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IMPACT OF INTERNATIONAL TRADE ON ECONOMIC GROWTH OF INDIA

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Abstract

International Trade is the foundation of today's modern, business world. Countries and customers might be exposed to goods and services that are unavailable in their home country through international trade. The foundation of traditional theories of international trade was a multitude of presumptions about different characteristics, such as the structure of markets, technology, demand, and return on scale. Modern ideas are based on reexamining and adjusting classical theories in response to shifting trade conditions. The Industrial Age gave rise to theories on the economic, political, and social significance of international trade. The expansion of globalisation depends on the expansion of international trade. Restrictions on international trade would prevent countries from accessing goods and services outside of their borders and would cost them dearly in lost trade earnings.

An important factor in a nation's economic development is foreign trade. The liberalisation of the external sector under the Indian policy regime has significantly altered India's international trade. Thus, the goal of this study is to examine the trade's content and trend since 1991 as well as its effects on India's economic development. According to the report, even though both total exports and imports have increased, import growth is outpacing export growth. It is also noteworthy that the majority of items that are exported are produced, whereas the majority of things that are imported are derived from petroleum and crude products.

Keywords: International Trade, Economic Growth, Policy, Liberalization, Goods, Globalization.

Introduction

A nation's economic development greatly depends on its foreign trade, which has a large positive impact on both economic growth and the well-being of the populace. The movement of products and services in both directions generates an inflow and outflow of foreign exchange from one nation to another, which is the definition of a nation's foreign trade. Every nation on the planet lacks the necessary resources to produce all the goods and services its citizens need at a reasonable cost. Insofar as every nation is unable to create all of the products it requires, this

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suggests that no nation is self-sufficient. Consequently, there is a demand for trade between people. Trade abroad would make it easier to utilise economies of scale and international specialisation, which are also benefits of global scientific and technological advancement. To feed a population that is expanding quickly, developing nations require more goods. One of the key sectors for growth can be exports. It suggests that raising a nation's earnings from its commodities' greater marketability on the global stage will encourage domestic industrial development in that nation.

International trade is essential to a nation's development. Economic growth is still influenced by international trade. International trade was seen by both classical and neoclassical economists as a key factor in the countries' increased economic progress. Indeed, they referred to trade as a "engine of economic growth" in their description of it. They contend that both static and dynamic advantages from international trade contribute to the determination of trade's contribution to economic growth. Every nation can become specialised through the reallocation of resources towards the production of goods in which it has a comparative advantage thanks to international trade, and trading with one another will give them access to a larger quantity of goods than they would have if they closed themselves off to outside trade. Through trading and specialisation, people will be able to consume more products than they could create.

Every trading nation can benefit from a larger real income by raising output in accordance with its comparative advantage and trading, without any increase in resources or technological advancement. The country can "buy" imports on more favourable terms through exports than if they were produced domestically. Exports play a crucial role in the "indirect production" of imports by providing the intermediate goods. The benefit of trade is in the import sector, and it is important that all of the trading nations share in these benefits.

Review of Literature

According to Baldwin and Forslid (2015), improved intermediation procedures will result from lower bank markup rates, which could eventually spur economic growth, as a result of international banks having greater access to local financial activity. A platform for the impoverished to acquire financial literacy is provided through financial openness, which helps to mitigate asymmetric information difficulties.

According to Nazaquat Husain (2017), India purposefully and substantially kept itself apart from the global economy prior to the start of liberalisation in order to safeguard its economy and

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develop self-reliance. While foreign direct investment was constrained by upper limit equity involvement, limits on technology transfer, export requirements, and government clearances, international trade was subject to import tariffs, export taxes, and quantitative restrictions. India's foreign commerce has expanded quickly since liberalisation, with the overall amount of trade in goods and services contributing to the GDP increasing from 16.8% in 1990–1991 to 48.8% in 2014–2015.

Harish Tigari (2018) made an effort to examine a crucial economic variable: the potential for foreign commerce to grow the Indian economy. The author discussed the significance of international commerce for the Indian economy and attempted to investigate the relationship between GDP growth, foreign investment, and international trade. Utilising the Karl Pearson coefficient technique, the correlation between the variables has been examined.

According to Govindan, P. (2020). India's trade balance, imports, and exports increased between 1949–50 and 2018–19, Additionally, the state-by-state share of India's export profile from 2016–17 to 2018–19 is disclosed. India's success in international commerce from 2011 to 2017 is further studied in this study, which concludes with an analysis of the country's exports and imports broken down by destination at the eight-digit HS code level from 2016–17 to 2018–19.

Role of International Trade:

International trade is the purchasing and selling of products and services across national borders. Our modern, commercial world is based on international trade, as producers from different countries attempt to capitalise on a larger market rather than being restricted to selling within their own borders. Trade across national borders happens for a variety of reasons, such as customer preferences, specialised industries, lower production costs in one place compared to another, and a shortage or excess of natural resources.

