

Relationship between international trade and economic development research paper ...

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There is clear positive relationship between imports and rate of economic growth of the country. The trade is considered favorable if the amount realized from the imports is more than the amount that was used to acquire them. Developing countries focus more on exporting their products while the developed countries will import more so that they can comfortably sustain their economy. Imports will always give pressure to the manufacturers to be more innovative on their production and apply methods that cut on costs so as to be able to compete with imports that are usually cheap.

International trade accelerates economic development by facilitating improvement in technology. Countries that are more open to international trade will acquire equipment that is up to date with the latest technology which will lead to higher per capita income. International trade will promote growth as there is higher specialization, this will result to more efficient production as manufacturers use more efficient production techniques and have an efficient resource allocation. This will lead to domestic competition that is healthy as manufacturers will improve on the quality of their products so as to remain relevant to the industry.

An economy that is open to external trade will grow faster than an economy that is closed only to internal trade. This is because of a positive effect of export share on per capita income due to the extra income that is injected into the country economy circulation. However, countries that primarily import consumption goods grow at a slower rate than those countries that import intermediate goods. This is mainly because import of consumption goods means that there is competition with the infant industries. Tough competition with infant industries especially on third world countries

discourages their growth and hence import in this case will have a negative impact to the economy growth.

Exports will accelerate growth of the country as it provides productivity and technology benefits to national economies. Massive exports will offer greater economies of scale with industries being able to produce more quantity at a lower cost due to the assured market of their products. The industries will be more specialized and will increase its production efficiency.

Export oriented countries will experience fewer price distortions as the market products will be distinguished clearly, and hence the price will mostly vary on the export products. Stabilizing the market prices is possible as any variation in price will be directed to the export sector that will cater for any additional cost incurred during production. These countries will also have ease in dealing with foreign exchange constraint, when they trade, the countries will have some foreign currency that they will use as to import intermediate inputs that will lead to cost reduction.

An economy that is open to international trade will diffuse knowledge through learning by doing. The intensive interaction between a country and others in the market will encourage communication and sharing of ideas. This will intensify competition by stimulating domestic imitation of the country. Imitation of the country will have a positive impact as it will lead to innovation and production of more competitive products.

A country with rapid growth in international trade both exports and imports will experience a rapid growth as it will check on the balance, a country importing much of intermediate goods will encourage rapid expansion of the industries that will focus more on production. Also, specialization of

industries that deal with manufacturing will ensure that there is more dedication to the production and hence the growth will be at a faster rate. Countries that have closed economy will remain to be behind the market and will experience very slowly or sometimes absence of any economic development as the industries will have complete dominance of the economy and hence they will need little or no innovations as they are assured of a market for their products.

Trade barriers have both positive and negative impacts to the economy of the country. If a barrier or a policy tends to lower the amount of imports by blocking or increasing the price, it will mean that each investment dollar will buy less capital. This will reduce the efficiency of investment spending. If the market is open, there will be more investment in the economy which will, as a result, stimulate growth.

Import of capital goods will help incorporate foreign technologies and hence stimulate industries to become more efficient and improve their productivity. Improved productivity in the economy means that the economy has been given the potential to grow and produce goods that are of higher standards. However, liberalization of trade also has its negative impacts, besides locking out infant industries, there is poor income distribution, the benefits of the trade will mostly be felt by the rich people in the short term who are able to handle the import and export business themselves. Many developing countries fear that opening up for international trade will have negative impacts to the manufacturing sector and lead to extinction of industries. This is, however, untrue as countries like China and India have opened up to

external trade and ended up growing multiple times than they were growing when they had closed economy.

References

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