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The role of International Trade in the Global Economy & Its Effects On Economic Growth

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Abstract

Recent decades have seen fast growth of the world economy. This growth has been driven in part by the even faster rise in international trade. The growth in trade is in turn the result of both technological developments and determined efforts to reduce trade barriers. Some developing countries have opened their own economies to take full improvement of the opportunities for economic development through trade, but many have not. outstanding trade barriers in industrial countries are determined in the agricultural products and manual manufactures in which developing countries have a proportional advantage. Further trade liberalization in these areas mainly, by both industrial and developing countries, would help the poorest get away from extreme poverty while also benefiting the industrial countries themselves .With the dawn of globalization, international business is becoming increasingly popular. Multinational organizations are among the most profitable in the world. A company needs to be conscious of the language and culture of the country where it plans to go aboard with its investment. Politics and laws of the nation can either make international business easy or hard. With the success of international business, its future is luminous, on a global scale International trade, as a major factor of openness, has made an increasingly significant contribution to economic growth. This research discusses the role of international trade in economic growth

Keywords: international trade, economic growth, technological,

Introduction

Integration into the world economy has proven a powerful means for countries to encourage economic growth, development, and poverty diminution. Over the past 20 years, the growth of world trade has averaged 6 percent per year, twice as fast as world output. But trade has been an engine of growth for much longer. Since 1947, when the General Agreement on Tariffs and Trade (GATT) was created, the world trading system has benefited from eight rounds of multilateral trade liberalization, as well as from independent and regional liberalization. Indeed, the last of these eight rounds (the so-called "Uruguay Round" completed in 1994) led to the establishment of the World Trade Organization to help administer the growing body of multilateral trade agreements. The resulting combination of the world economy has raised living standards around the world. Most developing countries have shared in this affluence; in some, incomes have risen dramatically. As a group, developing countries have become much more important in world trade—they now account for one-third of world trade, up from about a quarter in the early 1970s. Many developing countries have substantially increased their exports of manufactures and services relative to traditional product exports: manufactures have risen to 80 percent of developing country exports. Moreover, trade between developing countries has grown quickly, with 40 percent of their exports now going to other developing countries. However, the progress of combination has been uneven in recent decades. Progress has been very remarkable for a number of developing countries in Asia and, to a lesser extent, in Latin America. These countries have become successful because they chose to participate in global trade, helping them to attract the bulk of foreign direct investment in developing countries. This is true of China and India since they embraced trade liberalization and other market-oriented reforms, and also of higher-income countries in Asia—like Korea and Singapore—that were themselves poor up to the 1970s.But progress has been less quick for many other countries, particularly in Africa and the Middle East. The poorest countries have seen their share of world trade decline substantially, and without lowering their own barriers to trade, they risk further marginalization. About 75 developing and transition economies, including virtually all of the least developed countries, fit this description. In contrast to the successful integrators, they depend suspiciously on production and exports of traditional produce. The reasons for their marginalization are complex, including deep-seated structural problems, weak policy frameworks and institutions, and guard at home and abroad.

International Economics is the study of economic relations between countries. It addresses many topical issues, such as: How is the fast growth of trade with China and India likely to affect the structure of production and wages in Europe? Why have trade negotiations in the Doha round of the WTO come to a standstill? Does this matter in the face of the rise of 'regionalism'? What are the effects of European Monetary integration? How is the UK affected by its decision not to join the Euro? How does financial crisis spread across countries? What are the implications of the US sub-prime crisis and resulting credit-crunch likely to be for the UK?
Broadly speaking, the field is split between the study of International Trade, which extends microeconomics to open economies, and International Finance, which employs macroeconomic analysis.
International Trade describes and predicts patterns of production, trade and investment across countries. It also looks at the result that trade has on both the level and allotment of incomes within and across countries. It analyses different trade policies, the possessions of 'regionalism' (regional trading blocs) and the potential effect of multilateral trade negotiations conducted by World Trade Organization (WTO).
International Finance examines the effects of financial flows between countries. It looks at the effect of such flows on the balance of payments and the exchange rate. It also evaluates the implications of different exchange rate regimes and considers the suitable role of international institutions such as the International Monetary Fund (IMF).Students of International Economics can make use of the skills and tools learned in a broad range of career paths, such as journalism, consultancy, government agencies and international institutions, while at the same time enjoying the ability to make sense of some of the most important and composite issues of our times. International economics is growing in importance as a field of study because of the rapid integration of international economic markets. Increasingly, businesses, consumers, and governments realize that their lives are pretentious not only by what goes on in their own town, state, or country but also by what is happening around the world. Consumers can walk into their local shops today and buy goods and services from all over the world. Local businesses must compete with these foreign products. However, many of these same businesses also have new opportunities to make bigger their markets by selling to a huge number of consumers in other countries. The advance of telecommunications is also rapidly dropping the cost of providing services internationally, while the Internet will assuredly change the nature of many products and services as it expands markets even additional.

