also ascertain the impact that it exerts on the global economy by narrowing down to regional, multidimensional and mutual trade agreements and their effects.

Keywords: *Economic Growth, International Trade, Global Economy, Globalization, Exchange Rates, Tariffs, Import and Export Duties.*

Introduction

International trade is interchange of capital, merchandises and services across international borders or areas. In all countries of the world, it represents a important share of gross domestic product (GDP). While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent time. International trade means trade between the two or more countries across globe. International trade comprises exchange currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Thus, International trade is more complex as compare to domestic trade.

Due to Industrialization, advanced transportation, globalization, multinational corporations and outsourcing are all having a key influence on the international trade system. Increasing international trade is essential to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own country. To make India a quality manufacturer and exporter of goods and services, apart from projecting such image, an important Act – Exports (Quality control & inspection) Act, 1963 has been play an important role. Developmental pace of overseas trade is dependent on the Export-Import (EXIM) Policy adopted by the country too. Even the EXIM Policy puts its stress to simplify procedures sharply to further reduce transaction costs.

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Economic growth has been express in many ways i.e. in first view we can say that economic growth is well-defined as constant annual increases in an economy's real national income over a long period of time. So we can say that economic growth means growing trend of net national product (NNP) at constant prices. For example, if national income is increasing by 2% p.a. and population is increasing at 4% p.a. the standard of living of the people will tend to decrease. This is so because when population is increasing more speedily than national income, per capita income will go on decreasing. Per capita income will increase when the national income increases more speedily than population.

As per the second view of economic growth, "Economic growth means the yearly increase in real per capita income of a country over the long period. Thus Professor Arthur Lewis says that "economic growth means the growth of output per head of population." Since the main objective of economic growth is to increase the standards of living of the people, therefore the second view of defining economic growth which runs in terms of per capita income or output is better compare to first one. Another view which is stating in regard to the definition of economic growth is that the increase in national income or more correctly increase in per capita income or output, must be a 'continuous increase' if it is to be called economic growth.

Now, almost across the globe, rates of economic growth are measured both in terms of increase in overall Gross National Product (GNP) or Net National Product (NNP) and increase in per capita income. While Gross National Product (GNP) measures the total output of goods and services which an economy is proficient of producing per capita income measures how much of real merchandises and services which a common person of the community will have for consumption and investment, that is, average level of living of a citizen of a country. Thus, world organizations such as World Bank and IMF have been using both these measures of economic growth in their annual World Development Reports for comparing growth and levels of standard of living of the developed and the developing countries. In India also our Planning and levels of standard of living are developed. In India our planning Commission, Central Statistical Organization (CSO), and Reserve Bank of India have been measuring economic growth on the basis of both overall GNP or NNP and per capita income.

Contribution of Foreign Trade to Economic Growth

Foreign trade expands the market for a country's output. Exports may lead to increase in national output and may become an engine of growth for nation. Enlargement of a country's overseas trade may drives to a more stable economy and may lead it onto the path of economic growth and success. Increased in demand across the world due to international trade may lead to large production and economies of scale with lower unit costs. Increased in exports may also lead to maximum utilization of present capacities and thus reduce costs, which may lead to a further increase in exports. Expanding exports may provide greater employment opportunities. The possibilities of increasing exports may also reveal the essential investment in a particular country and thus support in its economic growth.

Some of the significant means in which overseas trade contributes to economic growth are as follows:

- The main function of overseas trade is to discover means of obtaining imports of capital goods, without which no process of development can start.
- International Trade delivers the flow of technology, which permits for increase in efficiency and also results in short-term multiplier effect.
- Overseas trade creates pressure for dynamic change through (a) competitive pressure from imports, (b) pressure of competing export markets and (c) a better distribution of resources.
- Exports further allow complete utilization of capability resulting in achievement of economies of scale, divorces production pattern from national demand, escalations familiarity with fascination of new technologies;
- Overseas trade increases most workers well-being. It does so at least in four ways: (1) Higher exports turn into higher wages (2) Because workers are also consumers, trade brings them immediate gains through products of imports; (3) international trade allows workers to become more productive as the goods they produce increase in value; and (4) international trade increases technology transfers from industrial to developing countries resulting in demand for more skilled labour in the receiver countries.
- Increased openness to trade has been strongly related with decrease in poverty in most developing countries.

- In short, international trade encourages growth enhancing economic welfare by inspiring more efficient utilization of factor endowments of different regions and by enabling people to obtain goods from well-organized sources of supply.

Various Objectives of the Foreign Trade Policy of India

Trade boosts economic progress and national development. The main aim is not just earning of foreign currencies, but the encouragement of superior economic activity.

To double the percentage share of international goods trade within the next five years.

