THE ROLE OF INTERNATIONAL TRADE IN THE ECONOMIC DEVELOPMENT IN INDIA - AN ANALYSIS

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ABTRACT

Since economies of the world are growing interdependent. International trade is persueing a critical element of growth promotion policy in developing countries. In the current economic environment of globalization, trade place an increasingly important role in shaping economic and social performance and prospects of countries around the world. Developing Countries in International Trade (DCIT) aims to analyze key trade and developing countries as an annual basis.]

The modern economic trends are revealing that international trade is helping the growth of developing nations. The openness to international trade has been lucrative to the developing countries for rapid economic growth. The adoption of open market policies, and decline in the concepts of trade protection in certain developing countries has helped them immensely in their rapid economic growth. International trade supports growth in a variety of ways. It makes the producers more efficient as they must contend with some of the best in the world. Although India has steadily opened up its economy, its tariffs continue to be high when compared with other countries, and its investments norms are still restrictive. This leads some to see India as a 'rapid globalizer' while others still see it as a highly protectionist economy. In this paper an attempt is made to analyze the importance of international trade and its advantages and disadvantages are also anlyzed. And some suggestions are also made in this paper.

Key words: International Trade, Policies, Economic Growth, Advantages, Disadvantages.

Introduction:

A trade is a basic economic concept that involves multiple parties participating in the voluntary negotiation and then the exchange of one's goods and services for desired goods and services that someone else possesses. The advent of money as a medium of exchange has allowed trade to be conducted in a manner that is much simpler and effective compared to earlier forms of trade, such as bartering.

In financial markets, trading also can mean performing a transaction that involves the selling and purchasing of a security.

Foreign trade in India includes all imports and exports to and from India. At the level of Central Government it is administered by the Ministry of Commerce and Industry[1]

History of trade:

In 1498 Portuguese explorer Vasco da Gama landed in Calicut (modern day Kozhikode in Kerala as the first European to ever sail to India. The tremendous profit made during this trip made the Portuguese eager for more trade with India and attracted other European navigators and tradesmen.[2]

Pedro Álvares Cabral left for India in 1500 and established Portuguese trading posts at Calicut and Cochin (modern day Kochi), returning to Portugal in 1501 with pepper, ginger, cinnamon, cardamom, nutmeg, mace, and cloves. The profits made from this trip were huge.[3]

Prior to the 1991 economic liberalisation, India was a closed economy due to the average tariffs exceeding 200 percent and the extensive quantitative restrictions on imports. Foreign investment was strictly restricted to only allow Indian ownership of businesses. Since the liberalisation, India's economy has improved mainly due to increased foreign trade.[4]

list of India's largest trading partners in Arab Emirates, China, US, Saudi Arabia, Switzerland, Germany, Singapore, Hongkong, Indonesia, Iraq and Japan.

Exports and imports of India

India exports approximately 7500 commodities to about 190 countries, and imports around 6000 commodities from 140 countries. India exported US$318.2 billion and imported $462.9 billion worth of commodities in 2014.

Role of foreign trade in economic development of countries

Introduction of foreign trade:

There is no country in the world today which produces all the commodities it needs. Every country, therefore, tries to produce those commodities in which it has comparative advantage. It exchanges part of those commodities with the commodities produced by other countries relatively more efficiently. The relative difference in factor endowments, technology, tastes etc, among the nations of the world have greatly widened the basis of international trade.

Role of foreign trade in economic development

The role of foreign trade can be judged by the following faces:

- **Foreign trade and economic development.**

Foreign trade plays very important role in the economic development of any country. Pakistan also exports a lot of agricultural product to other countries and imports the capital goods from other countries. Therefore, it is not wrong to say that economic development of a country depends of foreign trade.

- **Foreign exchange earning**

Foreign trade provides foreign exchange which can be used to remove the poverty and other productive purposes.

- **Market expansion**

The demand factor plays very important role in increasing the production of any country. The foreign trade expands the market and encourages the producers. In Pakistan home market is very limited due to poverty. So it is necessary chat we should sell our product in other countries.

- **Increase in investment**

Foreign trade encourages the investor to increase the investment to produce more goods. So the rate of investment increases.

- **Foreign investment**

Besides the local investment, foreign trade provides incentives for the foreign investors to invest in those countries where there is a shortage of investment.

- **Increase in national income**

Foreign trade increases the scale of production and national income of the country. To meet the foreign demand we increase the production on large scale so GNP also increases.

- **Decrease in unemployment**

With the rise in the demand of goods domestic resources are fully utilized and it increases the rate of development in the country and reduces the unemployment in the world.

- **Price stability**

Foreign trade helps to bring stability in price level. All those goods which are short and prices are increasing can be imported and those goods which are surplus can be exported. There by stopping fluctuation in prices.

- **Specialization**

There is a difference in the quality and quantity of various factors of production in different countries. Each country adopts the specialization in the production of those commodities, in which it has comparative advantage. So all trading countries enjoy profit through international trade.

- **Remove monopolies**

Foreign trade also discourages the monopolies. Where every any monopolist increases the prices, government allows the import of goods to reduce the prices in the country.

- **Removal of food shortage**

India is also facing the food shortage problem. To remove the food shortage India has imported the wheat many times. So due to foreign trade we are solving this problem for many years.

- **Agricultural development**

Agricultural development is the back bone in our economy. Foreign trade has played very important role for the development of our agriculture sector. Every year we export rice, cotton, fruits and vegetables to other countries. The export of goods makes our farmer more prosperous. It inspires the spirit of development in them.

