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IMPACT OF INTERNATIONAL TRADE ON ECONOMIC GROWTH IN INDIA

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ABSTRACT

The International trade is very much essential for the development of any country. It plays a vital role in the economy of each country. It allows to satisfy the needs of the population, which stimulates the internal development of the country. International trade is the exchange of goods and services between countries. The issues of international trade were considered by many economists. The representative of neo-classicism E.Heckscher is among them. According to him, foreign trade leads to an increase in the owners' incomes, relative to excess factors of production and export of the product, and stimulates economic growth. Because at the time of globalization, one country's people can easily buy or sell products to another country's people..The importance of international trade in the world has been widely studied and also examines the role of international trade in the various issues. International specialization means that different countries of the world specialize in producing different goods. Trade policy formulation and implementation covering issues such as tariffs, incentives, quotas, taxes, customs and administration, subsidies, rules of origin, public procurement regimes, aid and investment, export promotion, trade facilitation and diversification. The role of foreign trade in achieving a quicker pace of economic development is thus well recognized. Hence, planning of foreign trade cannot be separated from the strategy of overall development. The objectives of this study were to analyze the importance of international trade on economic growth in India.

Keywords: International Trade, Economic Development, Economic Growth.

I. INTRODUCTION

International Trade refers to the buying and selling of goods and services between countries. In most countries, such trade represents a significant share of gross domestic product.It is the backbone of our modern commercial world, as producers of different nations try to make profit from expanded market rather than limited selling within their own borders. There are various reasons behind international trade such as lower production costs in one region versus another, specialized industries, lack or surplus of natural resources and consumer tastes. History suggests that in the past there were several instances of international trade. There is plenty of evidence of continuous trade and exchange of ideas between India and China, through the centuries without either political cooperation or conflict. Traders used to transport silk, and spices through the Silk Route in the 14th and 15th century. In the 1700s fast sailing ships called Clippers, with special crew, used to transport tea from China, and spices from Dutch East Indies to different European countries. International trade provides consumers of different countries get the chance to be exposed to those services and goods that are not available in their own country. International trading lets the developed countries use their resources effectively like technology, capital and labor. Most of the countries are gifted with abundant natural resources and various types of assets, they can produce many products more efficiently and sell at cheaper prices than other countries.

II. REVIEW OF LITERATURE

1. "Export Finance" by Pradumna B Raka and Bruce considered the need for export promotion. The authors have taken up the study of five countries namely India, Indonesia, Pakistan, Phillipines and Thailand and called them as Developing Member Countries (DMC). The study provided a review of existing export finance system then. The authors are of the opinion that development of non-traditional exports through additional supportive finance both at National and State level would enhance the export opportunities and also recommended that export promotional incentives through tax, duty concessions and marketing assistance by Trade Fairs. They have remarked that technology transfer would foster export promotion.

2. "Foreign Direct Investment and Trade in India" by Suvanshu Rai and Raj Kishore Sen highlighted that foreign direct investment has become one of the crucial areas for growth of Indian Economy. The main reason is that competition among developing countries attracts FDI. FDI is the main tool for transferring technological knowledge from developed countries to developing countries. Dr Sharad Kumar Chaturvedi4 in his book on "Foreign Investment Law Its impact on Labour" concentrated on the growth of Indian Economy by way of Law and the impact on FDI, taking into account the present changes in globalization in the fields of Banking, Insurance, Media etc., They have opined that FDI generates employment opportunities in host countries directly as well as indirectly because of the technologies art of sophistication providing better awareness to employers in domestic markets. The main aim of foreign investment in India is to improve the economy that ultimately benefits labour.

3. "Export and Economic Growth" by B.N. Tripathy, states that exports are engines of economic growth. The study has traced the theories on export by Adam Smith, historical experience and an attempt was made on the analysis of the role of Indian Economy. The author has expressed that Indian Economy has always been growth led exports and strategy of export led growth. Mr. B.N. Tripathy has also pointed out that small countries with limited natural resources are most likely to find economic growth can be accelerated by export specialization. In the compendium of various research papers on "Economic Reforms and Perspectives (Recent development in Indian Economy)" edited by Boppana Nagarjuna, covers aspects like Macro Economic policy issues, Monetary policy issues, Trade policy, Financial sector reforms, Foreign Investment in Agricultural Industrial and Foreign trade and Exchange.

4. Francis Cherunilam considered the emerging trends towards global liberalization as well as reform process in India have drastically altered the business environment of domestic firm. The book has dealt in detail the various aspects like globalization, Foreign Exchange, Foreign Trade Policy; dimensions and trends in international business by referring to cases and text in Indian scenario.

5. Anil Arora and Prof. Jai Narain Sharma in their contribution on “International Trade (Theories and current trends in Globalized World)”, had traced the history of International Trade and its relevant theories. They have also analyzed the present scenario of International Trade. They have categorically mentioned “Trade but not aid”.
6. “Dynamics of Indian Export Trade” by Pratima Dikshit had set out the International aspects of Indian Economic Development and an analysis of various theories in International Trade, their relevance to the developing economies. It has also studied the effect of export on economic growth of the country with reference to the Indian EXIM policy.
7. Dr.Chalapathi Rao, in “India's Trade Policy and Export performance of Industry” has analyzed the performance of India during 1970s and 1980s. The contribution by the Indian Industry to export earnings in the background of Economic Reforms initiated in 1990. Exports have been playing a vital role in the process of Economic Development for the developed and under developed countries.

III.Objectives of the Study:

1. To study the importance of International Trade in the World.
2. To examine the relationship between International Trade and Economic Development.

