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The Role of International Trade in Poverty

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Abstract - ***There is a strong correlation between GINI indices in India and the country's trade openness and GDP per capita, unlike inflation rates, which do not. Trade openness and GDP per capita were shown to have substantial effects on the poverty gap in India but inflation rates had no effect on it when data was gathered from secondary sources using a multi-case study research technique and the conventional cross-country regression analysis model. The only statistically significant correlation between GDP Per Capita and poverty incidence is that of openness to trade and inflation rates. According to conventional wisdom, more exports lead to an increase in GDP, although this is not always the case. There is also evidence of this theoretical uncertainty in the empirical literature examined. This research explores how changes in India's export performance affect poverty rates in order to clear up this uncertainty. A broad variety of macroeconomic factors are analyzed in order to determine the influence of foreign trade on poverty reduction in India.***

Keywords - ***International Trade, Poverty, GDP, y, impact and least developed countries***

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INTRODUCTION

Growing the economy is the most important need for decreasing or eradicating poverty. Poverty will be reduced as a direct result of higher economic development. Every nation's GDP rises as a consequence of the opening of trade since it enables each country to utilize its own resources to create products and services more cheaply. Trade also contributes to the eradication of poverty by opening up a huge number of employment possibilities and providing direct access to the external market for goods produced by the poor. In this article, we'll look at how initiatives to cut the cost of trade and to integrate the market might benefit the poorest members of society. It offers a route for the impoverished to join the mainstream economy. Poor people face a wide range of hardships, including chronic hunger and malnutrition, homelessness, a lack of durable goods, disease, a lack of access to clean water, social exclusion and discrimination, high unemployment, and a high rate of infant and maternal death.

LITERATURE REVIEW

Ms. Madhavi patkar (2018) Improving access to goods and services via commerce is essential to alleviating global poverty and so should be prioritized. The expanded scope was made possible by reducing trade barriers, which resulted in a more tightly connected market for products and services. But trading isn't the end of the story. The average person has a rudimentary awareness of how commerce improves livelihoods, raises incomes, and provides people more options. As a result of this, it may be concluded that commerce has a significant impact on reducing poverty. As a result of international commerce and market integration, severe poverty has fallen by an estimated $1 billion during the 1990s.

Pepita Barlow et.al (2021) Trade and globalization have led to the COVID-19 pandemic, which has spread via established trade and travel channels. The pandemic, on the other hand, has an effect on global commerce by reducing both supply and demand. In this Viewpoint, we discuss the many health concerns and possible solutions. Reductions in tariffs and taxes have led to budget shortages and a general drop in economic activity, which in many instances has resulted in recessions, threats to social safety nets, and increasing precariousness in income, job, and food security. These are all problems. However, the epidemic has also brought some short-term advantages, such as to the environment, in extreme circumstances. Looking forward, there will be a lot of pressure on trade policy reform, but it is crucial that trade policy be guided by its various ramifications for health so that the advantages are maximized and hazards are minimized by active identification and mitigation.

Raj M.Desai et.al (2019) Social safeguards for low-income people are impacted by trade movements. However, even after a half-century of decline in the proportion of the world's population deemed "very" poor, many of those who have risen over the global poverty line remain susceptible to shocks that might put them back into poverty once again. In order to keep their salaries stable, these are the categories who need social protection. Trade liberalization, especially in the agriculture sector, has had a negative impact on the absolute poor. The poor must be given some sort of aid to deal with the dangers, uncertainties, and challenges to social stability that come from this type of trading. Social protection in developing nations is examined in terms of expenditure, coverage, and adequacy during the previous two decades as a result of changes in trade components. Trade disaggregation may help us better understand which foreign market determinants promote the extension of social protection, contrary to prior research. Nations that are net food and agricultural exporters offer higher social protection than countries that post agricultural trade deficits, according to trade balance data. In contrast, nations with large industrial trade surpluses tend to have lower social protection coverage. According to our reasoning, governments of net agricultural exporters have an incentive to engage in social programs that provide eligibility to rural poor people. Global supply networks may constrain the ability of governments to provide social protection in countries that rely heavily on manufacturing exports.

Nwabueze Prince Okenna (2020) When it comes to the development of a country's economy, the importance of international commerce, or foreign trade, cannot be overemphasized. Especially in agricultural nations with rich arable land, its importance and contributions to gross domestic product (GDP), job generation (employment creation), economic growth (economic development), and poverty reduction have been too obvious to ignore. It is the primary goal of this article to investigate in detail the contributions and the link between international commerce and the economic growth of emerging African nations. According to this, macroeconomic measures that stimulate and amplify the multiplier impact of these international exchanges should be implemented. Tariffs, import/export levies, government subsidies, and other measures to encourage international commerce are all included in these plans. The study also found that international commerce is an important macroeconomic driver in any economy and should be supported in emerging African countries because of its multiplier effects, which have the ability to advance these nations' development objectives. This can only be accomplished by developing their own localized macroeconomic policies, not just copying the policies of the more developed European and Asian countries. From 2000 to 2019, secondary data from the World Bank and the UNCTAD on emerging African nations was used to compile this research. The data covered a time span from 2000 to 2019. Using this data, a 15-year projection was also launched to offer developing nations with long-term insight into the benefits of these trade operations on their GDP.

