

# International Trade and Economic Growth an Indian Experience

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**Abstract – The Role Of The External Sector In The Development Strategy Has Undergone A Radical Change As The Indian Economy Evolved From One That Turned Inward In Pursuit Of Self Reliance Into An Emerging Growth Center With Openness As Its Characteristic. Arranged Development In India Has So Far Proceeded On The Basic Philosophy Of The Mahalonobis Two-Sector Model That Under-Pinned The Second Plan, Although Further Refinements Have Been Added In Successive Models Developed For The Fourth And Fifth Plans. The Mahalonobis Model Stresses The Importance Of Building Up An Entire Structure Of Capital Goods Indigenous, With A View Of Maximizing The Long Run Growth Of Income. Government Control On Economic Activity, Especially Protection From Foreign Competition, Is Necessary For Seeing The Country Through This Period Because Free Competition Would Allocate Resources According To Existing Levels Of Demand, Which Cannot Be Totally Planned In A Mixed Economy.**

**Keywords: Trade, International, Economic, Growth**

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## INTRODUCTION

The subject of International Trade and the developments there of can be extensively named 'positive trade hypothesis' and 'standardizing trade hypothesis'. The previous arrangements with the impact of exogenous or strategy changes on the structure of yields and relative costs, trade streams, or on the local dissemination of genuine salary. The territory of regulating trade hypothesis offers the conversation starters concerning the impact of exogenous or approach changes on the degree of total genuine pay or managing the positioning of elective arrangement instruments.

The reason of Classical Paradigm is the General-Equilibrium, building up the cooperation's among business sectors, in view of the conviction that every single last great are trade capable among nations. The essential information sources in spite of the fact that are non-trade capable, yet completely portable between various sectors of the residential economy. It dismisses middle of the road arranges underway chain of command and accept that all operators are anatomist, working in an undistributed and aggressive condition in which innovation shows steady comes back to scale. A great part of the work after Ricardo has focused on the outcomes of getting rid of the suppositions basic the conventional trade hypotheses. It may not be conceivable to build a general model tending to all others as a unique case.

## STRUCTURE OF INDIAN EXPORTS AND IMPORTS

India's monetary development from 1960-61 to 1995-96 saw basic change underway, utilization, work, and foreign trade. The quick industrialization throughout the years, re-imagined the role of outer sector, from the quest for internal glancing system in mid-sixties to the transparency started since nineties. This part centers around the adjustments in the outside sector situation of the nation, extensively by reflecting upon the pattern in fares and imports, the particular change in the development rate, and changes in the separate offer in the national salary, which demonstrates the significance of foreign trade in the general monetary movement of the nation.

So also, the adjustment in the structure of fares and imports mirror the adjustments in the creation design, just as the progressions in foreign and local interest; mirror the level of development accomplished by the nation. Henceforth, it is suitable to analyze the pattern in fares and imports at current cost and steady cost, alongside the basic change in fares and imports of India for the period 1960-61 to 1995-96. The development of enormous and enhanced mechanical sector, in the long run changed the organization of fare bushel, from to a great extent comprising essential items to the transcendence of fabricated fares over the period. Consequently it is essential to inspect not

just the auxiliary changes of fares and imports at the total level yet additionally at the dis total level.

### THE TREND IN EXPORTS AND IMPORTS AT CURRENT AND CONSTANT PRICE (BASE; 1978-79 = 100)

Foundation of India's Foreign Trade Since the arranged development in 1950-51, India's Foreign Trade (counting fares and imports) has experienced changes in its patterns, structure, nature and organization over a time of five decades. That the foreign trade at current cost expanded from Rs 1763.94 crores in 1960-61 to Rs 22903 crores in 1995-96 and at consistent cost it expanded from Rs 7069.85 crores in 1960-61 to Rs 57085.5 crores in 1995-96. This complex ascent in the foreign trade has absolutely settled its role in the financial development of the India. Thus it gets fundamental to look at the change in the arrangement viewpoint that should have affected the pattern, structure of the trade.

