

## A STUDY ON IMPACT OF INTERNATIONAL TRADE ON ECONOMIC GROWTH IN INDIA

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### **ABSTRACT**

Foreign trade plays a vital role in the Indian economy. As the country need to import diverse products so foreign trade is extremely important to country. India exports vast number of products and also imports an equal amount of other products. Although India has steadily opened up its economy, its tariffs continue to be high when compared with other countries, and its investment norms are still restrictive. This leads some to see India as a 'rapid globalizer' while others still see it as a 'highly protectionist' economy. India is now aggressively pushing for a more liberal global trade regime, especially in services. This paper is an attempt to analyse the major changes in volume, composition and direction of Indian Foreign Trade. This article focuses on the intricate web of foreign trade, its impact on economic growth, global interconnectedness, and policy formulation. By synthesizing established trade theories, empirical studies, and contemporary insights, we explore the evolving landscape of international trade and its implications for diverse economies. Analysis encompasses the economic significance of foreign trade, elucidating its pivotal role in fostering growth, creating employment opportunities, and shaping income distribution. Emphasizing the interconnectedness of global markets, investigate the influence of trade policies, geopolitical shifts, and technological advancements on trade patterns and economic competitiveness.

## **INTRODUCTION**

International trade is defined as exchange of goods and services between two or more nations. Different countries are involved in trade due to differences in prices. Price differences arise either because of difference in supply conditions (natural endowments of economic resources, level of technology, factor abundance) or because of differences in demand conditions (income level and taste patterns), or due to differences in both. There have been different views regarding the role of foreign trade of a country . According to traditional trade theory, if each nation specializes in the production of the commodity of its comparative advantage, world output would be greater and each nation will share in the gain.

**Haberle,”** International trade has made a tremendous contribution to the development of less developed countries in the 19<sup>th</sup> and 20<sup>th</sup> centuries and can be expected to make an equally big contribution in the future, if it is allowed to proceed freely.”

International trade injects global competitiveness and hence the domestic business units tend to become very efficient being exposed international competition. Trade can lead to the full utilization of resources otherwise they would have remained underemployed. By expanding the size of market, trade makes possible division of labour and specialization, which leads to large production and economies of scales with lower unit costs. 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. International trade is the vehicle for new ideas, new technology.

## **OBJECTIVE OF THE STUDY:**

1. The main objective of the study is to examine the relationship between international trade and economic growth in India.
2. To study the economy before and after trade liberalization(1991)
3. To study the exports and imports of India in 2023.
4. To know the importance of foreign trade
5. To know the government measures for export promotion and import substitution.

## **NEED FOR THE STUDY:**

1. To Highlight the crucial role of foreign trade in the global economy
2. To Emphasize the impact of foreign trade on economic growth, job creation, and income generation

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3. To discuss how foreign trade policies shape national economies.
4. To explore the intersection of foreign trade with globalization and technological advancements
5. To identify challenges faced by countries engaging in foreign trade
6. To discuss opportunities for overcoming obstacles and enhancing the benefits of international trade.

### **Literature review:**

A literature review on economic growth in foreign trade should cover key theories, empirical studies, and recent developments. Begin with classic how foreign trade contributes to capital accumulation, technology diffusion, and human capital development. Explore the impact of globalization on economic growth, drawing on the literature discussing the benefits of increased market access, competition, and knowledge transfer. Consider the role of institutions and policies in shaping the relationship between foreign trade and economic growth.

Trade theories

**Ricardo's comparative advantage** and **Huckster-Ohlin model**, exploring their implications for economic growth through specialization and efficient resource allocation.

Examine the role of international trade in economic development, referencing works such as **Paul Romer's** "Endogenous Technological Change" and

**Robert Lucas's** "On the Mechanics of Economic Development." Analyse address contemporary issues like trade liberalization, regional trade agreements, and the effects of protectionism. Include recent empirical studies that assess the causal linkages between foreign trade and economic growth, The main findings, identifying gaps in the literature, and suggesting avenues for future research in the dynamic field of foreign trade and economic growth. This article focuses on the impact of foreign trade in the growth of economy of a country.