SheereenFauzel (2020) Many have argued about the importance of foreign commerce to economic growth in the past. According to comparative advantage theory, commerce is good for the nation as a whole and helps the poor. But social economists argue that human development is the real source of economic growth, and this is currently being argued. There have been a lot of debates over how international commerce may help alleviate poverty and create jobs. The impoverished may also be harmed as a result of trade, according to empirical investigations. The growing disparity between rich and poor nations as a result of free trade has the potential to exacerbate poverty. It was decided to conduct a quantitative study of trade's influence on poverty reduction because of dispute in this area. During the 1990–2017 era, Mauritius is examined as a case study. Trade decreases poverty in the long run rather than the short term, according to the study's dynamic econometric methodology, the vector error correction model. In addition, the research demonstrates that both economic development and education are critical in the fight against poverty in the nation. A poverty-reduction program based on exports is thus highly recommended since it will help disadvantaged areas become more involved in commerce. In order to alleviate poverty, further social safeguards and social policies, such as the distribution of welfare payments, should be implemented.

IMPACT OF INTERNATIONAL TRADE ON POVERTY

- **Impact on households and markets**

Households and the market have been directly touched by trade, and every change in the price of products and services has an effect on both.

- **Impact on wages and employment**

As trade develops, employment opportunities and salaries for the working poor grow. In low-income nations, a huge proportion of unskilled workers are employed, which has a substantial influence on poverty. Because of the trade, new job chances are generated for the unemployed. The abundance of natural resources in African nations has led to increased trade openness, which has stimulated these industries. However, the effect on wages will be determined by the form of the labor market and the bargaining power of employees in that market. In other words, the connection between commerce and employment is complicated. Recognizing, however, the significance of the trade's role in supporting the effort to create even more employment.

METHODOLOGY

Research Strategy

Using a multi-case study approach, this study looked at two of the world's poorest nations, India and Pakistan. International trade factors and variables that have an impact on this critical part of human development are the study's starting point thematically. Data on trade and poverty performance metrics must be gathered next. Using the suggested

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regression analysis and the Gini coefficient, the collected data is constructed and solved as a whole. The findings show that international commerce and poverty alleviation programs are successful.

Data collection

The study's empirical goal is to examine the effects of different nation characteristics on exports' ability to reduce poverty. The sample used for this analysis spans the years 1996–2012 and includes time series data for India. The main completion rate is used to calculate this, and the information comes from a UNESCO database. Not all of the years in question are covered by this data. Because of this, if data is not available for a single year, the average of two years on each side of that particular year are utilized in order to match this with poverty statistics. Macroeconomic stability is determined using the World Bank's Development Indicators consumer price index, which is measured in constant 2011 US dollars. Finally, the World Bank Governance indicators include the Rule of Law index, which measures the robustness of the legal system. Using this data, we can only go back as far as 1996, which limits our time frame to 1996-2012.

Testing for Autocorrelation

A BreuschGodfrey LM test for autocorrelation is used, with the null hypothesis being that there is no serial correlation. When Headcount Poverty is the dependent variable, the chi-square value is 0.200 (1 df) with a probability greater than chi2 = 0.6545. According to Chi2 = 0.1794, with lag 1 of Poverty gap, Chi2 = 1.803, and Probability = 0.1794 for dependent variable Poverty gap. The null hypothesis that there is no association of any order up to p cannot be rejected since the p-value is greater than 0.05. As a result, there is no evidence of autocorrelation.

DATA ANALYSIS

In total the sample covers time series data for India over the period 1996 – 2012.

Table 1: Summary Statistics

Variable	Observation	Mean	Std. Deviation	Minimum	Maximum
Head count of poverty	17	34.86	10.63	13.82	52.65
Poverty gap	17	8.24	3.86	0.30	14.96
Exports/GDP	17	17.18	5.37	10.21	24.54
Imports/GDP	17	20.10	7.32	11.35	31.25
GDP	17	3224.40	872.77	2172.03	4826.66
Primary completion rate	17	81.66	8.30	68.93	95.93
Rule of law	17	0.09	0.12	-0.11	0.29
Access to credit	17	37.10	11.21	23.00	51.88
CPI	17	7.03	3.12	3.77	13.23