### RELATIONSHIP BETWEEN IMPORTS EXPORTS AND GROWTH

The connections between international trade and financial development have intrigued market analysts for quite a while. The survey of literature on speculations of financial development uncovered that there has been a discussion on the role of trade and on the decision of trade technique for the development procedure of creating nations. This discussion has been between trade worry warts and trade advocates.

The previous recommends Import substitution system though the last backers trade advancement technique as a way to development in creating nations. These hypotheses basically concentrate their push to clarify the causes, procedure and points of confinement of development subject to the experience of mechanical country as opposed to auxiliary change of financial framework through which an economy needs to create. Also hypotheses are worried about the activities of market and state yet not about how market creates and how states change the structure of the economy. Trade speculations are segregated hypotheses of development economies as it obviously shows up in the literature. The most well-known and grievous marvels in the trade speculations from the past now is that it just treats outer sector has a fare sector in particular.

#### Industrialization

The fundamental container necks looked by traditional or creating stage economy to industrialize are, absence of capital merchandise and other hardware, rare aptitude work and business enterprise capacity, low efficiency of components,

immature horticulture sector, and sparse specialized expertise.

Absence of infrastructural office, institutional unbending nature and so forth. Along these lines development-controlling powers have an advantage over developmental instigated powers. The economy needs to hold onto the favorable powers from import of faction oral contributions to separate the limitation of industrialization, outer progression of merchandise, help. Innovation and specialized administrations discourage developmental controlling powers and invigorated procedure of industrialization in the economy.

Gradually and step by step some development focuses are created with outer power incitement inferable from activity of local structure. By getting the developmental energizer from import of sectoral inputs, essential overwhelming and infrastructural enterprises create with dynamic auxiliary linkage to modern, farming and foundation administration sectors.

#### Technological Development

Since there is a huge supply of information in created economies, creating economies can utilize this information to separate the imperatives of absence of qualified researchers engineers, experts, business people, failure to contribute tremendous sum on R and D and to build up the indigenous specialized ability. Internal progression of innovation as venture include help, evacuates all imperatives and build up the broadened dynamic modern sector, motorized and marketed horticulture and wide ran foundation sector. Innovative stream contributes higher initiated pay, development incited business, proficient assignment of resources, improvement in human capital and so on. Import of specialized info likewise advances connects among trade and since quite a while ago run development in the economy. Import of specialized information sources can be separated into two classifications specifically info and yield specialized information. Import of these systems contains specialized procedure and administrations.

#### Capital Accumulation

Capital aggregation is the essential factor for the financial development of any nation. Capital speculation improves the quality and amount of the current physical and HR and advances fast financial development by creating dynamic modern and non-mechanical sectors. There are two wellsprings of financing capital in any economy. They are local and foreign sparing. Both these wellsprings of finance can be utilized for quickening capital aggregation in the economy. The primary limitations for quickening capital arrangement for the most part partner with the four sorts of financial holes which rise toward the starting procedure of

monetary development of traditional stage and creating stage economy viz., Import hole, Investment hole, Government use hole, and to Technical hole. To acknowledge higher financial development such holes like the above once ought to be topped off through the seeking after of potential venture, potential interest and supply powers and potential monetary development in any economy. Subsequently traditional and creating stage economies need to settle on foreign guide and venture, import of sectoral inputs and other wellspring of outside finance.

## REVIEW OF LITERATURE

An issue of an engrossing enthusiasm for business analysts has been the role of International trade as a system of monetary development and development, particularly in recognizing the conviction with encounters of creating nations.

Dalia Marin.(2011) He attempted to examine whether send out execution additionally prompts the profitability execution and the other way around regarding four created showcase economies ( United States Japan, United Kingdom, and Germany) for the period 1960-61 to 1987-88 in view of the co integration and causality approach.

Sangeeta Prasad (2011) The discoveries of the econometric examinations shows that fares, efficiency and the terms of trade (with and without the consideration of world yield) share a typical pattern, for example they move together over the long haul in all nations aside from the United Kingdom. Moreover the causality F-tests recommend that fares Granger cause efficiency in every one of the four nations. An outward looking system appears to support profitability execution of created nations and not just on the off chance that of developing nations.