R recent developments and emerging trends in foreign trade, such as the rise o

### **Research methodology:**

#### **Source of data**

The data used in this study have been obtained from the secondary sources; the data required for the analysis of different periods are collected from the following source. Foreign Trade – Review; various Issues, Hand Book of statistics on Indian economic- RBI, Economic surveys- Ministry of finance, Govt of India.

#### **Period of Data**

The magnitude of variables is analysed during the pre (1951-1990) and post (1990-2012) liberalization. Most of the economic data is available after the period of 1950's and the

major reforms taken place in 1990 so the data is collected pre and post liberalization period. As far as research methodology is concerned the data has been Analysed (The relationship has been examined by using simple to moderate statistical tools like Averages, Percentages, and Graphs, correlation analysis

## **EMPERICAL ANALYSIS**

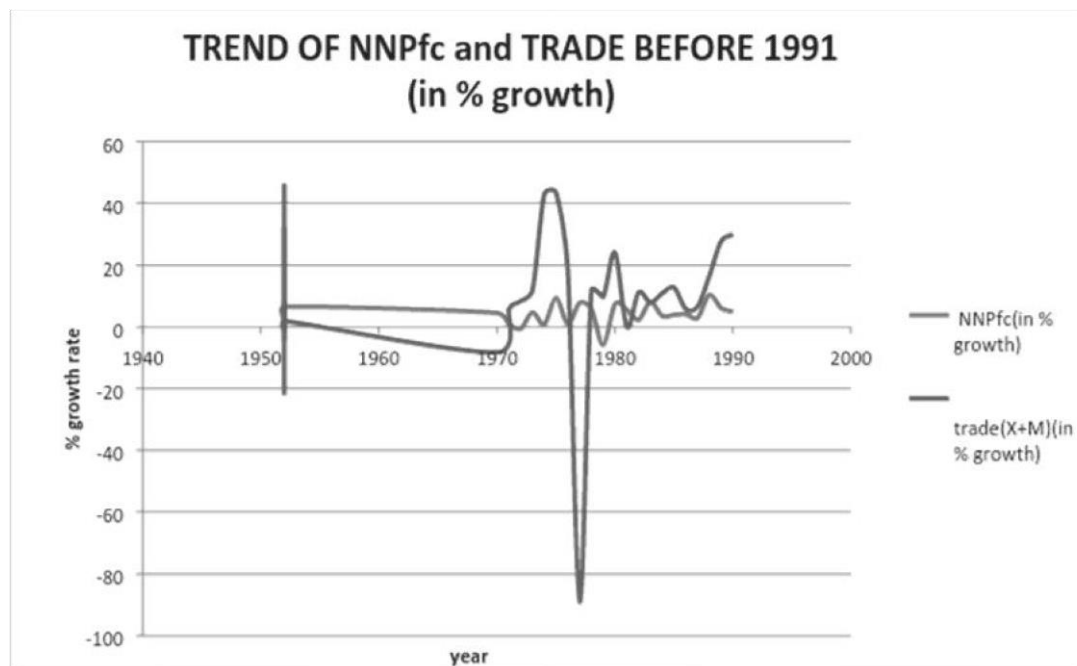
### **Pre-Trade Analysis**

International trade or foreign trade implies that the trade between two or more countries. It is one of the important macro- fundamental variables of an Economy. The Foreign trade is considered as Engine of growth” this Engine of growth is depended upon the various factors such as the ratio of foreign trade of an economy with world trade, terms of trade, volume of export, volume of import and trade balanced.

