

An Overview Of International Trade And Trade Theory

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ABSTRACT:

International trade theories explain international trade. Trade is the exchanging goods and services between two people or entities. International trade is then the concept of this exchange between people or entities in two different countries. People or entities trade because they believe that exchange will be benefited. Economists have developed theories for explaining the mechanisms of global trade. By the mid-twentieth century, the theories began to shift to explain trade from a firm, rather than a country, perspective.

KEYWORDS: International trade, trade theory, policy, technology, influence

I INTRODUCTION:

The subject of International Trade and the developments thereof can be broadly- classified as ‘positive trade theory’ and ‘normative trade theory’. The former deals with the exogenous Influence or policy changes on the composition of outputs and relative prices, trade flows, or on the domestic distribution of real income. The province of theory for normative trade poses the questions concerning the exogenous Influence or policy changes on the level of aggregate real income or dealing with the ranking of alternative policy instruments. The premise of Classical Paradigm is the General-Equilibrium, establishing the interactions among markets, It is believed that all final goods are tradable among countries. The primary inputs although are non-tradable, but fully mobile between different domains of domestic economy. It neglects intermediate stages in production hierarchy and assumes that all agents are atomistic, operating in an undistorted and competitive environment in which technology exhibits constant returns to scale. Much of the work after Ricardo has concentrated on the consequences of doing away with the assumptions underlying the orthodox trade theories. It may not be possible to construct a general model

addressing all others as a special case. "There is but one world and only one model is needed to describe it." Positive trade theorists use a variety of models, yielding useful insights into a limited but still important range of questions. The major issues, examined by the positive trade theory is the question of the determinants of the pattern of trade. The answer explores the possibilities suggested by Ricardo's comparative advantage. Although the principle accommodates, the event containing more than two products and two countries. It argues that if commodities are ranked by their relative price ratios in autarky in the two countries, demand conditions will determine a critical ratio, such that, when trade is opened up, the home country will export all commodities whose autarky relative price is below this ratio and import all other commodities. Such an assertion certainly requires the assumption of constant costs and the real conditions may rarely confirm it. However, this cannot diminish the comparative financial profit awards in providing basic explanation of determining trade patterns. Much of the trade theory thereafter has concentrated in investigating the alternative sources of differences in the inter-country autarkic relative prices.

II TRADE THEORY:

Trade was an "engine of growth" in the 19th century. Sir Dennis Robertson", from whom this phrase is borrowed, "observes in passing that it was not just a matter of optimum-allocation of a given stock or resources. It was certainly that, but it was something more as well. As I see it, it was also a means whereby a vigorous process of economic growth came to be transmitted from the center to the outlying areas of the world." This aspect of 19th century experience was more or less neglected by the traditional trade theory, which focused its powerful spotlight on the beneficent specialisation of productive activities that results when two economies previously isolated enter into contact with each other. Trade became a delivery mechanism for development as well as a way of efficient distribution of available capital. The classical trade development, even though it paid little or no attention to an essential aspect of that experience, namely, the dynamic spread of economic growth through trade.

2.2.1.1 The Effect of Export Sector

The character of the export commodity's influence on regional growth is more complicated. A number of important consequences stem from the technological nature of the production function. When the export product is a form of plantation that is fairly labour-intensive, with

substantially rising scale returns and more equal income allocation, there is demand for a broad variety of products and services, most of that would be housing, thus causing expenditure in certain forms of economic operation.

Levin, the amount of commonly dispersed income, among the other yardsticks by which the impact of an export sector on the remainder of the economy can be calculated. Achieving a high level of general income must be dependent on a high degree of efficiency, and this will rely on labor specialization and the utilization of growing quantities of resources. Trading centers should continue to grow for such products and services to be offered. The mindset toward engaging in information to boost the competitive role would be a normal consequence of such divergent trends. The expenditure caused by the good or service for exports is equally essential. When the export needs considerable expenditure in shipping, warehousing, port facilities and other forms of social overhead spending, external economies are generated to promote more export growth.

If the export industry encourages the growth of complementary and subsidiary industries, and if technology, transport costs and resource endowments permit these to be locally produced, further development will be induced. In both social overhead investment and investment in complementary and subsidiary industry, urbanization and increased specialization are promoted, and additional residentiary activity geared into the increasing local demand for consumption goods and services develops. Changes in technology and transport may completely alter the region's comparative advantage. Technological change may increase the potential rate of return from the production of other goods and services and lead to usage of modern resources and a shift away from the old export industry.