Objectives of Paper

- Understand why nations trade with each other.
- Be familiar with the different theories explaining trade flows between nations.
- Understand why many economists believe that unrestricted free trade between nations will raise the economic welfare of countries that participate in a free trade system.
- Be familiar with the arguments of those who maintain that government can play a proactive role in promoting national competitive advantage in certain industries.
- Understand the important implications that international trade theory holds for business practice.

1-What Is International Economics?

International economics is a field of study that assesses the implications of international trade, international investment, and international borrowing and lending. There are two broad subfields within the discipline:

international trade and international finance .International trade is a field in economics that applies microeconomic models to help understand the international economy. Its satisfied includes basic supply-and-demand analysis of international markets; firm and consumer behavior; perfect competitive, oligopolistic, and monopolistic market structures; and the effects of market distortions. The typical course describes economic relationships among consumers, firms, factory owners, and the government.

The objective of an international trade course is to understand the effects of international trade on individuals and businesses and the effects of changes in trade policies and other economic conditions. The course develops influence that support a free trade policy as well as influence that support a variety of types of protectionist policies. By the end of the course, students should better understand the centuries-old disagreement between free trade and protectionism.

International finance applies macroeconomic models to help understand the international economy. Its focus is on the interrelationships among collective economic variables such as GDP, unemployment rates, inflation rates, trade balances, exchange rates, interest rates, and so on. This field expands basic macroeconomics to include international exchanges. Its focus is on the significance of trade imbalances, the determinants of exchange rates, and the aggregate effects of government monetary and fiscal policies. The pros and cons of fixed versus floating exchange rate systems are among the significant issues addressed.

2-Globalization and International Trade

Globalization” refers to the growing interdependence of countries resulting from the increasing combination of trade, finance, people, and ideas in one global marketplace. International trade and cross-border **investment** flows are the main elements of this integration. Globalization started after World War II but has accelerated noticeably since the mid-1980s, driven by two main factors .One involves technological advances that have lowered the costs of transportation, communication, and calculation to the extent that it is often economically viable for a firm to locate different phases of production in different countries. The other factor has to do with the increasing **liberalization** of trade and capital markets: more and more governments are refusing to protect their economies from foreign competition or influence through **import tariffs** and nontariff barriers such as import quotas, export restraints, and legal prohibitions. A number of international institutions established in the wake of World War II—including the **World Bank, International Monetary Fund (IMF),** and **General Agreement on Tariffs and Trade (GATT),** succeeded in 1995 by the **World Trade Organization (WTO)**—have played an important role in promoting free trade-in place of **protectionism.** Empirical evidence suggests that globalization has significantly boosted **economic growth** in East Asian economies such as Hong Kong (China), the Republic of Korea, and Singapore. But not all **developing countries** are equally engaged in globalization or in a position to benefit from it. In fact, except foremost countries in East Asia and some in Latin America, developing countries have been rather slow to integrate with the world economy. The share of Sub-Saharan Africa in world trade has declined continuously since the lat1960s, and the share of major oil exporters fell sharply with the drop in oil prices in the early 1980s. Moreover, for countries that are actively occupied in globalization, the benefits come with new risks and challenges. The balance of globalization’s costs and benefits for different groups of countries and the world economy is one of the hottest topics in development debates.
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3-TRANSPORT IMPORTANCE IN GLOBAL TRADE