As far as foreign trade policy is concerned, it is highly restrictive and central to growth strategy. It was a major factor in India’s poor growth performance. Number of changes have been taken place during the planning period i.e. 1951-1952 onwards, In the initial period of planning India has adopted restrictive trade and import licensing and ‘licensing raj’ policy till 1970s during this period public sector has assigned a major role to play in economic development of the country, on the other hand private sector play its role with regulation. Trade took place with high tariff rates and barriers. These are the reasons which contribute to the insignificance of the trade contribution to growth before liberalization period. And other reasons are high inflation, inadequate infrastructure, political instability and inward oriented policy etc. That’s why our analysis of pre liberalization period is found to be insignificant.

<b>Year</b>	<b>NNPfc (in % Growth)</b>	<b>trade(X+M) (in % Growth)</b>	<b>NDCF (in % Growth)</b>	<b>Population (in % Growth)</b>
1952-53	3.3	32.28995058		3.047091413

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#### □ **Post Liberalization Analysis**

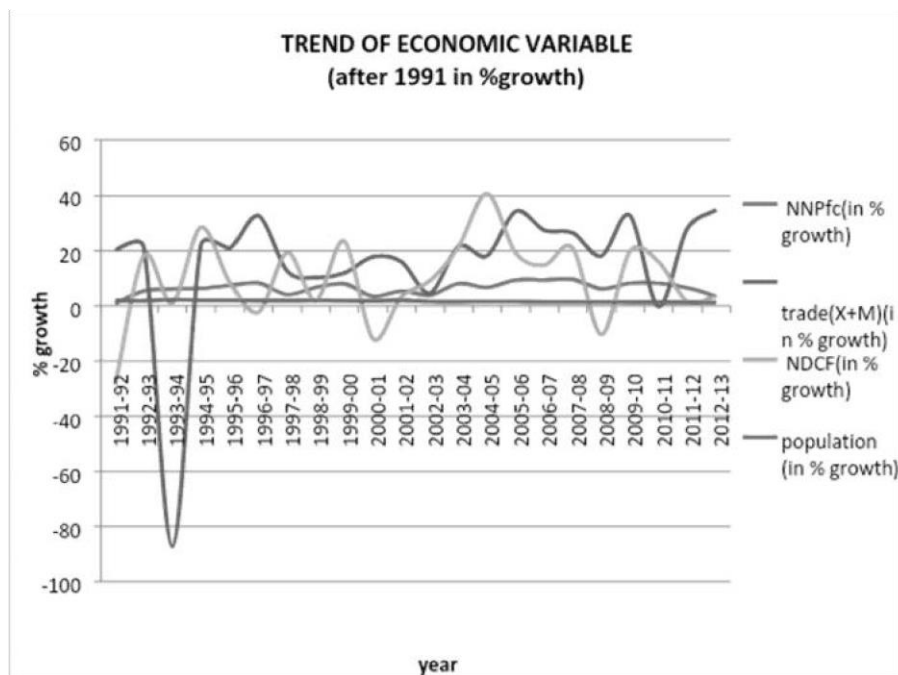
. Majorly government adopt liberalization reforms in 1990's due to high inflation, fiscal imbalance and BOP crisis, collapse of soviet union(India's major trading partner), gulf crisis(increase oil prices). Perhaps the most compelling reasons for reforms was then to clear the house and to restore India eventually to the position of improved economic performance in the world market.. As a result of this a new industrial policy announced in period 1991, under which various steps has been taken to promote trade like removal of industrial licensing (for all industries except 14 specified industries and now remained up to 5), privatization, abolishment of MRTP act, establishment of FIPB (foreign investment promotion board), removal of import restriction on 715 items, reduction in tariffs, capital market, financial reforms, exchange rate reforms..

Impact of foreign trade policy on India's foreign trade is shown in the following table and graphs.