Sharif Mohammad,(2012) He applied a shut information yield model to the Indian information attempted to appraise the interrelationship between trade, development and pay dissemination. It has been discovered that work openings could be raised considerably through redistribution just as through fare advancement in creating nations, for example, India, if capital and foreign trade imperatives are not official.

Smriti Mukherjee, (2013) Her paper analyzes the connection among sends out and monetary development in India over the time of 1950-51 to 1980-81. It is apparent that in the manner is picked to speak to send out development and salary development factors, the result happens to be the equivalent; that is, on account of the Indian economy a higher development rate in trades has prompted a fall in the development pace of pay over the period watched.

Sakiya Khan (2014), attempted to look at the association among sends out and financial development in the event that of India for the time span 1981-82 to 1992-93. The genuine yield (GDP) is made an element of development rate of labor power and speculation yield proportion, development pace of fares, development pace of farming and assembling yield. The outcomes show that fare coefficient isn't measurably critical, household speculation and work factors had profoundly negative effect on the genuine GDP, the development of fabricated yield and development of rural yield had positive effect yet the previous demonstrated to practice a lesser effect on genuine GDP.

Sangeeta Prasad,(2015) She has endeavored to test that the fare drove development speculation holds especially for nations that have arrived at a specific least level of development as at exactly that point changes in profitability and productivity from expanding sends out convert into externalities and spread impacts. Her example included 46 center pay nations and 36 low-pay nations (counting India) for the period 1970 to 1990. The outcomes prove the speculation that the effect of fares as a wellspring of development is distinctive for nations at various phases of development. For low pay nations, consideration of the fare variable in the wellsprings of development condition doesn't improve the integrity of fit, while for center pay nations the outcomes got were simply inverse.

Sushanta Kumar Mallick.(2016) Investigates an inquiry whether India's fares lead to the nation's financial development utilizing the information for the period 1950-51 to 1991-92. So as to answer this, he has utilized causality as factual method utilizing Granger. Sims and altered Sims (or Geweke-Meese-Dent) tests, to look at single direction or two-path causality in the Auto-relapse where the slack lengths of the factors included are picked by the Akanke's FPE standard. The end is Modified Sims test, of which the Granger and Sims tests are uncommon cases, all things considered upheld the bidirectional causation between salary development and fares development. In any case, Granger and Sims tests don't give predictable proof with respect to the causal linkage among fares and salary development.

As per Nayyar (2016) one reason for no connection among fares and development is in India, there has been little division between the sectors taking into account household request and fares.

In another paper by Jung and Marshall (2016) shows utilizing Granger trial of causality couldn't build up the bearing of causality among fare and local yield in India.

So also Kala Krishna et.al (2016) discovers restricted proof of bi-directional causality between GDP, fares, imports and venture. Moreover, the "best" models of development in the example of nations are typically described by unidirectional causality either from venture or from trades as well as imports to yield, when stochastic inclining properties of the information are accurately represented

Bahmani-Oskooee et.al (2017) address the issue of ideally choosing the slack structures for exact models used to investigate causality, and locate that six nations out of twenty LDCs in their example, trade development is causally preceding yield development.

Jung and Marshall (2017) by utilizing granger idea of causality locate that lone four of the thirty-seven nations in their informational collection show proof of a causal linkage from trade development to yield development. In this manner the providing reason to feel ambiguous about the legitimacy of the fare advancement theory.

## OBJECTIVES OF THE STUDY

1. To stimulate the industrial growth by providing easy access to essential imported capital goods, raw materials and components to industry.

## RESEARCH METHODOLOGY

The study employed the Augmented Dickey Fuller (ADF) Test for unit root and Autoregressive Distributive Lag Model (ARDL) Cointegration approach which entails the Wald Test, Long run OLS estimation test, Error Correction and Short run relationship estimation test, as well as the Short run Causality test. The data on the variables were sourced from The Handbook of Statistics on the Indian Economy and World Bank Database. The data was collected for a period of 1980 to 2012.

## MODEL ESTIMATION

Owing to the fact that time series data is used, in order to avoid spurious regression, the series are first checked whether they are stationary or not. The study employed the ADF Unit Root Test.