Globalization of production and trade is among the defining characteristics of our era. The scale of economic activity is just as extraordinary as the speed of technological development, and lower production costs and higher productivity have contributed to the manufacture of greater wealth today than ever before. Without a doubt, transport is an requisite part of this process. It provides vital distribution for production, as well as essential personal mobility, directly interconnecting businesses to worldwide markets. Transport is a key element of economic growth and Competitiveness .Transport can be call the heart of globalization, really the term of globalization would be meaningless without the ability to move goods and people around the planet. The opportunities for individuals and businesses to advantage from globalization are increased by competent, cost-effective transport networks. A competitive, responsive, well-organized transport sector facilitates trade, but creating the conditions for this poses policy challenges that must be tackled if transport is to contribute fully to globalization. The rise of a global trade is a relatively recent occurrence. For most of human history, bulk products were too costly to transport over great distances, which made economic production effective to the location of key natural resources. A major factor, breaking down these constraints is what N. G. Lundgren describes as three “revolutions” in transport technology.

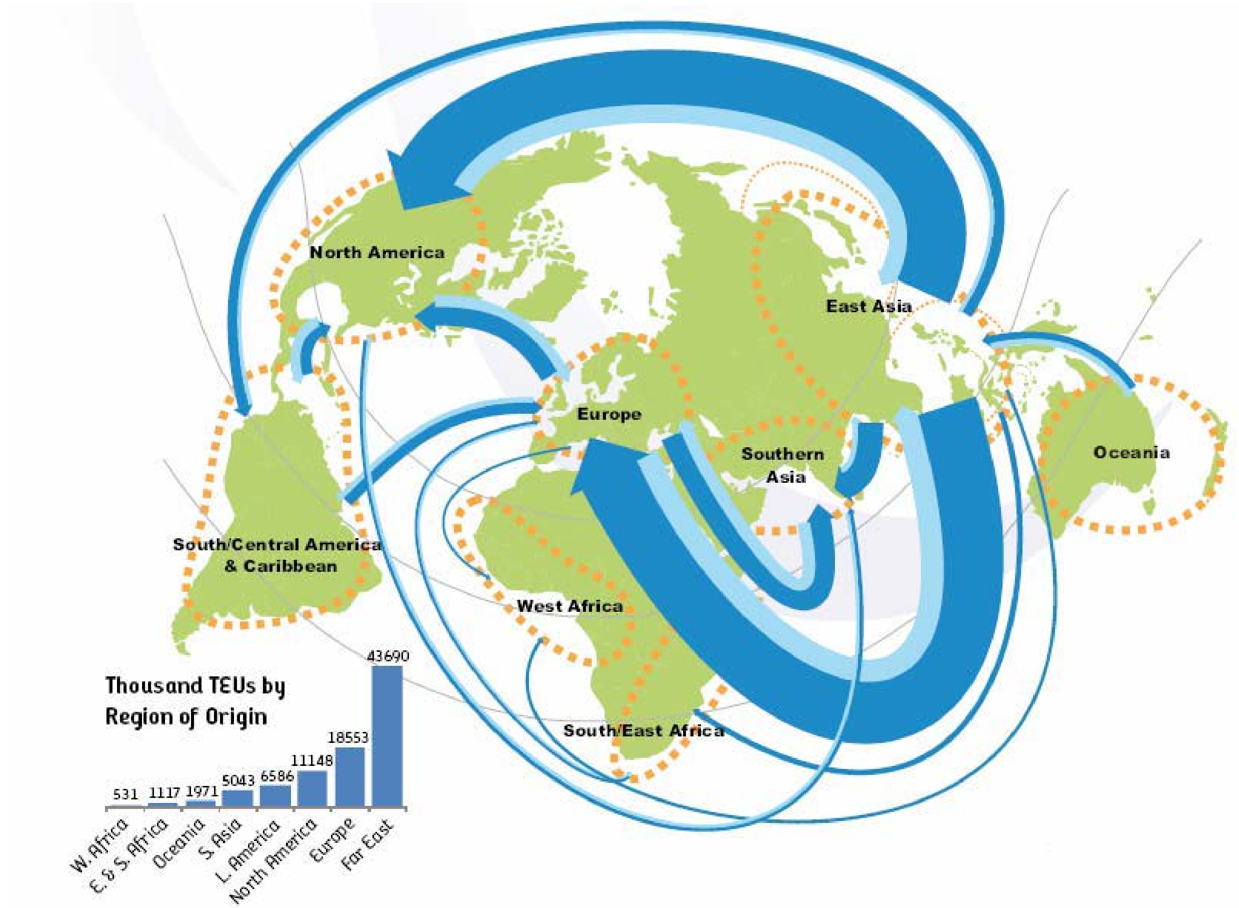
(a) The first such insurgency occurred between the 16th and 18th centuries with a series of crucial improvements to sailing ship design and efficiency. Although high costs still made it too expensive to ship all but the most expensive commodities, such as coffee, cocoa, spices and precious metals, across the oceans, sail transport gradually linked the coastal areas of North and South America, Africa and Asia with Europe, creating for the first time a "globaleconomy"

