International Journal of Marketing, Financial Services & Management Research__________________ ISSN 2277- 3622
Vol.2, No. 9, September (2013)
Online available at www.indianresearchjournals.com

THE IMPORTANCE OF INTERNATIONAL TRADE IN THE WORLD

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ABSTRACT

The importance of international trade in the world has been widely studied and also examines the role of international trade in the various issues. Mainly my paper focussed on the relationship between Economic Development and international trade, disadvantages of international trade also discussed. International trade is an activity of strategies importance in the development process of a developing economy. 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 divorced from the strategy of overall development. The disadvantage of international trade is that the welfare of the people in nations that produce goods and services is sometimes ignored for the sake of profits. In conclusion it can be said that, international trade leads to economic growth provided the policy measures and economic infrastructure are accommodative enough to cope with the changes in social and financial scenario that result from it.

KEY WORDS: International Trade, Economic Development, Disadvantages, Economic Growth.

Introduction:

In the modern world, there is mutual interdependence of the various national economies. Today it is hard to find the example of a closed economy. All economies of the world have become open. But the degree of openness varies from one country to another. Thus, in the modern world no country is completely self-sufficient. Self-sufficiency, in the sense used here, means the proportion of the goods and services consumed to their total output produced with in a country. But the degree of self-sufficiency varies from one country to another.

Equally important are the roles of the regional and international specialization. Regional specialization means that various regions or areas in a country specialize themselves in the production of different products. International specialization means that different countries of the world specialize in producing different goods. Factors which determine regional specialization are more or less the same as those which determine international specialization. A country which produces surplus of a good, i.e produces more than its requirements, will export it to other countries in exchange for the surplus produces of those countries.

Objectives:

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

Foreign Trade:

"Trade is essentially an international transformation of commodities, inputs and technology which promotes welfare in two ways. It extends the market of a country's output beyond national frontiers and may ensure better prices through exports. Through imports, it makes available commodities, inputs and technology which are either not available or are available only at higher prices, thus taking consumers to a higher level of satisfaction.

The foremost principle of foreign trade, viz., 'the law of comparative costs', signifies that what a country exports and imports is determined not by its character in isolation but only in relation to those of its trading partners.

According to Samuelson "Foreign Trade offers a Consumption possibility frontier that can give us more of all goods than can own domestic production possibility frontier.

The extension of foreign trade, according to Ricardo "will very powerfully contribute to increase the mass of commodities, and therefore, the sum of enjoyments". This will be true for each trading nation. In modern terminology, "trade is a p positive sum game".

Under developed countries are concerned with their international trade position, because for all of them, international trade position, because for all of them, international trade-how, skills, capita, machinery and implements which are essential for their economic development.

The Need of International Trade:

There is always a need for because the countries have different capabilities and they specialize in producing different things. To compensate for what they don't produce, then have to involve trade with other countries. For ex: not all the countries have oil resources, the rest of the countries import oil from the oil producers. Most of the oil producers on the other hand import finished goods because, they don't produce enough. So in the modern world no country is completely self-sufficient. Thus International Trade is very important for all the countries in the world.

The importance of International Trade:

Economics deals with the proper allocation and efficient use of scarce resources. International Trade is also concerned with allocation of economic resources among countries. Such allocation is done in the world markets by means of international trade under the concept of free trade, the best products are produced and sold in competitive market, and benefits of efficient production like better quality and lower price are available to all people of the world.

One fundamental principle international trade is that one should buy and services from a country which has the lowest price and sell his goods and services to a country which has the highest price. This is good for buyers and sellers and also the developed countries have the opportunities to accelerate the pace of their economic development. They can import machines and adapt foreign technology. They can send their scholars and technocrats to more progressive countries to gain more knowledge and skills which are relevant to the particular needs of their developing economies.

In the final analysis, no country in the world can be economically independent without a decline in its economic growth. Even the richest countries buy raw material for their industries from the poorest countries. If every country produces only for its own needs, the production and consumption of goods would be limited. Clearly, such situation hampers economic progress. Furthermore, the standard of living of the people all over the world would have no chance to improve. Because of internal trade, people with money can acquire goods and services which are not available in their own countries. Hence satisfaction of consumers can be maximized.

International Trade is that kind of trade that give s rise to the economy of the world. In this the demand and supply and the prices are affected by the global; events. Global trading provides countries and consumers the chance to be exposed to those services and goods that are not available in their own country. Clothes, food, stocks, wines, spare parts etc and many more products have international market. Trading of services is also done like: banking and transportation tourism. The goods and services that are bought from the global market are called imports and the goods and services that are sold in the overseas marked are called exports. Exports and Imports are recorded in a country's of BOP (current Account).