Column 1	Column 2	Column 3	Column 4	Column 5
Year	NNPfc (in % Growth)	trade(X+M)(in % Growth)	NDCF (in % Growth)	population (in % Growth)
1991-92	0.8	20.26640841	-28.55792358	2.026221692
1992-93	5.4	21.30796953	18.28861121	1.869158879
1993-94	6.1	-87.26080616	0.974219067	2.293577982

1994-95	6.4	22.03001802	28.51733777	2.01793722
1995-96	7.4	20.85585081	8.627951639	1.978021978
1996-97	8.3	32.66008283	-2.256130024	1.939655172
1997-98	4.1	12.53367448	19.29431513	1.902748414
1998-99	6.7	10.29693059	1.95383617	1.970954357
1999-00	8	11.89266769	23.42962241	1.831129196
2000-01	3.5	17.77517888	-11.93148756	1.798201798
2001-02	5.4	15.96801059	3.353630098	2.060843965
2002-03	3.9	4.551564759	9.12222381	1.538461538
2003-04	8.1	21.57906556	21.51032692	1.515151515
2004-05	6.7	18.15190662	40.69820646	1.585820896
2005-06	9.4	34.32008889	19.06645166	1.561065197
2006-07	9.4	27.43275084	14.74403324	1.446654611
2007-08	9.6	26.50347816	20.91061997	1.426024955
2008-09	6.2	18.07378833	-10.39908498	1.405975395
2009-10	8.2	32.79120429	19.78573309	1.386481802
2010-11	8.2	-0.267290721	15.98059963	1.367521368
2021-2022	6.5	27.93316344	1.648676608	1.349072513
2022-2023	3.4	34.85128905	3.5	1.247920133

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### **Suggestions:**

We can improve growth in trade by liberalising trade policy and free trade agreements .country can enter into foreign trade blocks. By signing bilateral trade agreements, diversification of exports basket, provide world class exports infrastructure; specially ports infrastructure, more incentives should be given to exporters. Exports should be more demand based than supply based

### **CONCLUSION**

- This paper critically explored whether there is positive or negative relationship between trade and growth, the analysis period between pre trade and post trade period and we find that there is a insignificant effect of trade on growth.
- In post reform period capital formation has positive and significant effect on growth and population has negative and insignificant effect whereas trade has positive and insignificant effect on growth.
- The effect of trade is still less significant on growth can be due to many reasons like less share in world trade, protection of domestic industries from highly competitive international industries, unable to create suitable environment for foreign trade, trade norms which is not as liberal as other countries.
- In the year 2009 share of India was 1.5 and that of china is 10.3 in world merchandise trade and if this share will increase than it can surely be contributed much to economic growth.

### **REFERENCES:**

1. \**"International Economics"* by Paul Krugman and Maurice Obstfeld:\* A comprehensive textbook covering various aspects of international economics, including trade theories and policies.
2. \**"International Business: Competing in the Global Marketplace"* by Charles W. L. Hill and G. Tomas M. Hult:\* Focuses on the intersection of international business and trade, providing insights into strategies and challenges.
3. \**"Globalization and Its Discontents Revisited: Anti-Globalization in the Era of Trump"* by Joseph E. Stiglitz:\* Addresses the broader implications of globalization on trade and economic policies.

**\*Websites:\***

1. \*World Trade Organization (WTO) - [<https://www.wto.org>]:\* The official website provides extensive information on global trade agreements, statistics, and research reports.
2. \*International Monetary Fund (IMF) - [<https://www.imf.org>]:\* Offers reports and analyses on international trade, economic trends, and global financial stability.
3. \*\*World Bank - Trade and Competitiveness - [<https://www.worldbank.org/en/topic/trade>]:\*\* Provides research, reports, and data on trade policies, competitiveness, and economic development.
4. \*UNCTAD (United Nations Conference on Trade and Development) - [<https://unctad.org>]:\* Publishes reports and analyses on global trade trends, development issues, and trade policies.

**Journals and publications:**

1. \**"Journal of International Economics"*:\* A peer-reviewed journal covering a wide range of topics in international trade and economics.
2. \**"Review of International Economics"*:\* another reputable journal publishing scholarly articles on various aspects of international economics and trade.
3. \**"International Trade Journal"*:\* Focuses specifically on research related to international trade, providing insights into trade patterns, policies, and their effects



