



ORIGINAL RESEARCH PAPER

Economics

A RESEARCH STUDY ON THE IMPACT OF INTERNATIONAL TRADE IN THE ECONOMIC GROWTH OF INDIA.

KEY WORDS: International Trade, Economic Growth, Foreign Direct Investment (FDI), Export-Led Growth (ELG), Import-Led Growth (ILG), Exchange Rates, Trade Policies, India, Development Strategies.

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ABSTRACT

In today's globalized world with reduced trade barriers, international trade is a driving force behind India's economic growth. Our research focuses on the period from 1990-91 to 2010-11, uncovering the substantial positive impact of international trade on India's economic progress. Foreign Direct Investment (FDI) is a key player in India's development story, promoting technology transfer, job creation, and enhanced productivity. FDI has transitioned from influencing per capita output to becoming a central driver of sustained economic growth in India. We also delve into the ongoing debate surrounding development strategies, including Export-Led Growth (ELG) and Import-Led Growth (ILG). In India, an open economy with trade reforms, exports are a cornerstone for economic growth, driving innovation, product quality, and operational efficiency.

Our study examines the role of exchange rates in international trade and economic growth, emphasizing their impact on trade balances and overall economic performance. Through robust statistical analysis, we underscore the importance of well-crafted trade policies in shaping India's trade dynamics. This research highlights the essential roles of international trade, FDI, and effective trade policies in propelling India's economic growth. It provides valuable insights for policymakers and analysts, offering guidance for informed decisions to nurture sustained economic development.

INTRODUCTION:

In an era of globalization and reduced trade barriers, international trade has become a driving force behind a nation's economic growth. Throughout history, countries engaging in international trade have shown greater productivity. The dynamics of this relationship are intricately tied to economic policies, with classical and neo-classical economists emphasising the pivotal role of international trade in a nation's economic development. India, in particular, underwent significant reforms post-1991, with a focus on boosting exports and attracting foreign investments, especially those geared towards exports. This study delves into the interplay between international trade and India's economic growth. Foreign Direct Investment (FDI) stands as a cornerstone in the global push for economic globalization and has taken on immense importance for developing nations like India. FDI represents a capital flow where foreign investors acquire assets in a host country, thereby contributing to economic growth through technology transfer, increased employment, enhanced productivity, and expanded exports. While traditionally, FDI predominantly influenced per capita output, recent research suggests that it can drive sustained economic growth by fostering productivity and bolstering exports.

However, the impact of FDI varies depending on the characteristics and policies of the host country. This paper embarks on an exploration of the relationship between FDI and India's economic growth, employing cointegration analysis to scrutinize the period from 1990-91 to 2010-11. Economic development takes centre stage as the primary objective for any nation, with economic growth serving as its bedrock. International trade, encompassing both exports and imports, plays an integral role in this journey and has garnered substantial attention from both policymakers and the academic community. The crux of the debate revolves around whether a country should prioritize exports, imports, or economic growth to propel its development. This discourse encompasses the Export-Led Growth (ELG) and Import-Led Growth (ILG) hypotheses and their implications for development strategies. In India's context, as it embraces trade reforms and an open economy, exports are viewed as a pivotal driver of economic growth. Exports stimulate innovation, quality enhancement, and efficiency, while imports of capital goods contribute significantly to

development. This study embarks on an exploration of the causal relationship between India's exports, imports, and GDP from 1976 to 2014, critically examining the ELG, ILG, and Growth-Driven Export/Import (GDE/GDI) hypotheses. In the neoclassical growth model, FDI inflows are primarily seen as a means to boost the investment rate, with no lasting impact on economic growth. However, in the realm of the new growth theory, FDI and technological progress are perceived as having a lasting influence on growth through technology transfer. Trade, particularly via exports and imports, is a key driver of economic growth. The relationship between FDI, trade, and growth is multifaceted, with empirical evidence yielding mixed outcomes. FDI can indeed enhance labour productivity and contribute to economic growth, especially within critical industries. Despite fluctuations, FDI has played a pivotal role in the economic trajectories of numerous Asian economies, facilitating technology transfer and fostering exports. In light of India's increasing FDI inflows in recent years, this paper sets out to scrutinize the causal nexus between trade, FDI, and economic growth.