International trade between nations is not a novel idea, though. History indicates that there were multiple examples of international trade in the past. There is ample proof that, despite neither country's political collaboration, trade and intellectual interchange between India and China have continued over the ages. In the fourteenth and fifteenth centuries, traders travelled the Silk Route to carry spices and silk. Fast sailing vessels known as Clippers, with specialised crews, were utilised in the 1700s to carry tea from China and spices from the Dutch East Indies to various European nations.

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The Industrial Age gave rise to theories on the economic, political, and social significance of international trade. The expansion of globalisation depends on the expansion of international trade. Restrictions on international trade would prevent countries from accessing goods and services outside of their borders and would cost them dearly in lost trade earnings.

Countries and customers might be exposed to goods and services that are unavailable in their home country through international trade. Trade with other nations enables developed nations to make efficient use of their labour, capital, and technological resources. Many nations are endowed with a wealth of natural resources as well as various assets, including labour, capital, land, and technology, which allows them to create a wide range of goods more effectively and sell them for less than other nations. If a country is unable to produce a good inside its borders, it may be able to import it from another nation.

Because of all the advantages that trade has provided to nations all over the world, it has grown over time. The international trade system is expanding quickly due to modern production methods, extremely sophisticated transportation networks, transnational firms, outsourcing of goods and services, and quick industrialisation.

International trade and Economic growth:

Throughout the second part of the 20th century, economic growth has been significantly influenced by international trade. Countries with robust international trade have achieved prosperity and are able to exert influence over the global economy. Every nation's economic progress is significantly influenced by its international trade. The following important spheres of economic development are significantly influenced by international trade:

1. International commerce increases the variety of commodities available to the population, leading to more choice and improved population welfare through specialisation and higher global output. Access to resources that a nation may not naturally have is made possible through international trade. It gives products that might not be consumed domestically access to markets. Trade across borders promotes economic expansion in this way.

2. Trade makes a country's resources be used more extensively and effectively. It causes factor price equalisation and an increase in resource owners' real earnings, as the Heckscher-Ohlin model illustrates.

3. A trade strategy that looks outward is preferable than partial or total isolation. Higher output, higher consumption, and greater incentives for industries in which a nation has a comparative advantage are the results of international trade.

4. Trade with other countries facilitates the attraction of foreign investment to capitalise on a nation's comparative advantage. Investments in different economic sectors may also come from this. When markets and positive ties are established elsewhere, for instance, the mining and sale of minerals can result in additional investments in plantation agriculture, tourism, power generation, etc. Increased availability of skilled workers, domestic savings, and foreign investment would result from expanded markets. The Production Possibility Frontier (PPF) is shifted outward by international trade, allowing consumption outside of PPF and contributing to economic growth. PPF, or point of maximum productivity, is a term used in macroeconomics to describe the optimal allocation of an economy's resources, or the point at which it is generating its goods and services most efficiently.

5. Expansion driven by exports forges connections that spur the expansion of other industries. A textile export sector that grows steadily enough to support its production might generate enough demand for certain inputs, such dyes. This is how trade is linked backward. For example, the North American wheat industry generated enough demand for farm equipment and rail transportation to necessitate the establishment of these sectors.

6. Foreign commerce, particularly in the export industry, may promote the growth of local labourers and entrepreneurs. Trade facilitates travel and exposes people to many cultures and locations, all of which can foster learning and improve experiences.

International Trade of India:

In order to achieve macroeconomic balance, spur economic growth, and restore its creditworthiness to the outside world, India launched a number of economic reforms in 1991. Overall, these changes seem to have had a major positive impact on the macro economy. After the crisis, the Indian economy bounced back quickly, with real GDP expanding at an average annual rate of 6.4% between 1992 and 1998. India, which had one of the most intricate and protectionist systems in the world until 1991, was the stereotypical example of an import substitution regime. However, India's simple average tariff rate has decreased dramatically from 128 percent in 1991 to roughly 34 percent in 2000 as a result of actions taken to loosen its trade policy. While the highest tariff rate dropped to 45 percent in 1997 after hovering at 355 percent in 1991, the trade-weighted tariffs decreased from 87 percent in 1991 to about 30 percent by 2000. More specifically, there are two main phases of India's trade liberalisation initiatives. Tariffs fell sharply during the first five years of liberalisation, which lasted from 1991 to 1996. The second half of 1990 can be described as a period of consolidation of tariff compression overall, but with a noticeable slowdown in pace; the average tariff rate stayed relatively stable during this time. The truth is that trade-weighted tariffs increased slightly from a low of 25% in 1996 to 30% in 2000, despite the simple average tariff rate staying almost unchanged. It is noteworthy, though not necessarily causal, that this is consistent with the trend of slower economic growth in the second half of 1990 when compared to the first five years following the 1991 crisis.