. **(b)** A second transport insurgency occurred in the mid-19th century when the introduction of steam power to land and sea transportation transformed the economics of moving low-value goods cheaply across great distances. As railways replaced overland transport by horses, and as metal steamships took the place of wooden sailing vessels, a wide range of primary commodities, particularly agricultural products, in North America, South America, Africa and Asia were suddenly economically accessible to the world's industrial centers. This, in turn, greatly prolonged the incentive to engage in overseas trade, exploration and investment and significantly widened the scope for industrial expansion. Transatlantic transport costs fell roughly 60 per cent in the decades between the 1870s and the beginning of the 20th **century accelerating global trade and the process of industrial specialization.**

(c) A third revolution in transport technology occurred after the 1950s with the dramatic increase in the average size of merchant ships. The closure of the Suez Canal in 1956-57(and again in 1965) played a major part in launching this process. unexpectedly faced with the expense of transporting oil, coal, iron ore and other bulk commodities over much greater distances, the shipping industry decided to invest in huge, specialized bulk carriers, as well as in the harbor facilities needed to handle these new vessels. Whereas oil tankers averaged16,000 dead weight tones in the early 1950s (their design partly constrained by the need to navigate the Suez Canal), they averaged over 100,000 dwts by the 1990s – with modern "super-takers" greater than 500,000 dwts and capable of carrying over 3 million barrels of oil. The same technological advances have distorted bulk freighters, with ships growing fro man average of less than 20,000 dwts in 1960 to about 45,000 dwts in the early 1990s.Introduction of steam transport radically reduced the cost of goods trade after the mid-1800s, new transport design technology has radically reduced the costs of shipping a vast range of low-value bulk commodities in the post-war period. Freight rates decreased by 65per cent in the period between the 1950s and 1990s, while bulk commodity trade grew from about 500 million tonnes to 3,977 million tonnes – a 657 per cent increase .Overall the cost of transporting natural resources has fallen an astonishing 90 per cent between 1870 and1990. This, in turn, has particularly expanded the volume of raw materials traded, the distances covered, and the commodities implicated. Almost every imaginable bulk commodity – from iron ore and phosphate fertilizers, to crude oil and natural gas – is now regularly shipped vast distances across land and oceans. Even resource waste – such as metal scrap, mining tailings, or rejects from forestry and agriculture – is increasingly traded globally. Today, the transportation volume of products traded globally is focusing mainly on the sea between Far East origin locations and Europe and North America destinations. Far East is also one of the most important destinations of delivery from Europe and North America Transportation costs are a central theme in international trade theory. For example, their decline are typically given a central role in the trade growth of the late 19th century . The barriers that result from transportation costs are almost as large or larger than those from tariffs. According to Yi , US tariffs in 1994 were 4.5 percent. Hummels finds that US import weighted transportation costs were 3.9 percent in the same year. While transportation costs are measured important, they have typically been studied much less than tariffs. A major reason for this neglect is the lack of good data. However, there are a few amplification pointing on the transportation importance in global trade development

Kopp noticed that there is extensive agreement that the reduction in long-distance transport and communications costs has been an important determinant of today's globalization. For a long time it was believed that trade costs were of little importance for the structure and quantity of global trade; however it is now acknowledged that these costs are significant

Fig



4-The role of developing countries as exporters and importers will increase significantly over the next 40 years.

