

## **INTERNATIONAL TRADE – BOON OR BANE FOR ECONOMIC GROWTH**

**V. Kalpana**\*

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### **Abstract**

International Trade has exerted a reflective sway on the economic growth of a country. It has been observed that with the advent of LPG policy of the Government and lifting bans on free trade, the developing countries, particularly India has developed enormously over the years. The advancement and innovations in the areas of Science, Technology and Communication, Infrastructure, Retailing, Banking, Education etc have undisputedly contributed to the growth of the country and this is possible due to the free trade policies of the government. The need for going global was felt for the time first in India during 1990s when the then finance minister, Dr Manmohan Singh initialized the economic liberalization plan. Since then, India has progressively turned into one of the economic leaders in the world. Remarkable developments have taken place in the leading sectors contributing to an increased growth rate. Global Trade gives consumers and countries the opportunity to be exposed to new markets and products. Almost all kind of products and services can be found on the international market. Imports and exports are accounted for in a country's current account in the balance of payments. Though economic policies and reforms contribute majorly to the growth of the country, they are not free from drawbacks. This conceptual paper attempts to discuss and put forth the good and bad side of the international trade.

**Keywords: International Trade, Free Trade Policy, Advantages, Disadvantages, Consumers, Demand, Supply**

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\* **Asst Professor, Dept of Commercem, New Horizon College, Bengalur**

## **Meaning and Definition of International Trade**

International or Global or Foreign trade refers to exchange of goods and services across international borders. It gives rise to a world economy wherein the prices, demand, supply and other market conditions are dependent on the global events. The players (Countries) involved in trade are mutually dependent on each other. Change in one country's economic condition would definitely have an impact on the other countries as well. This system of trade works under the principle that the entire globe is one market.

## **International Trade has a constructive impact on the economic growth of a country in the following ways**

### ➤ **Global Competence and conglomeration:**

Overseas Trade instills global competitiveness and hence the home industries tend to become well equipped and compatible to face tough universal competition. The industrialists can have open access to the technological advancements due to the conglomeration with the global economy and can avail the benefits of the latest technology to augment their productivity.

### ➤ **Inclination to Quality products and services:**

The globally competent companies become more quality oriented and hence deliver quality products to their home customers.

### ➤ **Increase in Employment Opportunities:**

Globalization also has increased employment opportunities with special reference to IT sector in India as many Multi nationals have invested thousands of crores in India. Hence services such as data entry, accounting etc are done cheaply in India and exported to the developed countries which also add to employment generation.

### ➤ **Advantage of free trade:**

The Developing Economies have better advantage of free trade system as they have relatively higher trade protectionism than the advanced nations. In addition to this, the hand-made goods such as textiles, footwear etc that are exported by these countries fetch a huge amount of revenue to the government by way of taxes which is an added advantage to the developing countries.

➤ **Reduction in poverty level:**

The Open Trade Policy has brought a drastic fall in poverty level. India was a closed economy until 1980. However with the advent of globalization, India has become one of the fastest developing economies in the world with an average growth rate of around 6-7 %. There has also been a significant rise in the per capita income and the standard of living. Poverty has also been reduced by around 10%.

➤ **Higher standards of living:**

The economic growth brought about by international trade can help in capital formation which can be used to set up anti poverty programs. Better education and health facilities can be provided to the poor. The exclusion of all types of trade restrictions in the agricultural commodities of the advanced nations will lead to a fall in production and rise in world prices. Hence the developing countries can make profit by selling or exporting these products at escalated world prices. All these contribute to the higher standards of living.

### GLOBAL TRADE AS A BOON



As any coin has two sides, International Trade is also not free from the other side – the negativities

The following points will highlight the harmful effects of International Trade.

### **1. Double economy:**

International Trade focuses majorly on the modernization and mechanization of the country as a result of which the handicraft and cottage industries face a serious setback. However India has already overcome this challenge and has a well established small scale and cottage industrial sector. But then the real problem in India with International Trade is that it has led to the creation of a dual economy that on side the economy has flourished with respect to IT, infrastructure, exports etc. But on the other side the economy is still poor and becoming poorer with respect to the agricultural and other primary sectors.

Foreign Trade opened up of the export markets which led to the development of this sector while ignoring other sectors of the economy.

### **2. Adverse effect on Domestic Consumption**

As stated earlier, overseas trade focuses too much on exports adversely affecting the domestic production and consumption. As majority of the exports enjoy a tax relief, unscrupulous exporters take advantage of this by exporting majority of the goods produced and thereby creating an artificial demand in the home market in order to sell at inflated price for the local consumers. Despite huge foreign investments, the people remain backward. Thus foreign investment of the traditional type has formed part of a system of ‘economic imperialism’ and ‘exploitation.’