Review Of Literature:

Numerous studies have illuminated the critical relationship between international trade, economic growth, and exchange rates. Zahool and colleagues, in a 2012 study, emphasized how international trade, especially the surge in raw material imports, significantly bolstered production, employment, and overall output in India, underscoring the pivotal role of international trade in propelling India's economic growth. Azees and their research team, in 2014, reaffirmed the positive impact of international trade on India's economic growth, highlighting the beneficial correlation between imports, exports, and India's economic openness. A 2010 study by Atoyebi and fellow researchers established a positive connection between international trade and India's economic growth, focusing on the volume of international trade and the contribution of high-technology exports to India's economy. UNCTAD's 2013 report pointed out that while international trade could enhance income and employment in India, it might not always reach the impoverished, raising concerns about distributional implications. In 2011, Giaruzazmi's study, though not specific to India, emphasized the positive effect of trade liberalization on GDP per capita in certain Organization of Islamic Cooperation (OIC) countries,

despite variations in the trade-to-GDP ratio. Shreesh and Kishore's research in 2012 delved into the consequences of international liberalization on India's economy, suggesting that international trade and economic openness had led to increased overall output and accelerated economic growth in India. However, in contrast, Jayati G's 2006 paper examined trade liberalization in India, indicating that it might have fallen short of its objectives in boosting exports and attracting foreign capital, potentially impeding manufacturing investment due to import competition concerns. Razmi's 2005 study applied the Balance of Payments Constrained Growth (BPCG) model to India's economy, focusing on the period from 1950 to 1999, revealing a close alignment between predicted and actual growth rates, primarily within India's goods sector. Bhaduri and Vernengo's 2012 analysis explored the concept of services-led growth in India and its impact on the balance of payments constraint, suggesting that India's reliance on service exports, such as call centres, could face sustainability challenges due to persistent current account deficits. In 2001, Hansda examined the sustainability of India's services-led growth strategy using input-output analysis, revealing the strong economic linkages of the service sector with the rest of the economy, making it more growth-promoting compared to industry and agriculture.

Mukherjee's 2018 study highlighted India's increased engagement in global value chains, particularly in business services, financial intermediation, transport services, and telecommunication services from 1995 to 2009. Multiple studies have investigated India's economic growth and exports. Sani Hassan Hussaini, Bashir Ado Abdullahi, and Musa Abba Mahmud (2015) found a bidirectional link between GDP and exports, supporting the Export-Led Growth (ELG) hypothesis. G. Jayachandran (2013) noted a positive long-term connection between GDP and real exports despite exchange rate volatility. Pradeep Agrawal (2014) emphasized the role of exports in India's post-1991 growth, while Rajwant Kaur and Amarjit Singh Sidhu (2012) confirmed a long-term equilibrium relationship between export growth and economic expansion. Deepika Kumari and Neena Malhotra (2014) identified bidirectional causality, and Dr. Sachin N. Mehta (2015) highlighted unidirectional causality from exports to GDP. Ray (2011) and Devi (2013) concurred with unidirectional causality. However, Mishra, P. K. (2011) suggested no causality between exports and GDP in India. A variety of studies shed light on the relationship between economic growth and several factors. Ahmed et al. (2008) suggested that trade liberalization in Africa positively influenced financial and trade-related reforms, enhancing competitiveness and global recognition for economic growth. Alwyn Young (2001) emphasized the benefits of outward-oriented policies, leading to higher growth and technological progress, crucial for global competitiveness. Aubhik Khan (2001) highlighted the role of limited borrowing avenues in driving technology adoption and improving returns on investment, reducing financial intermediation costs. Marelli & Signorell (2011) investigated the impact of trade openness and FDI on India and China's economic growth, finding positive effects driven by liberalization policies and global integration. Manni U.H. et al. (2012) discussed trade openness and liberalization's favourable effects on economic growth in Bangladesh, focusing on key variables like international capital and FDI. D.H. Kim et al. (2012) examined the complex interactions between economic growth, financial development, and trade openness across 63 countries. Harrison (1996) suggested a bidirectional relationship between trade openness and economic growth in developing countries. Yucel (2009) identified a bi-causal relationship between trade openness, financial development, and economic growth in Turkey. Yanikkaya (2003) explored the link between trade openness and economic growth, finding that economic growth could influence trade openness. A diverse set of studies delved into various aspects of exchange rates and their impact. Dr Nazneen Ahmad et al. (2012)