**Table 1.1 Results for Unit Root Test**

Variable	Level			First Difference			Order
	None	Intercept	Int & Trend	None	Intercept	Int & Trend	
GDP	14.47	7.64	1.47	1.86	-2.11	-3.69*	I(1)
DI	1.23	-0.78	-5.08*	-	-	-	I(0)
EX	4.81	2.06	-1.26	-3.70*	-4.33*	-4.49*	I(1)
EXR	2.54	-0.59	-1.47	-3.87*	-5.14*	-5.03*	I(1)
IMP	2.37	0.89	-1.22	-1.15	-5.60*	-3.32	I(1)
INF	-1.26	-3.40*	-3.71*	-	-	-	I(0)

The above result shows that some variables are integrated of order one while some are integrated of order zero, i.e. I(0) and I(1). In this case, the best method of estimation to be employed is the Autoregressive Distributive Lag Model (ARDL) co-integration technique proposed by Pesaran et al. (2001).

## ANALYSIS OF THE STUDY BOUND TEST

The first test in the ARDL Model is the test for Cointegration. This test can be carried out using the Wald Test to test the null hypotheses of no cointegration. i.e.

The result for the bound test is presented in the table below.

**Table1.2 Bound Test Result**

Country	F-Statistic	Lag	LB	UB
India	4.097	2	2.39	3.38

Decision Rule: Reject H0 if F-statistic falls outside the bounds.

The result above reveals that the F- statistic falls out of the bounds; hence we reject the null hypotheses and conclude that the variables are cointegrated. Since the variables are determined to be cointegrated, the next step in the ARDL approach is to determine the long run coefficient.

**Table 1.3 Long Run Relationship Estimation**

VARIABLES	COEFFICIENT	T-STATISTIC	PROB.
EXR	-130.2479	-3.322096	0.0027
EX	26452.96	2.933564	0.0069
DI	9226.610	10.16097	0.0000
IMP	-9297.115	-2.010288	0.0549
INF	-22.30105	-0.776089	0.4447
C	-1150.582	-3.008848	0.0058
R-SQUARED	0.90		
DW STAT	1.90		
F-STAT	46.61		
PROB	0.00		

The OLS result obtained above shows a negative and significant relationship between exchange rate and imports with GDP. However, the relationship between exports and domestic investment with GDP was found to be positive and significant. The relationship between inflation and GDP is negative, but insignificant. The R-squared value shows a high explanatory power of the independent variables on the dependent variables, while the overall significance of the model as indicated by the F-statistic shows the significance of the model. LM serial correlation test shows absence of serial correlation and the CUSUM test (appendix one) shows stability of the model. Our long run relationship result thus conforms to the Mercantilist



economic theory that promotes export and discourages imports. The result is also in line with the empirical works of Atoyebi et al. (2012) and Zahoor et al. (2012).

### SHORT RUN RELATIONSHIP ESTIMATION

After estimating the long run coefficients, the last step in the ARDL approach is the analysis of Error Correction and estimation of short run coefficients. The result is presented below:

Adjustment i.e. following a shock, approximately 91% adjustment towards the long run equilibrium is completed in one year.

The short run relationship result reveals a positive and significant relationship between exports and domestic investment with GDP. The relationship between imports, exchange rate and inflation with GDP was found to be negative and insignificant. The R-squared value shows a high explanatory power of the independent variables, the F-statistics also shows an overall significance of the model. LM serial correlation test shows absence of autocorrelation and the CUSUM test shows stability of the model.

### CONCLUSION

In this paper we will observe The perspectives on the connection between International Trade and Growth are incredibly differing. Indeed, even at hypothetical level regardless of the developments in the trade and its settlement of evolving substances, its legitimacy and significance is addressed. Indeed, even the experimental investigations attempted by different creators furnish assorted deduction as to the kind of causation among trade and financial development that may win for a created nation and an immature nation or between them.

The subject of our advantage was to analyze the role of India's outside trade in the generally speaking financial development of India. In the 1950's and 1960's India's conviction was that through household generation it can fulfill its home necessities. Anyway confronted the inside imperatives like financial effectiveness and mechanical guidelines and other impulses like quick industrialization.

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