Exports of manufactured goods may have greater than before even more and export diversification might have progressed even further had exports of minerals not surged so considerably, driving up the exchange rate and diverting investment.

5-Changed World of Trade in 2050

Will these trends continue? Barring geopolitical or climate-induced catastrophes and assuming that the world does not retreat into protectionism, the role of developing countries as exporters and importers will increase appreciably over the next 40 years, reflecting their high growth rate and the rise of their middle classes. In addition, their confidence on developed country markets is projected to weaken. Patterns of comparative advantage will shift, opening the door for currently lower-wage countries to benefit. reliable with the current trend, the value share of exports of developing countries in world trade will increase from 30 percent in 2006 to 69 percent in 2050. China's share will increase from 7.6 percent to 24 percent, while India's will reach 6.4 percent, up from just 1.2 percent. Conversely, the industrialized countries' share will decline, with that of the United States decreasing from 9.5 percent to 7 percent and that of Japan falling dramatically from 5.4 percent to just 2.4 percent.

6-Developing Countries as an Export Market

Developing countries' role as an export market will considerably increase. Based on a conservative GDP elasticity of trade of 1(a more realistic projection would be between 1.3 and 1.5), China's imports from the United States and the EU will account for 3.1 percent of the world's total in 2050, representing more than a twofold increase in its importance as an export market since 2006. Because the majority of U.S. and EU exports application to the middle

class—a segment that is rapidly growing in developing countries—these numbers likely underestimate the rise in exports from advanced countries to China and other developing giants.
As the share and importance of developing countries increases, the share of world trade occurring among developing countries will continue to rise. China's imports from India and Russia will account for 2.4 percent of world trade by 2050, instead of a huge increase from 0.21 percent in 2006. A booming China and India indicate strong demand not only for primary products, but also for niche manufactures and services, as well as for industrial inputs and equipment from other developing countries.

7-Policy

As wages, capital/labor ratios, and education levels in the most successful developing countries rise faster than in the less successful ones, patterns of relative advantage will shift. The fastest growing developing economies' current relative advantage in labor concentration will weaken as wages there rise, opening the door for lower-wage countries to benefit. However, the scope of this shift will depend on the ability of the lower-wage developing countries to expand manufactures exports and improve capacity to produce and distribute agricultural products and raw materials. This will require eliminating the high import protection still present in some sectors and countries. Policies could include modifying logistics and customs measures that currently make it very expensive to trade, as well as improving the business climate to persuade investment and the expansion of capacity. The success of developing countries in manufactured exports will force rich countries to innovate and differentiate even further if they are to sustain their market position in high-value-added products. The establishment of an open, rules-based system proper for the world economy of the twenty-first century is far from certain. Far-reaching reforms of the World Trading System, including the World Trade Organization, are needed. A large extension in world trade, as well as marked increases in efficiency, innovation, and, ultimately, human welfare are likely in the coming 40 years. However, as the declining Doha process shows, the establishment of an open, rules-based system suitable for the world economy of the twenty-first century is far from certain. Far-reaching reforms of the World Trading System, including the World Trade Organization, are needed to make sure that the progress of world trade is not vulnerable, or worse upturned, in the midst of the next economic and financial crisis.