Source: Author's calculation

Data from the whole sample are shown in Table 1. This chart shows that 35% of the world's population is poor, defined as having a daily income of less than $1.25 (the international poverty line). It is estimated that on average, the income difference between those who are below the poverty level and those who are above the poverty line is 8 percent. 17 percent of GDP is the average percentage of exports. (cf. Table 1)

Table 2 Correlation matrix

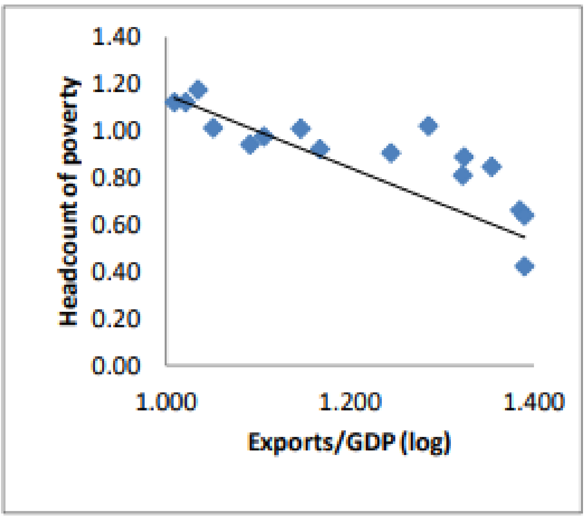
	Education	Inflation	Poverty headcount	Poverty gap	Exports	Imports	credit	GDP	Rule of law
Education	1								
Inflation	.556*	1							
Poverty headcount	-.717**	-.182	1						
Poverty gap	-.715**	-.147	.995**	1					
Exports	.803**	.266	-.840**	-.818**	1				
Imports	.810**	.347	-.858**	-.832**	.992**	1			
Credit	.822**	.324	-.880**	-.857**	.987**	.987**	1		
GDP	.761**	.395	-.870**	-.844**	.950**	.969**	.968**	1	
Rule of law	-.440	-.076	.713**	.690**	-.629**	-.641**	-.662**	-.729**	1

Source: Author's calculation *. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Table 2 displays the study's correlation matrix, which reveals the relationships between the various variables. As defined by Wikipedia, "A correlation matrix is a table demonstrating correlation coefficients between sets of data." A correlation exists between each row's random variable (Xi) and every row's other row's value (Xj). Exports are shown to be adversely connected with both the number of people living in poverty and the size of the poverty gap in this matrix. Other control variables are also highly correlated, thus they should be included in the model for completeness' sake.

Like Chang et al. (2005), this study begins with a comparison of the exports–poverty plots. For this reason, in order to get a sense of how export intensity is linked to poverty, we plotted the linear prediction of both poverty indicators and export intensity over the whole sample in Figure 1.



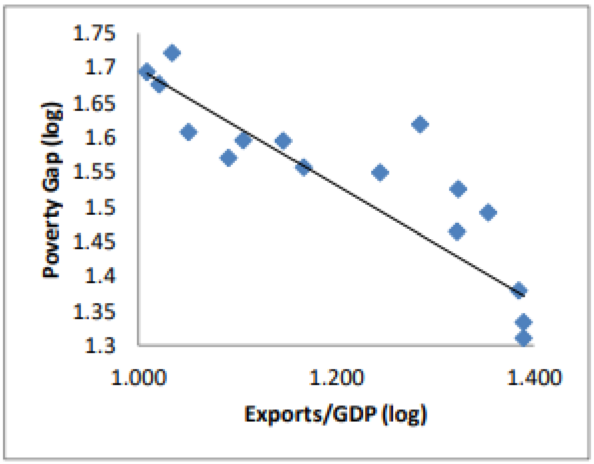


Figure 1: Poverty and Export Intensity

Source: Author's calculation

Presentation and Analysis of Data on International Trade Performance and Poverty Level Parameters for India

In spite of the overwhelming evidence that international trade is good for the economy and reduces poverty, there are still some theoretical disputes since new data has shown that international trade does not always result in growth. Further explanations reveal that development can only occur in conjunction with technical progress (Antumes, 2012). In order for international commerce to have a significant influence on a particular jurisdiction, there must first be a set of tactics, methodologies, practices, and circumstances established. The essential variables for international commerce in this research are the poverty headcount index, the poverty gap, trade openness, inflation, GDP per capita, private credit/GDP, and law and order.