IV. Methodology

- The research method used for this study is descriptive in nature. The data sources used for this study are secondary in nature which is collected from reports of Government of India, various academic research journals, newspapers, online web articles etc.

Importance of International Trade

International trade supports the world economy, where prices or demand and supply are affected by global events. Here are some of the important features of International Trade:

1. Make use of abundant raw materials

Some of the countries are naturally abundant in various kinds of raw materials such as oil (Qatar), metals, fish (Iceland), Congo (diamonds) Butter (New Zealand). Without trade, these countries would not be benefitted from the natural endowments of raw materials.

2. Comparative advantage

It allows countries to specialize in producing only those goods and services, which it is good at.

3. Greater choice for consumers

The New trade theory points out a driving factor behind international trade is giving consumers greater choice of differentiated products. We import BMW cars from Germany, not because they are the cheapest but because of the quality and brand image. Regarding music and film, trade enables the widest choice of music and film to appeal to different tastes.Here consumers are benefitting from choice, rather than the lowest price. the important aspect of international trade is brand differentiation

4. Economies of Large scale efficiency

International trade leads to economies of scale because if a county wants to sell its goods in the international market, it will have to produce more than what is needed to meet the domestic demand. So, producing higher volume leads to economies of scale, meaning the cost of producing each item is reduced.

5. COMPETITION

Selling goods and services in the foreign market also boosts the competition in that market. In a way, it is good for local suppliers and consumers as well. Suppliers will have to ensure that their prices and quality is competitive enough to meet the foreign competition.

6. TRANSFER OF TECHNOLOGY

International trade often leads to the transfer of technology from a developed nation to the developing nation. Govt. in the developing nation often lay terms for foreign companies that involve developing local manufacturing capacities.

International trade and economic growth

International trade has played an important role as a major driver of economic growth for the latter half of the 20th century. Nations with strong international trade have become prosperous and have the power to control the world economy. International trade has a major role in economic development of any country. International trade has significant role in following key areas of economic development:

1. Through specialization and increased world output, international trade expands the range of commodities available to the population and thus increases choice and welfare of the population. International trade provides countries with access to resources, which they may not have naturally. It provides access to markets for products which may not be consumed domestically. In this way, international trade stimulates economic growth.

2. Trade leads to increased and more efficient use of a nation's resources. As seen from the Hecksher - Ohlin model, it leads to factor price equalization and a rise in the real incomes of resource owners.

3. An outward looking trade policy is superior to partial or complete isolation. International trade leads to higher output, increased consumption and higher rewards for those sectors where a country has comparative advantage.

4. International trade helps to attract foreign investment to exploit a country's comparative advantage. This can also result into investment in other sectors of the economy. For example, mining and export of minerals can lead to new investments in power generation, plantation agriculture, tourism, etc. when markets and good relations are created abroad. Expanded markets would lead to increased supply of foreign investment, domestic savings and skilled labour. The international trade helps expand economy by outward shift of Production Possibility Frontier (PPF) and allows consumption outside of PPF. Under the field of macroeconomics PPF represents the point at which an economy is most efficiently producing its goods and services and, therefore, allocating its resources in the best way possible.

5. Export-led growth creates linkages which stimulate the development of other industries. A steady growth of an export industry, such as textiles may create sufficient demand for some input such as dyes to warrant its production. This is the backward linkage associated with trade. For example, the wheat industry in North

America created sufficient demand for rail transport and farm equipment so that these industries had to be established.

6. International trade may lead the development of infrastructure such as roads, rails, power plants and telecommunications to facilitate trade.

7. Foreign trade, especially the export sector may encourage the development of local entrepreneurs and skilled labour. Trade leads to travel and exposure to different places and cultural, which can promote learning and enhance experience.

8. International trade enhances competitiveness of domestic industry. As domestic industry is required to compete with international products which may be of superior quality and at a lesser price.

From an individual company's point of view international marketing offers following benefits

i) Enables overcoming domestic marketing constraints like saturated market, small size of market, recession in domestic market etc.

ii) Helps to achieve economies of scale of production.

iii) Company can tap growth opportunities in other countries.

iv) Sometimes selling in international markets may enable to earn high profits in overseas markets than domestic market.

v) Company can avail benefit of government policies and regulations like tax concessions and other incentives.

vi) Company can enjoy spin-off benefits like improvement image of a company and develop better products in domestic market also due to development of quality culture in company.

V. CONCLUSION

For the betterment of any country, International trade is very much essential, as a country cannot always be sufficient in natural resources in every sector of production of goods and services efficiently and effectively. As India is an open economy, not only its exports are raising but imports has also risen reflecting her potentials to emerge as a super power. Even a limited attempt of globalization has benefited Indian economy in the best possible way. India should overcome the constraints of trade such as electricity shortages and inadequate transportation infrastructure and utilize trade as an effective engine for accelerating the pace of inclusive development in the country. To become a major player in world trade, it has to reduce import restrictions which are required to stimulate our economy. It is necessary to mention that International trade alone cannot bring about economic growth and prosperity in any country. Apart from flexible trade policies there are also other factors like favourable macroeconomic scenario and political stability that need to be there to complement the gains from trade. India can achieve a 5% share of world trade in both goods and services by the year 2020 which is a fourfold increase in our percentage share in the next 11 years provided the policy measures and economic infrastructure are accommodative enough to cope with the changes in social and financial scenario that result from it. If so, India of 2025 is sure to occupy a very different place, and a much more dominant force in the world economy, than was the case twenty five years ago or at the beginning of the new millennium.

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