### **3. Domination by Transnational Corporations**

Global Trade is conquered by Transnational Players whose intentions are to maximize profits and returns without giving any consideration to the growth of individual countries or their local population.

#### **4. Threat to cultural values**

India is a land of rich and varied cultural heritage and diversity. This Cultural distinctiveness is adversely affected as a result of Westernization and Modernization. As the entire globe comes under a common roof, a universal culture has arisen in the economy where the home culture has lost its identity.

#### **5. Operation of the ‘Demonstration Effect’:**

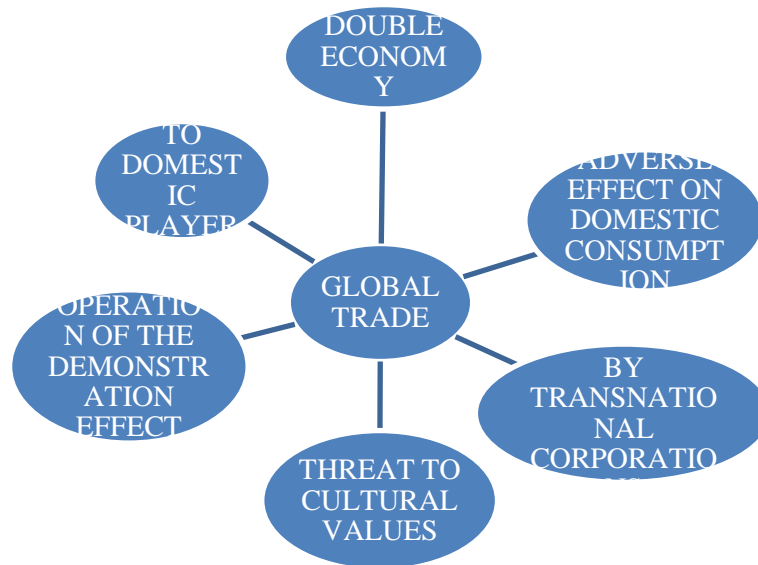
One more negative outcome of International Trade is the operation of the ‘Demonstration Effect’ which means the impact on the behaviour of the individuals caused by the observation of the actions of the others. The yearning for opulence, show-off for rich life style and patterns of spending of highly developed countries has been a significant factor responsible for low level of domestic investments in underdeveloped countries.

Higher income groups in these countries are trying to adopt the consumption standards of advanced countries which have pushed up their tendency to consume and thereby limited capital formation and economic growth. This leads to bribery and illegal businesses. Thus, these evils have adverse effect on the economy.

#### **6. Threat to Domestic Players**

The inflow and outflow of goods, services and foreign exchange increase dramatically as a result of the growth of the International Trade which is an advantage on one side as it promotes exports thus leading to economic development. On the contrary, it also poses a serious threat and challenge to the domestic players who depend majorly on domestic supply and consumption.

## GLOBAL TRADE AS A BANE



Under the Foreign Trade Policy of the GOI, the HIGHLIGHTS OF THE FOREIGN TRADE POLICY 2015-2020 issued by Department of Commerce, Ministry of Commerce and Industry, the Government's objective of promoting domestic capital goods is clearly stated in the following points (Note: These points are extracted from the website [www.dgft.gov.in/exim/2000/highlight2015.pdf](http://www.dgft.gov.in/exim/2000/highlight2015.pdf))

### “B. BOOST TO "MAKE IN INDIA"

#### 6. Reduced Export Obligation (EO) for domestic procurement under EPCG scheme:

Specific Export Obligation under EPCG scheme, in case capital goods are procured from indigenous manufacturers, which is currently 90% of the normal export obligation (6 times at the duty saved amount) has been reduced to 75%, in order to promote domestic capital goods manufacturing industry.

#### 7. Higher level of rewards under MEIS for export items with high domestic content and value addition.

It is proposed to give higher level of rewards to products with high domestic content and value addition, as compared to products with high import content and less value addition.”

### Conclusion

The notification mentioned above shows the Government's stand and contribution in the promotion of foreign trade as well as its efforts to promote domestic capital goods and thereby ensuring a level play platform for the exporters/importers and the domestic players. This proves that International Trade undoubtedly is a boon to augment a country's economic growth and development at a faster pace. However, the interests of the local consumers and producers, their consumption, demand and supply is also equally important for the country's long term growth for the simple reason that growth and development are wider terms and multi dimensional in nature and cannot be restricted only to a few sections and sectors of the country.

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