International trading lets the developed countries use their resources effectively like technology, capital and labour. As many of the countries are gifted with natural resources and different assets (labour, technology, land and capital) they can produce many products more efficiently. Sell at cheaper prices than other countries. A country can obtain an item from another country if it can't effectively produce it within the national boundaries. This is the specialty of international trade. Global trading allows the different countries to participate in global economy encouraging the foreign direct investors. These individuals invest their money in the foreign companies and other assets. Hence, the countries can become competitive global participates.

International Trade has exerted a profound influence on the economic growth of a country. It has been observed that with the opening up of the economy and liberalization of trade restrictions, the developing countries, especially India and China, have grown over the years.

International Trade has positively influenced the economic growth of a country in the following ways:

- International trade injects global competitiveness and hence the domestic business units tend to become very efficient being exposed international competition. Due to the integration with the world economy the entrepreneurs can have easy access to the technological innovations. They can utilize the latest technologies to enhance their productivity.
- The developing countries have higher trade protectionism measures as compared to the developed countries. The countries that have adopted such measures are seen to reap the benefits of an open trade regime.
- The products that are labour intensive like clothing, footwear, textiles etc are exported by the developing countries to both developed and underdeveloped countries. Such exports earn heavy tax revenue in countries like Mexico, India, China and many more.
- International Trade has also brought in a reduction in the poverty level. India was a closed economy in the 1960s and 70s. There was not even 1% decline in the poverty level. The entire scenario changed with globalisation and international trade. According to Prof. Jagadish Bhagwati the reduction in the poverty level is due to a pull up rather than a trickledown effect. The economic growth brought about by international trade can generate financial resources. Such resources can be used to set up anti poverty programs. Better education and health facilities can also be provided to the poor.
- The exclusion of all types of trade barriers in the agricultural products of the developed countries will lead to a decline and rise in production and world prices

respectively. The developing countries profit by selling or exporting these products at escalated world prices.

International trade and Economic Growth:

The issues of international trade and economic growth have gained substantial importance with the introduction of trade liberalization policies in the developing nations across the world. International trade and its impact on economic growth crucially depend on globalization. As far as the impact of international trade on economic growth is concerned, the economists and policy makers of the developed and developing economies are divided into two separate groups.

One group of economists is of the view that international trade has brought about unfavourable changes in the economic and financial scenarios of the developing countries. According to them, the gains from trade have gone mostly to the developed nations of the world. Liberalization of trade policies, reduction of tariffs and globalization have adversely affected the industrial setups of the less developed and developing economies. As an aftermath of liberalization, majority of the infant industries in these nations have closed their operations. Many other industries that used to operate under government protection found it very difficult to compete with their global counterparts.

The other group of economists, which speaks in favour of globalization and international trade, come with a brighter view of the international trade and its impact on economic growth of the developing nations. According to them developing countries, which have followed trade liberalization policies, have experienced all the favourable effects of globalization and international trade. China and India are regarded as the trend-setters in this case.

There is no denying that international trade is beneficial for the countries involved in trade, if practiced properly. International trade opens up the opportunities of global market to the entrepreneurs of the developing nations. International trade also makes the latest technology readily available to the businesses operating in these countries. It results in increased competition both in the domestic and global fronts. To compete with their global counterparts, the domestic entrepreneurs try to be more efficient and this in turn ensures efficient utilization of available resources. Open trade policies also bring in a host of related opportunities for the countries that are involved in international trade.

However, even if we take the positive impacts of international trade, it is important to consider that international trade alone cannot bring about economic growth and prosperity in any country. There are many other factors like flexible trade policies, favourable macroeconomic scenario and political stability that need to be there to complement the gains from trade.

There are examples of countries, which have failed to reap the benefits of international trade due to lack of appropriate policy measures. The economic stagnation in the Ivory Coast during the periods of 1980s and 1990s was mainly due to absence of commensurate macroeconomic stability that in turn prevented the positive effects of international trade to trickle down the different layers of society. However, instances like this cannot stand in the way of international trade activities that are practiced across the different nations of the world.

Economic Development and Trade

Developing countries are increasingly driving the performance of the world economy. Trade between developing countries is becoming as important as trade between them and developed economies. Moreover by growing their domestic market and pursuing regional economic integration developing countries can diversify their production away from their traditional export markets in Europe and North America.