- **Import of consumer goods**

India and Pakistan imports the various consumer goods from other countries, which are not produced inside the country. Today the shortage of any commodity can be removed through international trade.

- **To improve quality of local products**

Foreign trade helps to improve quality of local products and extends market through changes in demand and supply as foreign trade can create competition with the rest of the world.

- **External economics**

External economics can also be achieved through foreign trade. The industries producing foods on large scale in Pakistan and India are enjoying the external economics due to international trade.

- **Competition with foreign producers**

We can compete with the foreign producers in foreign trade so it improves the quality and reduces the cost of production. It is also an advantage of foreign trade.

- **Useful for the world peace**

Today all the countries are tied in trade relations with each other. So foreign trade also contribute to peace and prosperity in the world.

- **Import of capital goods and technology**

The inflow of capital goods and technology in the less developed countries has increased the rate of economic development, and this is due to foreign trade.

- **Import substitution**

These countries not only produce import substitute, but also reduce deficit in balance of payment of their countries.

- **Better understanding**

Foreign trade provides an opportunity to the people of different countries to meet, discuss, and exchange views and ideas related to their social, economic and political problems.

- **Dissemination of knowledge**

Foreign trade is also responsible for dissemination of knowledge and learning from developed countries to under developed countries.

- **Interdependence**

Foreign trade is responsible for creating economic depending and establishing economic interest in the economy of the countries having trade relations.

- **Factors productivity**

Through foreign trade the productivity of labour and capital and organization increases. Demand make them mobile on national as well as international level which helps underdeveloped countries to develop and maintain a high level of growth of developed countries.

Advantages of International Trade:

(i) Optimal use of natural resources:

International trade helps each country to make optimum use of its natural resources. Each country can concentrate on production of those goods for which its resources are best suited. Wastage of resources is avoided.

(ii) Availability of all types of goods:

It enables a country to obtain goods which it cannot produce or which it is not producing due to higher costs, by importing from other countries at lower costs.

(iii) Specialisation:

Foreign trade leads to specialisation and encourages production of different goods in different countries. Goods can be produced at a comparatively low cost due to advantages of division of labour.

(iv) Advantages of large-scale production:

Due to international trade, goods are produced not only for home consumption but for export to other countries also. Nations of the world can dispose of goods which they have in surplus in the international markets. This leads to production at large scale and the advantages of large scale production can be obtained by all the countries of the world.

(v) Stability in prices:

International trade irons out wild fluctuations in prices. It equalizes the prices of goods throughout the world (ignoring cost of transportation, etc.)

(vi) Exchange of technical know-how and establishment of new industries:

Underdeveloped countries can establish and develop new industries with the machinery, equipment and technical know-how imported from developed countries. This helps in the development of these countries and the economy of the world at large.

(vii) Increase in efficiency:

Due to international competition, the producers in a country attempt to produce better quality goods and at the minimum possible cost. This increases the efficiency and benefits to the consumers all over the world.

(viii) Development of the means of transport and communication:

International trade requires the best means of transport and communication. For the advantages of international trade, development in the means of transport and communication is also made possible.

(ix) International co-operation and understanding:

The people of different countries come in contact with each other. Commercial intercourse amongst nations of the world encourages exchange of ideas and culture. It creates co-operation, understanding, cordial relations amongst various nations.

(x) Ability to face natural calamities:

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

(xi) Other advantages:

International trade helps in many other ways such as benefits to consumers, international peace and better standard of living.

Disadvantages of International Trade:

Impediment in the Development of Home Industries:

International trade has an adverse effect on the development of home industries. It poses a threat to the survival of infant industries at home. Due to foreign competition and unrestricted imports, the upcoming industries in the country may collapse.

Economic Dependence:

The underdeveloped countries have to depend upon the developed ones for their economic development. Such reliance often leads to economic exploitation. For instance, most of the underdeveloped countries in Africa and Asia have been exploited by European countries.

Political Dependence:

International trade often encourages subjugation and slavery. It impairs economic independence which endangers political dependence. For example, the Britishers came to India as traders and ultimately ruled over India for a very long time.

Mis-utilisation of Natural Resources:

Excessive exports may exhaust the natural resources of a country in a shorter span of time than it would have been otherwise. This will cause economic downfall of the country in the long run.

Import of Harmful Goods:

Import of spurious drugs, luxury articles, etc. adversely affects the economy and well-being of the people.

Storage of Goods:

Sometimes the essential commodities required in a country and in short supply are also exported to earn foreign exchange. This results in shortage of these goods at home and causes inflation. For example, India has been exporting sugar to earn foreign trade exchange; hence the exalting prices of sugar in the country.

Danger to International Peace:

International trade gives an opportunity to foreign agents to settle down in the country which ultimately endangers its internal peace.

World Wars:

International trade breeds rivalries amongst nations due to competition in the foreign markets. This may eventually lead to wars and disturb world peace.

Hardships in times of War:

International trade promotes lopsided development of a country as only those goods which have comparative cost advantage are produced in a country. During wars or when good relations do not prevail between nations, many hardships.

Conclusion:

Till the early 1990s, India was a closed economy: average tariffs exceeded 200 percent, quantitative restrictions on imports were extensive, and there were stringent restrictions on foreign investment. The country began to cautiously reform in the 1990s, liberalizing only under conditions of extreme necessity.

Since that time, trade reforms have produced remarkable results. India's trade to GDP ratio has increased from 15 percent to 35 percent of GDP between 1990 and 2005, and the economy is now among the fastest growing in the world.

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