"The expanding international economy of the last 200 years has provided the avenue by which one economy after another has accelerated its rate of growth. An expanding external market has provided the means for rise in the volume of the domestic market, growth in money income, and the spread of specialisation and division of labour."

The disposition of income earned from the export industry plays a decisive role in the rise of the region. Related to this argument is the region's propensity to import. To the extent that a region's income directly flows out in the purchase of products and services rather than having a regional multiplier-accelerator effect, it is inducing growth elsewhere but reaping few of the benefits of increased income from the export sector itself. However in a successful economy the

initial developments from the export industry- lead to a widening of the export base and growth in the volume of domestic market.

“International division of labour and international trade, which enable every country- to specialise and to export those things that it can produce cheaper in exchange for what others can provide at a lower cost, have been and still are one of the basic factors promoting economic well-being and increasing national income of every participating country.” Haberler, as far as the autonomous change is concerned, “I can see no difficulty resulting from them for the applicability of the classical theory of comparative cost.” Such changes are the gradual improvement in skill, education and training of workers, farmers, engineers and entrepreneurs; improvements resulting from inventions and discoveries and from the accumulation of capital-changes which in the Western World stem for the maximum part from the initiative of individuals and private associations, but possibly also from conscious government policies.

These changes come gradually or in waves and result in gradually increasing output of commodities that had been produced before or in the setting sun of the has to be pictured as an outward movement of the curve of possible production (often called substitution or transformation curve)

2.2.1.2 Doubts Regarding the Comparative Advantage

"The classical theory has been often criticized on the ground that it is static, which presents only a timeless "cross-section" view of comparative costs and fails to take into account dynamic elements that is, the facts of organic growth and development. Opportunities for labour specialisation were limited, however, by the volume of the market for the products." As Adam Smith perceived, "The division of labour is limited by the extent of the market." And it was an adequate domestic market, which in many export economies was lacking. The application of capital too was limited by the extent of the market. Only the presence of a market promising the possibility of lucrative returns on future revenue may provide the impetus for the expenditure of private capital. "Specialisation" in the comparative cost principle, conceived as resource reallocation, is a fully reversible method. But in fact specialization requires modifying and reshaping a country's economic system to satisfy export demand, and thus is not readily reversible. The nation specializes in the export sector is thus more prone to trade-related shifts. "Moreover, the growth of foreign exchange in the nineteenth century was not attributed to a

improved distribution of labor and specialization contributing to inventions and incremental increases in expertise and per man hour, but owing to large-scale cheap labor revolutions. In periods of peak demand the current lines were extended as rapidly as possible, so there was little room to develop innovative technologies or reorganize manufacturing through slumps to collect capital for these purposes. This indicates that the phenomena of foreign migration of capital and labor in the nineteenth century has been mostly ignored by the principle of competitive costs, which is focused on the premise of perfect migration of variables within a country and their imperfect mobility between separate countries.

With provided techniques and full employment the output of exports can only be increased at the expense of reducing domestic production. That is drawing labour away from domestic production. Now, this result is possible only where there is a highly defined pricing system in place, which is misleading fact in an isolated underdeveloped economy. The economy of the LDCs operates under conditions nearer to those of fixed technical coefficients than of variable technical coefficients.” The market forces will not necessarily lead to optimal investment decisions because present prices do not reveal the cost and demand conditions that will exist in the future.” “The existence of disguised unemployment implies an Inefficient labour-force allocation and means that market prices do not accurately reveal social cost. Further it is inferred that the import competing industries can be developed without any reduction in output in the export sector or elsewhere would be incorrect even if there really existed much disguised unemployment in agriculture. The reason is that an industry cannot be operated with unskilled labour alone-it also needs capital and skilled labour, which are always scarce in less-developed countries.”