India's Exports, Imports and Trade Balance

Year	**Exports (Rs. Crores)**	**Imports (Rs. Crores)**	**Trade Balance (Rs. Crores)**
1991-92	44042	47841	- 3799
1995-96	106356	122678	- 16326
2000-01	201356	228307	- 26951
2005-06	456418	660409	- 203991
2010-11	1142922	1683467	-540545
2015-16	1743289	2592820	-849531
2020-21	7895141	13052508	-10641159

The trade deficit decreased significantly in 1991–1992 compared to 1990–1991 because exports increased by 35.3% over the prior year. Despite the fact that exports increased steadily during 1991 and 1992, the trade imbalance increased steadily as a result of rising imports. The "Foreign Trade (Development and Regulation) Act," which addressed the government's newly liberalised export and import policies, replaced the "Import and Export (Control) Act" in 1992. A five-year Export and Import Policy was also unveiled by the government in March 1992. Import taxes were intended to be gradually decreased through trade liberalisation. Between 1980 and 1999, India's share of global merchandise trade and exports increased gradually, from 0.58 percent and 0.44 percent, respectively, to 0.74 percent and 0.69 percent, respectively. Although this growth

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might not seem noteworthy at first, it is, especially in light of the fact that India's proportion of global commerce in goods was essentially on the decline in the early 1990s. India's exports and goods trade increased at a compound annual rate of 9.0 percent and 8.2 percent, respectively, from 1990 and 1999.

Exports are now growing at a faster rate thanks in large part to the Foreign Trade Policy (2004–09)'s five-year plan and vision, which included well stated goals and tactics. The government's deliberate and coordinated efforts to lower transaction costs and promote trade have resulted in the increasing performance of exports. An advantageous international climate brought about by the average global real GDP growing by more than 5% and the global commerce growing by more than 9% since 2004 is partially responsible for India's recent export boom. The result has been a surge in global trade volumes. But this doesn't fully account for India's extraordinary rise in exports. Over the past few years, the government has worked hard to lower trade barriers, lower transaction costs, and promote commerce. India's exports have also changed in response to these domestic policy initiatives and reform programmes.

In 2009–10, India's merchandise exports totaled Rs. 845534 Crs., representing a relatively little increase of 0.57% over the previous year's growth of 28.19%. Even with the growth slowing down in 2009–2010, India's export industry has shown incredible tenacity and vitality lately. During the five years from 2004–05 to 2008–09, our merchandise exports had a compound annual growth rate (CAGR) of 22.0%, which was higher than the 14.0 percent CAGR of the previous five years. India's percentage of global merchandise exports rose from 0.8% in 2004 to 1.3% in 2008, according to the most recent WTO data (2009). India also rose from 30th place in 2004 to 21st place in 2009 among the top exporters in the global merchandise trade. During the global slump, India's exports have not been impacted as much as those of other economies worldwide.

For 2009–10, the government had set an export goal of $175 billion USD. During a period of recession in India's primary export destinations, real merchandise shipments exceeded the target by 2.1%, totaling US $178.7 billion in 2009–2010. This is a noteworthy accomplishment. In 2009–10, imports were Rs. 1363736 Crs., down from Rs. 1374436 Crs. in 2008–09, indicating a decline in growth. The trade imbalance decreased somewhat in 2009–10 as a result of a slight increase in exports and a slight decrease in imports. Compared to the trade deficit of Rs. 533680 Crs. in 2008–09, the deficit in 2009–10 was Rs. 518202 Crs.

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Conclusion

In conclusion, it may be argued that economic development stems from international commerce and that the policy approaches and economic infrastructure it provides are really accommodating enough to handle the changes in the financial and social landscape that result from it.

One of the policy recommendations that the federal government has received is that India should increase its participation in international trade. This can be achieved by creating an environment that is favourable to trade promotion and by increasing India's involvement in the global market. The government must, in particular, increase the production of far more exportable items by offering tax breaks and subsidies to producers where necessary. Since exports have been found to positively affect India's economic growth, the federal government must also reduce export duties in order to encourage more exports.

Over the past two decades, India's export trajectory indicates a dropping share of agricultural and related products, while ores and minerals have stayed relatively stable. Additionally, it is noted that the percentage of manufactured items varies between 66-77%. Additionally, it is noted that the proportion of engineering items in the manufactured goods export category is rising while that of leather and textile products is falling. From the outset, petroleum products have a dominant position in terms of imports. But since the economy opened up, imports of capital goods and other intermediate commodities for export have surged while the pressure on import substitution has decreased.

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