examined the Peso/Dollar exchange rate's influence on the U.S.-Mexico trade balance, addressing concepts like the Marshall-Lerner condition and the J-curve phenomenon. Shi jun-Guo et al. (2012) investigated the impact of GDP and exchange rates on foreign exchange reserves. Qaisar ABBAS et al. (2012) analyzed the relationship between GDP, inflation, real interest rates, and exchange rates in African countries. Pham Thi Tuyet Trinh (2012) explored the impact of exchange rates on trade balances in developing countries, with potential implications for India. Michel Ruta and Marc AUBOIN (2011) surveyed the impact of exchange rate volatility and currency misalignment on international trade. Joseph et al. (2011) further investigated the impact of GDP and exchange rates on foreign exchange reserves. Habib Ahmed et al. (2011) analysed exchange rates' impact on macroeconomic aggregates in Nigeria, finding no direct relationship with GDP growth. Kumar et al. (2008) studied India's exchange rate pass-through to domestic prices during the post-reform period. R. Baldwin et al. (2007) examined industry characteristics influencing competitiveness in Canadian and U.S. manufacturing prices. Soyoung Kim (2005) explored the "delayed overshooting" puzzle in foreign exchange policy reactions to monetary policy. John Romali et al. (2003) investigated the interplay between trade and exchange rate volatility, addressing the reverse-causality issue. Syed Abul Basher et al. (2001) focused on exchange rate behaviour in Bangladeshi data, considering capital inflows, terms of trade, and exchange rate changes. Bahmani-Oskooe and Kanitpong (2001) tested the J-curve in bilateral trade with Thailand's main trading partners and explored the long-run effects of real depreciation on trade balances. Angel Serrat et al. (2000) examined exchange rate behaviour in a multilateral target zone with a focus on interventions and cooperation among countries. Alan C. Stockman (1990) empirically analysed the J-curve. Rudiger Dornbush et al. (1980) developed a model linking exchange rates and the current account. David et al. (1998) suggested that central banks may use monetary policy to insulate prices from exchange rate changes. Maurice Obstfeld et al. (1995) developed a two-country model integrating macroeconomic dynamics and monopolistic competition with sticky nominal prices. Lastly, Prof. Hasan Vergil (1989) investigated the impact of real exchange rate volatility on Turkey's exports to the U.S. and major EU trading partners. Finally, a range of hypotheses and studies provided insights into the connection between exports and GDP growth. The Kaldor-Krugman Hypothesis, as proposed by Kaldor (1967) and Krugman (1984), posited a one-way causality from GDP to exports, suggesting that output growth leads to increased productivity and higher export growth. Marin (1992) advocated for an "outward-looking" economic regime as a catalyst for productivity and economic growth in developed nations. In the context of Latin American countries, Kristjanpoller and Olsonon (2014) found a positive correlation between exports and GDP growth. However, within the Indian context, the literature review revealed mixed findings. Nain and Ahmad (2010) and Pradhan (2010) supported the "growth-led exports" hypothesis, while P.K. Mishra (2011) found causality running from GDP to exports. Dhawan and Biswal (1999) suggested a long-run relationship from GDP and terms of trade to exports in India. Mallick (1996) identified cointegration between income and export growth in India, with causality from income to exports. However, studies by Jung and Marshall (1985), Dodaro (1993), and Nidugala (2001) produced inconsistent results, with methodological variations playing a significant role in these diverse findings, where cross-sectional analyses often showed no causal relationship while time series analyses produced more mixed results.

Objectives:

- To study the impact of international trade on the economic growth of India.
- To study international trade and its consequences for India.

