International Trade, Growth, and Development in Low-Income Countries

Posted on June 2, 2018

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Comparative Advantage and the Developmental Promise of Trade

Most economic specialists agree that “there is gain from trade.” In 1817, David Ricardo posited that countries that specialize in producing and manufacturing goods with a competitive edge gain from trade.

Rapid growth has been seen in the past fifty years around the world and has inevitably affected the lives of individuals and nations. Academia has been conducting research on this rapidly growing trade phenomenon for decades. Studies have brought different results, but no significantly similar results have been produced. The only accords are that what sort of trade is better for the development of which country is more important to know than exploring whether the trade is good or bad (Adriana, 2016). Adriana found that a country’s trade policy defines the growth of firms within the country and firms with growing productivity hold a larger share in the trade market than the less productive firms.

Winters and Hoekman in 2005 conducted a comparative study of literature that dealt with the impact of liberal trade policies on employment rate in the country and wage rates. The researchers found that trade activities increased due to tariff reductions, which had little impact on the employment rate (Hoekman & Winters, 2005).

Historical Origins and Institutional Rules of the Global Trade System

In 2006, Barton et al. reasoned that the current trade system originated from North America’s 1930s policies unlike the unilateral liberalization of trade through bargain and negotiation by the United Kingdom. The authors also posit that establishing the World Trade Organization in 2005 reflects that fewer restrictions from the United States and other developed nations act in their best interest.

In 2003, Narlikar reported that developing countries face difficulties in establishing collaborations and coalitions during negotiation processes held on the World Trade Organization’s platform. Small

countries can often be given more access to developed countries' markets when the developed countries dismantle their coalitions.

There are a number of internal policy tools in the World Trade Organization's agreements that restrict developing countries' increased participation in international trade. Such restrictions, in scholars' circles, are known as "policy space" restriction. This is the biggest hurdle that the trade regime and policy put on the economic development of less developed countries (Rodrik, 2001).

The welfare benefits obtained from international trade are not very big regarding each percent of GDP. Therefore, the free trade regime is often linked to the effects of trade on economic growth. The statistical significance of trade effects has largely been studied, but the part that has been ignored has been the economic growth caused by international trade (Lewer & Berg, 2003).

Trade Liberalization and Development Strategies in Low-Income Countries

Trade advancement has turned out to be far-reaching in the course of recent decades, especially among creating and progressing economies, because of the apparent constraint of import substitution-based improvement techniques and the impact of global budgetary foundations, for example, the International Monetary Fund and the World Bank, which have regularly made their help restrictive on exchange advancement. The principal justification for this level of responsibility regarding a program of exchange change is the undeniable conviction that advancement is essential to progress from generally shut to moderately open economies. Financial experts for the most part concur that open economies become quicker than their partners do (Grossman and Helpman, 1991; Edwards, 1993). In the event that transparency is surely decidedly identified with development, it at that point takes after that advancement is a prerequisite for development. Despite their initial guarantee, late experience recommends that not all exchange changes have been as effective as foreseen (Singh, 2010).

The connection between exchange transparency and monetary development has been hypothetically questionable. While a tried and true way of thinking predicts a development improving impact of exchange, late advancements recommend that exchange receptiveness isn't generally advantageous to monetary development. Expanded global exchange can produce monetary development by encouraging the dispersion of information and innovation from the immediate import of cutting-edge merchandise (Barro and Sala-I-Martin, 1997; Baldwin et al., 2005; Almeida and Fernandes, 2008). Exchange encourages incorporation with the wellsprings of advancement and upgrades picked up from outside direct speculation (al., 2000; Bond et al., 2005). In their hypothetical models, Grossman and Helpman (1991) demonstrate that exchange transparency enhances the exchange of new advancements, encouraging innovative advances and efficiency change and that these advantages rely upon the level of financial receptiveness. This agreement argues that exchange makes financial impetuses that lift efficiency through two flows: in the short-run, exchange diminishes asset utilize

misallocation; over the long haul, it encourages the exchange of mechanical improvement. Exchange advancement can likewise compel governments to resolve to change programs under the weight of worldwide rivalry, accordingly upgrading monetary development (Sachs and Warner, 1995; Rajan and Zingales, 2003). Exchange advancement in creating nations has in this manner frequently been actualized with the desire for development incitement.

Notwithstanding, endogenous development models hypothesize that the commitment of exchange to monetary development fluctuates depending upon whether the power of a relatively favorable position orientates the economy's assets toward exercises that produce long flee from such exercises. In addition, hypotheses propose that, because of innovative or budgetary imperatives, less-developed nations may not have the social capacity required to receive advances created in further developed economies (Rodriguez and Rodrik, 2000). In this way, the development impact of exchange may contrast as indicated by the level of monetary advancement. Despite its potential beneficial outcome on development, some hypothetical examinations guarantee that exchange transparency may hamper development. For Redding (1999), Young (1991), and Lucas (1988), opening up to exchange may really lessen long-run development if an economy has practical experience in parts with dynamic similar burdens as far as potential profitability development or where mechanical advancements or learning by doing are to a great extent depleted. For such economies, specific insurance may encourage speedier mechanical advances.

Empirical Evidence on Openness, Growth, and Unequal Outcomes

The observational investigations are as uncertain as the hypothetical points of view. A few investigations have distinguished a positive relationship between exchange transparency and financial development (Chang et al., 2009; Kim, 2011; Jouini, 2015), while others found no association, either positive or negative (Musila and Yiheyis, 2015; Ulaşan, 2015). The writing is mostly uncertain because distinctive investigators utilize diverse intermediaries for advancement or exchange receptiveness and depend on various systems. The proof for development improvements through exchange progression shows blended impacts due to issues with misspecification and the assorted variety among the advancement files utilized (Whitehead et al., 2001).

International trade, a major consideration of openness, has contributed remarkably to the economic growth of an economy. International trade participation in China has made the country grow incredibly, and the whole world has become its global market for goods and commodities dramatically. China has taken international trade policies in favor of its trade sectors. China's trade structure and trade volume in the international trade market have positively affected China's economy and growth. The eastern part of Chinese territory has been growing most quickly and the western and central areas have been lingering behind with regard to cooperation in international trade and monetary development (Schor and Schor, 2016).

China’s international trade structure and participation have gone through a fast development (Lewer and Berg, 2003) along with its fast-growing economy and has incorporated the whole world as a market for its products. The abundance of skilled labor, vast reservoirs of natural resources, and a stable political system have helped China to grow as a global factory of commodities and goods. For decades (Xu, 2012), debates have been going on about the effects of international trade on a country’s economic growth, productivity, and self-sufficiency. A major finding of the investigations conducted upon the phenomenon of economic growth is that countries producing and manufacturing goods at an international scale are growing faster than those who produce goods for internal use only. The progress and globalization of a country’s trade connect it more with external variables and factors such as transparency. Thus, the research on the impact of international trade on the developing countries’ economies is very important in this globally traded market phenomenon. China’s economy has gone through an emotional pace of development since the monetary changes started and the choice of entry into the exchange trade market, global exchange, and development. China’s financial development joining the worldwide economy has increased to a great extent (Whitehead et al., 2001). Moreover, the country’s participation in global trade, the exchange of goods, and its cooperation similarly increased the flow of change in the profitability of domestic industries and advancements in scientific methods. On one hand, there were huge imports of hardware merchandise in the middle era of the 1990s. This immediately affected profitability through the utilization of innovation encapsulated in them. On the other hand, innovation and scientific methodology have significantly contributed to the productivity of China and its expansion in the international trade market.

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