8-Economic Impacts of Trade: Perceptions and Perspectives

World trade has increased steadily, and somewhat invisibly, over the past fifty years, spurred by global policy actions, such as the Bretton Woods Accord (1944) and the General Agreement on Trade and Tariffs (GATT). The U.S. has been, and continues to be, a major factor in international trade. With a 1994 Gross Domestic Product (GDP) of $6.378 trillion and a per capita GDP of $25,800, the largest among major industrial nations, the U.S. represents a major market for both domestic and foreign producers of goods and services. In spite of its importance in international commerce, trade is still dwarfed by the size of the domestic economy. In 1994, U.S. exports totaled $482.2 billion (7.2% of GDP) while U.S. imports totaled $657.9 billion (9.8% of GDP).Major export commodities include: capital goods, automobiles, industrial supplies and raw materials, consumer goods, and agricultural products. While agriculture accounts for 2% of U.S. GDP and 2.8% of the labor force, it represents 9.5% of total exports ($45.7 billion), 4.1% of total imports ($26.8 billion), and generated a $18.9 billion trade surplus in 1993 (U.S. Department of Agriculture).International trade in general, and agricultural trade in particular, contributes to the economy in a number of ways, including employment and economic activity. Estimated trade-impact multipliers indicate that, in 1992, one million dollars of agricultural exports required 21 workers, and each dollar of agricultural export sales generated an additional $1.44 of economic activity in the U.S. economy. Thus, in 1992 agricultural exports required the employment of 902,000 workers and generated $104.6 billion in business activity in the U.S. economy (Schluter and Edmondson). Although exports are generally credited with contributions to the economy, imports also generate jobs and create economic activity. Leading imports include: crude oil and refined petroleum products, machinery, automobiles, consumer goods, industrial raw materials, and food and beverages (U.S. Department of Commerce).

In spite of the contributions of international trade to economic activity and employment, some still believe that the U.S. should not participate in an open international trading system. Calls for increased economic isolationism can still be heard in some quarters. But, reverting to a closed economy is not economically rational in today's global marketplace. The notion of "made in America" has become a myth, with "assembled in" becoming a more appropriate term (Reich). However, awareness of international trade has increased significantly with the recent

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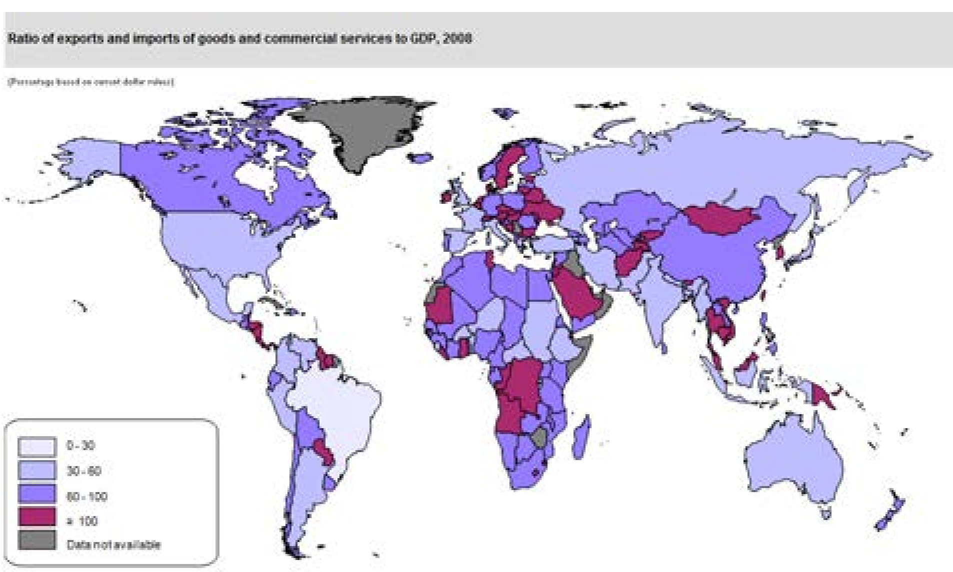
negotiation and subsequent ratification of the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the GATT (GATT-UR). Questions about the economic impacts of liberalized trade on the U.S. economy have caused debate among Americans, concerning America's ability to compete in international markets and the apparent loss of U.S. jobs to developing countries in Asia and Latin America. The strength of these concerns has been somewhat surprising. Both NAFTA and GATT-UR liberalize international trade and further level the international playing field. Economic theory supports the notion of gains from trade and is generally reliable with the post-war policies pursued by Western industrialized nations, newly industrialized Asian countries, and more recently, many Latin American countries. However, significant public opposition to these agreements has materialized among the general public. Indeed, ratification of both NAFTA and GATT-UR by the U.S. was in doubt until the last moment. If trade liberalization is so attractive, why do so many groups and individuals oppose agreements such as NAFTA and GATT? There are, of course, many probable explanations. Trade policies are a mix of economics and politics, and much of the public information about the probable impacts of these policies comes through news media, which tends to focus on the negative side of issues. Therefore, the complexities nearby the economic impacts of trade are often improperly perceived, or viewed from a rather narrow perspective.