To act as an effective tool of economic growth by giving a drive to employment generation in various sectors.

Agriculture and industry has revealed incredible flexibility and drive in contributing to a healthy growth in exports of various products. In the last few years the exports witnessed strong growth to reach a level of US$ 170 billion from US$ 63 billion. Our share of universal products trade was 0.83%; it rose to 1.45% as per WTO report. Our share of universal commercial services export was 1.4%; it rose to 2.8%. India's total share in goods and services trade was 0.92%; it increased to 1.64%. On the employment point of view studies have suggested that nearly 15 million jobs were created directly or indirectly as a result of increased exports in the last few years.

The short term objective of the policy is to capture and reverse the decreasing trend of exports and to deliver additional support particularly to those sectors which have been hit badly by recession in the developed world. The policy is empowered with objective of achieving an annual export growth of 18% with an annual export target of US$ 300 billion. The country should be able to come back on the high export growth track of around 40% per annum. This policy expects to double India's exports of goods and services.

The sustainable objective of policy for the Government is to double India's share in international trade by 2020. In order to meet these objectives, the Government would follow a mix of policy processes including fiscal incentives, institutional changes, procedural rationalization, and improved market access across the world and broadening of export markets.

Advantages of International Trade with Reference to Economic Growth

- **Maximum Use of Natural Resources**

Due to International trade there is possibility of best use of its natural resources of country. Each and every country can focus on production of those products for which its resources are best suited. Wastage of resources is avoided for minimization of cost and maximization of profit in international business.

- **Accessibility of all Types of Goods**

International trade enables a country to get goods which it cannot produce before or which it is not producing due to more costs, by importing from other countries at lower costs.

- **Specialization**

International trade directs country towards specialization and boosts production of various products in various countries. Products can be manufactured at a relatively low cost due to economies of scale and advantages of division of labour.

- **Benefits of Large-scale Production**

Because of international trade merchandises are produced not only for domestic use but for export to many countries also. Nations of the world can sale of goods which they have in surplus in the international markets. This leads to manufacturing at large scale and the benefits of large scale production can be achieved by all the countries of the world.

- **Stability in Prices**

Due to International trade fluctuations in prices decrease. International trade stabilizes the prices of goods throughout the world (ignoring cost of transportation, etc.)

- **Give-and-take of technical know-how and Establishing of New Industries**

Underdeveloped countries can establish and cultivate new industries with the machinery, tools and technical know-how bring in from developed countries. This matter assistance in the growth of these countries and the economy of the world at large.

- **Increase in Proficiency**

  Because of international competition the producers in a country try to produce superior quality goods and at the lowest possible cost. This increases the proficiency and benefits to the consumers all over the world.

- **Development of the Mode of Transport and Communication**

  International trade needs the best mode of transport and communication. Because of the growth of international trade, development in the mode of transport and communication is also possible.

- **International Co-operation and Understanding**

  The people of various countries come in contact with each other due to international trade. Commercial association amongst nations of the world boosts exchange of ideas and culture. International trade creates co-operation, understanding, and friendly relations amongst various nations.

- **Capability to Face Natural Calamities**

  Natural disasters such as drought, floods, famine, earthquake etc. affect the manufacture of a country unfavorably. Deficiency in the supply of goods at the time of such natural disasters can be met by imports from other countries.

- **Additional Advantages**

  International trade helps in many other ways such as benefits to consumers of worldwide, worldwide peace and better standard of living for people across the globe.

Trade-Growth Relationship in India in the Pre and Post Trade Agreements

There pivotal relationship between trade and growth in India, with particular importance on the effect of introduction of various trade agreements on this relationship. A lot has been discussed about the impact of FTAs on an economy. Here in this study tried to check whether there has been any instrumental relationship between international trade and growth in India in general and whether any change (positive or negative) required for the execution of the agreements. It is found here that India prior to become a part of the trade agreements, exports led to growth but growth didn’t lead to export formation. However, with the introduction of the trade agreements, the relationship is seen to be changed, the interconnection running in the opposite direction and the relation looked to be strengthened. Also, it is seen that in the trade before agreements regime, though exports caused growth, the effect on growth is insignificant; whereas after agreements regime GDP triggered exports and the relationship is statistically significant.

Conclusion

International trade has played an important role in India’s economic growth in the past two decades. Overseas trade has boosted competitiveness in market place and expanded business chances for local markets. By eliminating unnecessary obstacles, it made easier for India and the US to export and import. Since the economic changes introduced in the year 1991, India has totally changed its trade relations with the United States of America. The trade between India and the US has climbed sharply in the present time. This paper is an attempt to study the realistic relationship between international trade and economic growth of India. We can say that there is a positive impact of the trade on economic growth for both countries.

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