“Moreover an industrialist trying to establish himself in an underdeveloped country finds his market too limited for specialised production, the variety of his output too wide to allow him to use the most advanced technique, and the investment necessary in order to train labour and provide ancillary services too large to make it possible to raise the capital on reasonable terms. These handicaps unless redressed by government action or by good luck (e.g. in war-time), may well become greater with the passing of time.” “Viner admits the necessity of interpreting comparative advantage in a dynamic setting in which the efficiency of Productivity will change overtime, external economies may exist and the market prices of commodities and factors may differ from the opportunity costs.” In real world there are always exist monopolies, oligopolies

and different types of imperfections of competition, wage rigidity, price inflexibility, external economies and diseconomies. On a closer examination, the exchange economy with extremely crude and imperfect apparatus, can make only rough-and-ready responses to economic differentials, may require a considerable amount of state interference to move toward the comparative.

2.2.1.3 In Defense of Classical doctrine

"The foreign division of labor and international trade, which helps each country to specialize and sell certain products which it can manufacture cheaply in return for what others will supply at a lower cost, has become and still is one of the main factors fostering economic well-being and growing national incomes." While competitive risk is static; nothing informative regarding a growing and evolving economic system is not debarred from telling anything. There is such a thing as "comparative statics," that is, a mechanism with which to cope with a evolving condition from a consistent principle. I am convinced that the issues of foreign labor division and long-term growth are such that the approach of comparative statics will go a long way towards a satisfactory solution." Direct static profits dwelt on the conventional principle of comparative costs; exchange provides very significant indirect benefits to the participating countries, which can be defined as dynamic benefits. "The older classical writers emphasized these 'indirect advantages' (Mill's own words). Analytically, this 'indirect,' 'dynamic' profits from trade as an external change of the output probability curve obtained through a trade-induced displacement down the curve." This includes (a) the development of modern manufacturing industries; (b) the expansion of their output and capacity; (c) the enhancement of their technology; and (c) the enhancement of their production capacity;

"In the cycle of growth and industrialization, the latecomers and predecessors have also had the tremendous benefit that they will learn from the founders and precursors 'perspectives, from the achievements as well as from the defeats and errors. Independent of foreign exchange, the independent shifts in an economy arise from the efforts of individuals and private organizations but likely often from conscientious policy policies. However, the autonomous improvements are incremental and sluggish, and can usually not be foreseen in adequate detail by private sector or policy officials to allow for anticipatory action. There is no assumption that the distribution process as defined in the comparative cost principle does not immediately and effectively carry in the improvements and modifications needed by autonomous growth in the scale and structure

of trade. Myint claims that the pre-trade condition was one of surplus productive ability rather than full jobs. In the premises of maximum jobs and fair competitiveness, the consumer value of a product is proportional to the potential cost, and is the expense of the forces employed to generate it with their strongest alternative work. Therefore, market values of inputs and goods should be used under economic environments to assess comparative advantages. Long-term developments are not neglected, they rather expected to be expressed in existing consumer values.

"The Heckscher-Ohlin interpretation of the competitive cost theory was commonly advocated as a justification for growth strategy, since it offers a calculation of competitive benefit that does not rely on absolute competitiveness and initial equilibrium.. The labour theory of value underlying Ricardo's model, has been generalized for any number of commodities and countries, transportation cost was introduced and the law of increasing (or decreasing) cost has taken the place of constant labour cost. In the Heckscher-Ohlin version the theory of trade related to the international activities is stated in terms of many factors of production: many different grades of labour, a great variety of land, climate and other natural resources, capital, entrepreneurship, etc. Dynamic factors, growth and development, changes in technology and in factor supply have been introduced, and With the assistance of the principles of modern welfare economics the precise meaning and limitations of the statement that with trade every country is, or at least can be better off than without trade have been defined and clarified."

The doctrine of comparative cost occupied a special place outside and apart from the general body of classical theory because of the inapplicability of the labour theory of value to international trade in view of the absence of mobility of labour as between countries. But today the doctrine is completely assimilated into the general body of economic theory. Classical exchange theory does not preclude adjustments in the supply of variables and other details over time but maintains that the consequences of these improvements should be expressed in the business system under full competition. If, on the other side, we use comparative advantage as a strategic theory rather than as a product of market conditions, we will provide some possible exogenous shifts in technologies, preferences, or other details without moving outside the comparative statics' context. It is assumed that labor and capital costs in an underdeveloped world are not expressed with sufficient precision owing to business imperfections in their opportunity costs. Any kinds of labour may be overvalued when particular abilities may be

