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INTERNATIONAL TRADE AND ECONOMIC GROWTH

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Abstract

International trading provides countries and consumers the chance to be exposed to those services and goods that are not available in their own country. International trade has played an important role as a major driver of economic growth. International trade has a major role in economic development of any country. International business is a much broader term and is comprised of both the trade and production of goods and services across frontiers.

Keywords: International trade, economic growth

Introduction

Countries all over the world are undergoing a fundamental shift in the way they produce and market various products and services. The national economies which so far were pursuing the goal of self-reliance are now becoming increasingly dependent upon others for procuring as well as supplying various kinds of goods and services. Due to increased cross border trade and investments, countries are no more isolated.

The prime reason behind this radical change is the development of communication, technology, infrastructure etc. Emergence of newer modes of communication and development of faster and more efficient means of transportation have brought nations closer to one another. Countries that were cut-off from one another due to geographical distances and socio-economic differences have now started increasingly interacting with others. World Trade Organisation (WTO) and reforms carried out by the governments of different countries have also been a major contributory factor to the increased interactions and business relations amongst the nations.

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International trading provides countries and consumers 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. As many of the countries are gifted with natural resources and different assets (labor, technology, land and capital), they can produce many products more efficiently and sell at cheaper prices than other countries. A country can obtain an item from another country if it cannot effectively produce it within the national boundaries.

Meaning of International Business

Business transaction taking place within the geographical boundaries of a nation is known as domestic or national business. It is also referred to as internal business or home trade. Manufacturing and trade beyond the boundaries of one's own country is known as international business. International or external business can, therefore, be defined as those business activities that take place across the national frontiers. It involves not only the international movements of goods and services, but also of capital, personnel, technology and intellectual property like patents, trademarks, know-how and copyrights.

International trade, comprising exports and imports of goods, has historically been an important component of international business. But of late, the scope of international business has substantially expanded. International trade in services such as international travel and tourism, transportation, communication, banking, warehousing, distribution and advertising has considerably grown. The other equally important developments are increased foreign investments and overseas production of goods and services. Companies have started increasingly making investments into foreign countries and undertaking production of goods and services in foreign countries to come closer to foreign customers and serve them more effectively at lower costs. All these activities form part of international business. To conclude, we can say that international business is a much broader term and is comprised of both the trade and production of goods and services across frontiers.

International trade and economic growth

International trade has played an important role as a major driver of economic growth. 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.

Benefits of International trade

(i) Earning of foreign exchange: International business helps a country to earn foreign exchange which it can later use for meeting its imports of capital goods, technology, petroleum products and fertilizers, pharmaceutical products and a host of other consumer products which otherwise might not be available domestically.

(ii) More efficient use of resources: As stated earlier, international business operates on a simple principle — produce what your country can produce more efficiently, and trade the surplus production so generated with other countries to procure what they can produce more efficiently. When countries trade on this principle, they end up producing much more than what they can when each of them attempts to produce all the goods and services on its own. If such an enhanced pool of goods and services is distributed equitably amongst nations, it benefits all the trading nations.

(iii) Improving growth prospects and employment potentials: Producing solely for the purposes of domestic consumption severely restricts a country's prospects for growth and employment. Many countries, especially the developing ones, could not execute their plans to produce on a larger scale, and thus create employment for people because their domestic market was not large enough to absorb all that extra production. Later on a few countries such as Singapore, South Korea and China which saw markets for their products in the foreign countries embarked upon the strategy 'export and flourish', and soon became the star performers on the world map. This helped them not only in improving their growth prospects, but also created opportunities for employment of people living in these countries.

(iv) Increased standard of living: In the absence of international trade of goods and services, it would not have been possible for the world community to consume goods and services produced in other countries that the people in these countries are able to consume and enjoy a higher standard of living.

Conclusion

International Business in today's world has occupied a vital place among the economics of the world particularly among the fastest growing economics. International business can be more profitable than the domestic business. When the domestic prices are lower, business firms can earn more profits by selling their products in countries where prices are high. 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

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