Economic growth depends upon enhancing productivity (of labour, capital, land and knowledge); a stable and conducive policy environment; and strong incentives for investment by individuals and businesses. For developing countries the major barriers to growth are:

- regulatory, informational and coordination failures that hamper the efficient operation of markets;
- Poor conditions for private sector investment (poor governance, lack of infrastructure, etc.);
- limited financial services with lack of access to credit for small businesses that holds back production;
- poverty which restricts the growth of internal consumer demand and encourages a large informal sphere; and
- Difficulty in accessing international markets (technical barriers to trade, protectionist measures, etc.).

HTSPE has been involved in many aspects of economic development and trade facilitation - from WTO negotiations and accession, through to investment promotion and enterprise competitiveness. We have the skills and ability to help governments develop and deliver on policy, and private sector companies to develop their markets. Our approach is a practical one, enabling clients to maximise the opportunities available to them. We are committed to providing hands-on training and capacity building to enable clients to promote economic development and engage with the international trade architecture beyond the life-time of the project. Specifically, HTSPE supports governments, communities and the private sector with:

- 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.
- Export market development – at a regional and international level, including specific expertise on access to the Single European Market.
- Investment promotion, identifying the investment needs of a country, region, or business sector, and the design and implementation of strategic investment promotion programmes.
- International competitiveness enhancement, including components such as: business and regulatory procedures; infrastructure; training and human resource development; improved access to markets and information; manufacturing and quality standards; the capabilities and effectiveness of export support organisations.
- Global market research and studies, undertaking complex market research assignments on a world-wide basis on the binding constraints to inclusive growth.
- Regional economic development - from the actual creation of Regional Development Agencies, enterprise centers and business incubators and providing institutional support, to the provision of advice to enterprises in the region with the aim of stimulating the economy through growth and job creation measures.

According to Krugman "efficient employment of the production forces of the world is a direct economic advantage of foreign trade. In recent years international trade acts as a dynamic force which by increasing the extent of the market and the scope of the division of labour, permits a greater use of machinery, stimulates innovations, overcomes technical indivisibilities raises the productivity of labour and generally enables the trading country to enjoy increasing return and economic development."

Professor Ballasa puts the idea more succinctly "the export trade helps considerably in the importance of technical knowhow and skills which is an indispensable source of technological progress. It provides an opportunity to learn from the achievements and the failure of the advanced countries. By selective judicious borrowing and adaptation, it acts as an excellent stimulus for speedy economic development". Developing countries like India with a large and growing industrial infrastructure need imports of capital equipment and critical raw materials and hence foreign trade is important.

Foreign Trade is now an integral part of international relations and it provides crucial foreign exchange reserves which would contribute to the greater efficiency in resources use, better technology and better quality and so on. Internationalization of production, trade marketing, information research and analysis, technology transfer, human resource development has now reached a unprecented level of intensity.

In this find state of the world economic scene, India's external trade sector should rise to the opportunity of making the best use of the potentialities and beware of the pitfalls and bottlenecks. Since exports will have to play a very significant role in the coming years, the export strategy should be designed on a more comprehensive and integrated framework than the one which is adopted at present.

According to classical economists international trade acts as an engine of growth. Exports stimulate growth by augmenting factor incomes and thereby raising demand which in turn stimulate technological change and productivity improvement in the economy.

According to Tyler and Attri countries that have increased their exports rapidly have also achieved a relatively rapid growth of real income. Marxist writers view the expansion of international trade as immersing the developing countries. They maintained that a international trade is based on unequal exchange resulting from decling terms of trade for the developing countries. In today's world no nation exists in economic isolation. All aspects of a nation's economy, its industries, and service sectors, level of income and employment and living standards are linked to the economies of its trading partners. International trade helps to keep prices down through imports gives access to latest technology and ideas, development of more efficient methods and new products, a better allocation of resources, pressure of competition for export market, competitive pressure from imports. Although free trade is often strongly advocated, many countries believe that the expansion in trade is best accomplished through the establishment of Regional Economic Association (REA).

For many countries the process of growth and development is closely linked to a shift from primary products to industry. Development countries have debated the merits of two competing strategies for industrialization 1) an inward looking strategy (import substitution) in which industries are established largely to support the domestic market and foreign trade is assigned negligible importance and 2) an outward looking strategy (export led growth) of encouraging the development of industries in which the country enjoys comparative advantage with heavy reliance on foreign nations as purchasers of the increased production of exportable goods. Both policies have advantages and disadvantages. However, the trend in most development countries is to adopt the policy of export led growth which would:

1. Encourage industries that are likely to have a comparative advantage such as labour intension manufactured goods.
2. Provide a larger marked in which to sell and hence domestic manufacturers (have greater scope for exploiting economies of scale and finally).
3. Maintain few restrictions on imported goods which would impose a competitive discipline on domestic firms that forces them to increase efficiency.

