

E-Module on Trade and Economic Development

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Trade and Economic Development

- According to some Economics International Trade can help or promote Economic Development.

Acc. To Prof Haberler, “My overall conclusion is that international trade has made a tremendous contribution to the development of less develop countries in the 19th and 20th centuries and can be expected to make an equal contribution in the future.”

Beneficial Effects of Trade on Economic Development

- A country can enjoy advantage of international division of labour and specialization, this will lead to increase in efficiency and production.
- Size of market gets enlarge and this also produces economic development.
- Control over monopolist tendencies.

Conti...

- Increase competition lead to optimum allocation and use of resources.
- Foreign competition is very healthy because it will lead to increase in efficiency.
- Under develop countries can import capital goods and machineries to develop their sectors.
- Essential raw material can also be imported.
- We can input technical knowhow and latest technique of production.

Conti.....

- International capital can also be borrowed to make up the deficiency of domestic savings.
- Through international trade we come under contrast with advanced countries and crates favourable demonstration effect.
- There will be diversification in production.
- Development of export industries will promote spread effectively and linkage effect.

Conti.....

- There will be improvement in consumption standard.
- People will be motivated to work hard and earn more because they can enjoy variety of goods.
- Level of income, output and employment will increase which will further lead to increase in savings and capital formation.
- Equalization of factor prices domestically and internationally.

Conti.....

- There will be increase in development of transport.
- Custom duties imposed on trade will promote income to the government.
- There will be increase in economic cooperation which will be useful not only for economic development but also in emergency and natural calamities.

Conti....

- Trade helps to break Vicious circle of poverty.
- It will lead to increase in healthy competition.
- Under develop countries can import capital goods and export primary goods.
- There will be increase in the efficiency and scientific knowledge of the people.
- Development of human capital is possible because of international trade.

Harmful effects of International Trade

Economist like Mynt, Lewis hold that international trade has effected economic development adversely because it has allowed rich advanced countries to exploit poor underdeveloped countries.

Mydle, Mynt, Lewis have propounded theory of exploitation of poor nations. They are of the view that international forces through medium of trade and capital movement have produce backwash effect on the economy of underdeveloped countries.

Harmful effects of International Trade

- Terms of trade are unfavourable to underdevelop countries.
- There is drain of natural resources and underdeveloped countries have to face difficulties when they have to start their own industries.
- U.D.C. will depend upon export of few goods only.

Conti....

- Exports of few goods only will lead to unbalanced growth because only few industries will develop.
- Domestic industries and enterprises cannot develop due to foreign competition.
- Other countries can also adopt dumping in our country so that it can destroy our domestic industry.
- U.D.C will remain primary producers.

Conti....

- Unfavourable demonstration effect can be there as the result of foreign example. UDC may increase their consumption standard considerably.
- We shall depend upon others and too much dependence is not desirable.
- Exports or imports stops during wars.
- There will be economic dualism. A few export enclave or sectors will get highly develop whereas the rest of the economy will remain backward.

Conti....

- ‘Flag Follows the Trade’ Most poor countries of Asia America become colonies of rich western countries.
- Unfavourable BOP and TOT.
- There will be adverse effect on employment.
- The foreign capital which flows through international trade is usually invested in quick yielding projects and this will not lead to economic development.

Conti....

- Foreign investor can disturb our security market.
- Sometimes there is too much external borrowing of foreign which leads to increase in debt burden.
- Generally foreign trade in UDC is handled by foreign shipping countries, foreign banks, foreign insurance companies. These companies discriminate against traders of UDC. Moreover it also leads to drain of income and profits.

Conclusion

International trade have definitely helps in economic development. If some reasonable and rational restriction are imposed on foreign trade then it can certainly act as an engine of growth. In modern world it will not be wrong to say that it is impossible to develop without international trade.

References

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Thank You