undervalued. As a product of economic growth, factor costs may often shift dramatically with time, and an benefit dependent on cheap labor may tend to be very restricted in length. As Lewis and Hagen demonstrate, the results of accounting for the price of the disequilibrium element on the competitive advantage are always quite significant. The fluctuating complexity of the demand for primary goods and the weak income and quality elasticities are issues voiced about the trading trends determined by market forces. These factors can be admitted without seriously modifying the principle of comparative advantage. When export demand has a low elasticity, marginal revenue should be used in place of average revenue. Since it is quite likely that the market evaluation of the attractiveness of an investment in exports will differ from the social not to do away with the specialisation in primary exports, since the corrected return on exports may be greater than that on alternative investments. The supply of foreign investment may also be greater for export production.

"The possibility of rising efficiency as labour and management acquire increasing experience in actual production has long been recognized and forms the basis for the infant industry argument." Moreover there is often as much scope for technological improvement in agriculture as in manufacturing. The comparative advantage measures over a time can include the productivity change. Hence the question of improvements in the in factor supply not being reflected in structure of the business and generate a bias against manufacturing is erroneous. The customary analysis of comparative advantage on a sector-by-sector basis requires the cost reduction from simultaneous development of inter-related sector to be allocated separately to each. However if a group of investment has to be profitable when they are undertaken together. Not only comparative cost advantage principle would fail to produce the best investment allocation in this situation, but any other structure of equilibrium prices may also be inadequate guide in the presence of economies of scale.

"The overlooked concepts of the Classical Theory of Foreign Trade can be attributed to Adam Smith, I foreign exchange overcomes the narrowness of the home market and offers an advantage over domestic demands for the surplus commodity. This translates into what can be called the vent for foreign trade surplus theory (ii) By broadening the reach of the sector, international trade often increases the division of labor and boosts the overall level of production within the region. This translates into what can be considered the productivity principle." In the principle of competitive costs, specialization merely implies a step down the stagnant output

probability curve based on the exporting country's provided tools and techniques. In comparison, the productivity ideology sees foreign exchange as a fluid power, expanding the reach of the sector. Mill has applied this concept to nations "at an early stage of economic development," where foreign exchange, by raising new demands, "also functions like an economic revolution." Crowding theory incorporates at least four fundamental principles about the U.D.C markets that vary considerably from those underlying the competitive cost concept; (1) factor costs do not represent opponents; That is the competitive cost benefit very much beyond the competence of the child industry.

The second statement is not a contrast of the comparable risk hypothesis. J.S.Milr, in particular, emphasized that trading itself, "the manufacturing cycle itself continues to alter the consistency of variables." Third, the value of volume compared to consumer size has become a common case for freer exchange by trading theorists.

"What competitive cost theory implies is ideal competitiveness and demand and labor stability- in the lack of international markets in disease markets in the large context. Nevertheless, there are still monopolies, oligopolies and certain forms of market imperfections, labor rigidity, demand inflexibility and foreign economies and disease economies."

2.2.2 The growth theory

The neoclassical structures are basically "motored production," often suggesting full-time work and maximum power usage. Growth in this model is clarified by growth in the supply of development factors and their profitability, whether domestic or by foreign trade. The principle of modern growth involves the relationships over time between manufacturers, customers and investors in interrelated sectors of the economy. In Rosenstein-Rodan's writings, Nurkse, Hirschman, even more focus is put on the sequence of expansion of output and factor utilization by sector than on general equilibrium conditions. The theory of growth either totally excludes the competitive advantage and trade possibilities, or it recognizes only the fluid factors, such as the boost given by an rise in exports to the expansion of relevant industries, or the role of imports as a transporter of innovative goods and advanced technology. Despite this contrasting perspective, development theories frequently propose investment requirements that are somewhat different to those generated from competitive advantage considerations.

The contradictions between these two resource distribution methods can be attributed due to variations in expectations or to the inclusion of variables in one hypothesis, to discrepancies in expectations or to the inclusion of variables excluded from the other in one hypothesis. Growth theory includes at least four fundamental premises regarding underdeveloped economies that vary significantly from those underlying the comparative cost doctrine: (i) factor prices do not inherently represent opportunity costs with much precision; (ii) the quantity and nature of output factors that change dramatically over time, partly as a function of the development process itself; (iii) economies.