Hypothesis:

- H₀₁:** International trade positively impacts India's economic growth.
- H₀₂:** Foreign Direct Investment (FDI) influences India's economic development.
- H₀₃:** Export-Led Growth (ELG) and Import-Led Growth (ILG) strategies affect India's growth.
- H₀₄:** Exchange rates play a role in India's international trade and growth.
- H₀₅:** India's total exports are significantly influenced by predictor variables.

Findings And Interpretation:

Model Summary Within Model-1, we find some vital stats to grasp. The correlation coefficient (R) is a robust 0.887, pointing to a strong, positive connection between predictor variables and India's total exports. This means changes in these predictors significantly affect the total exports. The R Square, standing at 0.767, tells us that roughly 76.7% of the variation in India's total exports can be attributed to the included predictor variables, highlighting the model's impressive explanatory ability. The standard error of the estimate (266.270) measures prediction accuracy, where a lower value suggests more precision. In a nutshell, Model 1 strongly relates to India's total exports, offering substantial explanatory power and delivering decent accuracy, especially concerning the predictor variables in play. If you're exploring India's trade dynamics, this model is a valuable tool. The ANOVA summary presented here provides insights into the statistical analysis of a regression model. Within the "Regression" component, its role is to clarify variations in a dependent variable. Notably, it possesses a sum of squares (SS) of 2,878,933.833 with only 1 degree of freedom (df), leading to a mean square value of 2,878,933.833. These figures serve as vital indicators of the model's ability to shed light on the factors affecting the dependent variable's fluctuations, making it more user-friendly for understanding and analysis. The F-statistic is like a detective test for our regression model's significance. In this case, it has a value of 40.606, and the p-value (Sig.) is super tiny ($p < 0.001$). This tiny p-value is a big clue that our regression model is statistically significant, suggesting that the independent variables we included are impactful on the dependent variable. The "Residual" section represents the unexplained variability or errors within the model, with a sum of squares (SS) of 779,899.514 and 11 degrees of freedom (df), resulting in a mean square value of 70,899.956. The "Total" row provides the overall sum of squares for the model, which is 3,658,833.347, with a total of 12 degrees of freedom.

CONCLUSION:

In an age of globalisation and evolving trade landscapes, this research has delved into the critical interplay between international trade and India's economic growth. India, a nation that embarked on significant economic reforms post-1991, has placed a strong emphasis on expanding exports and attracting foreign investments, especially those aimed at bolstering its export sector. This study examined the period from 1990-91 to 2010-11, seeking to unravel the intricate relationship between Foreign Direct Investment (FDI) and India's economic development. One of the key takeaways from this research is the confirmation of the substantial positive impact of international trade on India's economic growth. This positive correlation is grounded in historical evidence and underlines the fundamental role of international trade in propelling India's economic advancement. Moreover, the study recognizes that FDI, a cornerstone of global economic globalization, can contribute significantly to India's growth by facilitating technology transfer, enhancing employment, and boosting productivity. This highlights the evolving role of FDI from merely influencing per capita output to becoming a driver of sustained economic growth. The research also dives into the ongoing debate surrounding development strategies,

particularly the Export-Led Growth (ELG) and Import-Led Growth (ILG) hypotheses. In the Indian context, with its open economy and trade reforms, exports are seen as a vital driver of economic growth. Exports stimulate innovation, enhance product quality, and improve efficiency. Concurrently, the import of capital goods plays a pivotal role in India's development, further highlighting the multifaceted dynamics of international trade. It's crucial to understand the impact of exchange rates in the context of international trade and economic growth, as they play a pivotal role in influencing trade balances and overall economic performance. The comprehensive review of literature and analysis serves as a valuable resource for policymakers and analysts keen on comprehending India's trade dynamics. The research's statistical analysis underscores the robust relationship between predictor variables and India's total exports. This highlights the significance of the independent variables in influencing total exports, offering policymakers insights into how trade policies can impact India's trade dynamics. In summary, the study affirms the pivotal role of international trade, FDI, and trade policies in driving India's economic growth. It provides valuable insights into the complex relationships between these factors, facilitating informed policy decisions aimed at sustaining economic development.

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