Foreign trade occupies a place of strategic importance in the context of economic development of developing societies. It constitutes the life line of the Indian economy. The need for foreign exchange, so urgently felt by a developing country, may be met from various sources like foreign official grants, aid and loans, private flows and exports. But the quantum, quality and timing of these grants and aids are dependent on several factors some of which are political. Besides aid and loans carry with them high servicing charges and repayment obligations.

Infact, trade is preferable to aid as it "could evoke dynamic responses to competitive opportunities that would reinforce the growth process and so be more fruitful in the long run than aid". "Thus the only dependable source of foreign exchange for a developing country is export earnings. In the context of the need to strive for economic development, development of export trade and expansion importance.

The role of foreign trade in achieving a quicker pace of economic development is thus well recognized. Hence, planning of foreign trade cannot be divorced from the strategy of overall development.

Ex: India's trade usually last two decades, a faster growth rate than GDP growth. Since 1991, especially with liberalization, India's economy has boosted the importance of international trade. As a result of international trade to GDP ratio has gone from 14 percent in 1980, in the late 1990s to about 20 percent. Given the trends of globalization and liberalization to the openness of Indian economy is expected to grow further in the coming two decades. In 2020 India's trade and more precise magnitude of India's national income ratio will be determined by a variety of factors.

Disadvantages of International Trade:

- Disadvantages of international trade span from negative social effects to adverse environmental ramifications. Sometimes the welfare of people is ignored or jeopardized for the sake of profit. Other problems associated with the exchange of goods and services between nations include possible risky dependence on foreign nations and domestic job losses.
- There are social disadvantages of international trade. Although exposure to other cultures can be a benefit, it can also be harmful. The types of goods and services that flow from developed nations to emerging nations can have rapid and significant negative effects on their cultures. For example, certain music or movies from a nation such as the United States cannot be sold in their original form, and sometimes not at all, in some other nations where culture or religion are prioritized because of the changes in mentality and behavior that they may incite.
- Another of the disadvantages of international trade is that the welfare of the people in nations that produce goods and services is sometimes ignored for the sake of profits. Those profits generally benefit only a minority, and that minority may not even be citizens of the nation that they are exploiting. It is common in third world countries to find that people are required to work under unfair circumstances, which may include being paid low wages or subjected to unhealthy occupational environments.
- Even if there is not an issue with adverse treatment, it is still common to find that goods and services can be produced more cheaply in emerging countries. When these countries are allowed to access large markets, it can result in job losses and the collapse of industries in the developed countries because they are no longer able to be competitive.
- International trade can also result in destruction and exhaustion of natural resources. Some countries are so desperate for revenue or so profit-driven that they will allow their natural resources to be over-exploited, which can create serious problems in the future. This is often exacerbated by the fact that the entities who are engaged in the

task of extracting those resources or producing goods from them may do so in a way that creates substantial environmental damage. In some cases, there are limited or no resources to address these issues afterward.

- Those nations with small economies are often heavily dependent on their trading partners in developed nations. It is not uncommon to find that those developed nations will attempt to exploit these relationships. They do so by using their economic power to influence political decisions that are not directly related to their trade activities. Furthermore, disadvantages of international trade result from the reliance that countries have on one another. When one nation knows that it is the source of all or a significant portion of materials or services for another nation, the supplying nation can impose embargoes or other difficult trade restrictions if differences arise or simply for financial gain.

Conclusion-

In conclusion it can be said that, international trade leads to economic growth provided the policy measures and economic infrastructure are accommodative enough to cope with the changes in social and financial scenario that result from it.

In order to face the cross border competition challenges, a well functioning, national competition regime is insufficient and also there is problem with developing countries that they lack the resources or experience to tackle international competition challenges. Although there is provision of extra territorial jurisdiction in competition law but that also has a limited capability. Due to this some countries have entered in bilateral or regional treaties to solve these types of problems. But these treaties have limited impact. As a result the anti competitive practices across the border can be best dealt with multilateral framework.

Many steps were taken at international level e.g. this issue was discussed in UNCTAD, WTO, and OECD. The competition authorities of different countries have come together to promote International competition network. There is need of pushing other international agreement on cooperation on competition.

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