Nonetheless the "rational development model" requires simultaneous expansion of a variety of output sectors. Considering an infinite amount of either labor or money. Such authors demonstrate that investment in similar industries would be more competitive as market factors do not automatically contribute to optimum investment decisions as present values will not represent the conditions of cost and demand that would occur in the future. Scitovsky's "dynamic external economy" has named this impact of investment in one sector on the competitiveness of investment in another sector, through increased demand or reduced costs. If we assume fixed investment capital instead of an elastic supply, the same collection of factors provide an justification for concentrated or unbalanced production. In order to reach economies of scale in one sector, it might be necessary to commit a significant fraction of the available investment funds to that sector and have enhanced demands from imports in other sectors (or temporarily curb them). Therefore, the optimum investment strategy would be one that focuses first on one market and then on another, with equilibrium being achieved even in the long term. Streeten has established more competitive reasons for unbalanced development from the assumption that technical progress can be quicker if demand gains are concentrated in a few industries, whereas Hirschman⁴⁴ claims that entrepreneurial capacity is imbalanced to economize. The four assumptions listed above contribute to the following theoretical structure criteria to be used in evaluating a competitive advantage in an economy. (1) appreciation of the capacity for systemic inequality on factor markets; (2) inclusion of indirect (market and non-market) consequences of extending a specific form of production; (3) simultaneous assessment of rates of demand, imports and investment in interrelated sectors over time as declining costs arise from expansion of output; and (4) allowance for variance in d . In dynamic analysis, it may not be possible to state that a country has a comparative advantage in producing steel without specifying also the levels of production of iron ore, coal and metal-working over time. In short, we are forced to

compare alternative patterns of growth rather than separate sectors, and we cannot expect to find simple generalisations of the H-0 type concerning the Gottfried Haberler' "stresses upon an important source of disagreement between trade and growth theorists not noticed. Many or most classical or neo-classical theorists had an implicit faith in the efficiency of the competitive-market system and assumed that private entrepreneurs are aware of and try to guess and anticipate, indirect effects and repercussions of their collective actions. No one assumes perfect foresight-losses, crises, depressions and the business cycle itself are strong reminders that foresight is imperfect and mistakes are well nigh unavoidable." Public policy can and should try to reduce ignorance by spreading information and making markets "transparent"; it should mitigate the consequences of miscalculations by counteracting deflationary shocks, by increasing the mobility of factors of production and by promoting the flexibility of the economy to adapt to new circumstances, especially by counteracting price and wage rigidity.

As far as complexity and resilience are concerned, policymakers are constrained in their capacity to predict shifts in demand and conditions of supply placed a focus on resilience when selecting a growth strategy. Not only does this argument argue against investment in one or two export goods, but it also encourages the creation of a diversified economic system that would enable the economy to transition to different forms of exports or import alternatives as it may need them to adjust trading conditions. Kindleberger 'sees this element as the primary reason for his conclusion that trade trends have benefited developing countries while they have not benefited countries that typically produce produced products. The claim is close to that of Stigler about the best option of techniques in a fabrication factory. In stagnant circumstances, the optimal specification for a evolving environment is likely to differ from the optimal, as in the former case the right metric is lowest-cost output with different operating costs even for improvements in product nature. Likewise, optimal growth strategy would result in a resource distribution system allowing for unexpected adjustments in terms of supply and demand, perhaps at the risk of any short-term productivity loss.

III CONCLUSION:

The function of trade related to the International activities contributes to growth and development in a developing country in different ways. It expands output and provides additions to incomes through demand for local natural resources, which, as the old phrase "vent for surplus" suggest, might otherwise go practically unused. It also permits a developing economy to

specialize, based on its relatively abundant resources, while bringing products and services that would be very expensive or impossible to produce locally. Thus, through trade, the country can potentially obtain more of each type of output than it has the ability to create for itself. Benefits from trade are also based on economies of scale, i.e. advantages from large-scale production. The level of labour-sharing, and hence the output attainable per worker in any economy, are limited by the volume of the market. Rich nations only provide tiny markets for certain consumer goods, meaning that the high production prices can leave a developed nation poorer if it wants to manufacture a little of growing commodity for its poor home market. Such a nation stands to benefit enormously by importing much or most of the products which can only be manufactured cheaply on a large scale, and by developing its manufacturing sectors partly around exports, such that a greater scale of output can be achieved.

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