The purpose of this leaflet is to examine the economic impacts of trade by focusing on three issues that have formed the basis for much of the public concern.

First, is the question of "Why is there international trade?" The standard answer to this question has long been "Because of comparative advantage." But the concept of comparative advantage is difficult to understand, even for students of economics.

The second issue is jobs. Income is an economic concept, jobs are political. So jobs have been the single most noticeable issue regarding the impacts of liberalized trade. However, much resistance to liberalized trade on the basis of saving jobs has been viewed from an individual perspective rather than from the whole economy. The final issue is the belief that the U.S. is losing its industrial base to foreign competitors. This, perhaps more than any of the issues careful here, is a misperception, as discussed later.

The Importance of Trade Liberalization for Developing Countries



Countries trade with each other because trading typically makes a country better off. In international trade competition occurs at the firm level, while citizens of every country can benefit from free trade. Citizens enjoy a greater large quantity of goods and services, and generally at a lower cost. Imagine a country that decides to separate itself economically from the rest of the world. In order to survive, the citizens of this country would need to grow their own food, make their own clothes and build their own houses. However, if this country decided to open its border to trade, its citizens would specialize in the activities they do best. Specialization leads to higher productivity, higher income, and better living standards. Can every country benefit from free trade? A fundamental principle of economics – proportional advantage – holds that when a country produces more of one product, it will create less of some other product. This trade-off occurs because resources are scarce and societies want to get the maximum benefit from them.The central question in international trade is not how much it costs, in either money or capital, to produce goods such as T-shirts or computers in one country compared to another. The question is how many T-shirts it costs to produce a computer when resources are shifted from producing one product to another. The country that can produce more computers by, say, forgoing production of 1,000 T-shirts can benefit from trading with the country that gets fewer computers in return for not producing 1,000 T-shirts. In order words, countries benefit from free trade because of their comparative advantages, which means that there is no a single country in the world that can produce everything more economically than others. The benefits of comparative advantage are particularly important to developing nations. In Thomas Sowell's *Basic Economics*, he quotes an unattributed statement: "Comparative advantage means there is a place under the free trade sun for every nation, no matter how poor, because people of every nation can produce some products relatively more efficiently than they produce other products." The relationship between trade openness and economic growth has been thoroughly analyzed, and the findings in most papers support the

9-International trade and Economic Growth:

The issues of international trade and economic growth have gained considerable 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 divide groups. One group of economists is of the view that international trade has brought about inauspicious changes in the economic and financial scenarios of the developing countries. According to them, the gains from trade have gone mostly to the residential 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 practiced all the complimentary 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 advantageous 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 eagerly 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 proficient 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 affluence in any country. There are many other factors like flexible trade policies, favorable macroeconomic scenario and political stability that need to be there to harmonize 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.

10-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 mounting their domestic market and pursuing provincial economic integration developing countries can diversify their production away from their traditional notion that greater openness to trade generates positive growth effects.

Conclusion

Transportation is one of the aspects where economic progress has made itself most conspicuous. An well-organized global transport system plays a significant role in the global trade and economic development .International manufacture is becoming increasingly common over time as companies seek out low wages and land costs to achieve low production costs that is the reason for global trade development. However, these results in the need for long-distance international transport .Reduction of transportation costs may have confident the increase in vertical specialization. Breaking the production process into stages that are done in different locations incurs higher transportation costs than production that is done within a single location. A part may be transported many times, incurring multiple shipping fees. transit. When transportation costs are high, it may be impractical to ship parts many times using relatively expensive modes of transportation that can be a threat for future global trade development.

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