International Trade in India

Since 2010, India's GDP has grown at an annual rate of 6.4 percent and GNI per capita has increased from $100 in 1972 to $1,480 in 2017, according to a data from the World Bank. During 2014, the World Bank's criterion for low-middle-income nations has been exceeded. In terms of global commerce, India is the world's second-largest exporter of ready-to-wear apparel, behind China. Poverty Rate Percentage (2011PPP $1.90/day): 8.5, GINI Coefficient: 32.1, as of 2017. Exports of leather, fish, clothing, and frozen seafood, among other things, accounted for 38% of India GDP in 2018, according to a World Bank research. Imports of equipment and items made from oil accounted for 38%. (OEC). Most of India's exports go to the European Union (EU), China, and the United States (US), while the most of its imports come from Singapore, Thailand, and Indonesia. For example, as compared to low-middle income nations like India, customs taxes in India seem to be greater than in other countries, thus the government has implemented a variety of policies to reduce trade barriers, including the customs duty recovery system. An increase in both exports and imports of garments totaled USD 99.8 billion in India in 2018. Exports amounted to USD 39.3 billion, while imports amounted to USD 60.5 billion. According to this statistics, India still has a long way to go in bridging the gap between imports and exports: in reality, India has maintained a negative trade balance since independence, and its deficits are funded by expatriate transfers and foreign assistance. India's entire trade balance (imports (USD10.4 billion) + exports (USD2.9 billion)) is predicted to be USD-21.3 billion, with a USD -16.9 billion trade balance. In the first six months of the 2019-2020 fiscal year, the trade deficit widened by 5.4%. (Central Bank of India, 2019). GINI coefficient for India between 1983 and 2016 was 30.36 index points, with a low of 25.9 index points in 1983 and a high of 33.4 index points in 2000, according to an early 2020 global economic study. In 2016, India's GINI score was 32.4 points. Income distribution in an economy is measured by the Gini index, which is a measure of how far it deviates from a completely equal distribution. When the GINI index is zero, there is no inequality, and when it is 100, there is a lot of disparity. Because of this, India has a lower than average inequality index.

India's poverty rate has fallen from 44.2 percent in 1991 to 13.8 percent in 2017, based on an international poverty level of $1.90 per person per day. Several economic indices have improved as a consequence of this progress: life expectancy, per capita food output, and literacy rates have all increased by over 6 percent over the last 10 years, hitting an all-time high of 7.3% growth rate last year. As a result of this development, India was promoted to lower middle-income country status in 2015 and met the UN requirements for graduation from the category of least developed countries in 2018. If the country wants to boost its foreign trade prospects, it must first and foremost develop its infrastructure (World Bank Group, 2018).

For cross-country regression and GINI analysis, India's trade openness as a percentage of GDP is an important factor to take into account. As a result, data from 2010 to 2019 for India's trade openness are provided. There was a high of 48.11 openness in India in 2012 and a low of 35.3 openness in 2017: from 2010 and 2019, India's average level of openness was at roughly 40% While the proportion of the total of imports and exports that India has received over the previous decade hasn't reached 50%, this is still considered a significant improvement over other low-middle-income nation. Trade openness is seen in Figure 2 and Table 3 below.

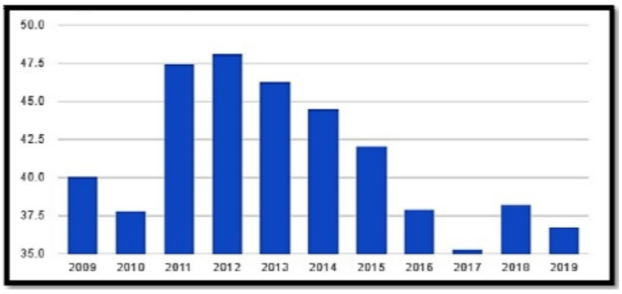


Figure 2: Trade Openness in India (2009 – 2019)
Source: www.theglobaleconomy.com,2020

Table 3: Trade Openness Statistics of India from 2010-2019 Source: www.theglobaleconomy.com, 2020

Year	Value
2010	37.8
2011	47.42
2012	48.11
2013	46.3
2014	44.51
2015	42.09
2016	37.95
2017	35.3
2018	38.24
2019	36.76

CONCLUSION

International commerce has the potential to relieve poverty by improving both worker productivity and the distribution of income. International commerce, in particular exports, is expected to relieve poverty in both directions for a variety of reasons. To begin with, international commerce leads to efficiency benefits due to labor specialization and free exchange, as well as the availability of a wider range of commodities and services. Therefore, greater exports should lead to the development of jobs for unskilled labor, reducing poverty with the correct policy environment and distribution channels. As a result, not only is a country's economic well-being harmed, but the poor in emerging nations are also deprived of the benefits that increasing international commerce would provide them. Efficient macroeconomic policies may help to boost growth and alleviate poverty via international commerce, according to empirical evidence. An abundance of studies has shown the importance of international commerce in the elimination of poverty, regardless of whether the country in question is a developed or developing economy. For socioeconomic growth to occur, there are other aspects that must be taken into consideration, but international commerce provides a comprehensive platform for dealing with these difficulties. Poverty levels in India were examined as a result of this study.

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