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The Impact of International Trade on Emerging Economies: A Study of India

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Abstract:
Historical and contemporary research suggests that India stands as one of the most rapidly expanding and appealing economies globally, having established itself as a sought-after locale for foreign investment. Since 1991, India has adhered to stringent policies that have constrained the economy's engagement in international trade, resulting in a greater emphasis on protectionism rather than fostering an open market environment. Since 1991, the Indian government has implemented a series of economic reform measures aimed at invigorating the economy. The proposed reform measures encompass fiscal adjustments, a reduction in tariff levels concerning a substantial array of imports, the management of exchange rates, and the strategic utilisation of exchange rates as a mechanism for promoting exports and shaping trade policies. Nevertheless, the reforms enacted in India bore a striking resemblance to those pursued by other developing nations; the primary distinction lay in the pace at which they were executed. India possesses a notable advantage in the form of a stable political climate. The prevailing government and ruling party have maintained a firm grip on the political landscape, thereby fostering an environment conducive to investment. India has asserted its influence within the global economy, as evidenced by its position in international institutions such as the G-8 and G-20, as well as its free trade agreements with ASEAN and the EU. This is also evidenced by India's readiness to embrace international best practices in the production of various goods and services. India has garnered U$195bn in foreign direct investment over the last five years. "In 2013, India's GDP, assessed at US$ 1.9 trillion at current prices, ranks as the 10th largest globally." The Indian government aims for an economic growth target of 8 percent during the current Five Year Plan (2012-2017), reflecting a commitment to maintaining sustained national economic progress.This paper will provide a more in-depth examination of the reasoning behind the exploration of trade in India. The interconnections among trade, productivity, and economic growth have been unequivocally demonstrated through both theoretical frameworks and empirical research. Countries with substantial internal markets have reaped advantages by engaging with the global economy, thereby liberalising their economies, as exemplified by South Africa and India, both members of the BRICS coalition. India is anticipated to emerge as the most rapidly expanding economy globally in the coming decades. The diverse trading practices have contributed significantly to India's status as a prominent trading hub, second only to China among the BRICS nations.

Keywords: India, foreign Investment, economic growth, economic theory, trade.

Introduction

Historical and contemporary research suggests that India stands as one of the most rapidly expanding and appealing economies globally, establishing itself as a sought-after locale for foreign investment. Since

1991, India has adhered to stringent policies that have constrained its economy from engaging in international trade, resulting in a greater emphasis on protectionism rather than embracing open market principles. The Indian government has implemented economic reform measures since 1991, aimed at stimulating the economy. The proposed reform measures encompass fiscal adjustments, a reduction in tariff levels concerning a substantial array of imports, and the strategic utilisation of the exchange rate as a tool for promoting exports and shaping trade policies. Nonetheless, the reforms enacted in India bore a striking resemblance to those pursued by other developing nations; the primary distinction lay in the rapidity of their execution. India possesses a notable advantage in the form of a stable political climate. The existing administration and ruling party have maintained a stable political landscape, thereby fostering an environment conducive to investment. India has asserted its influence within the global economy, as evidenced by its position in international institutions such as the G-8 and G-20, as well as its free trade agreements with ASEAN and the EU. This is further evidenced by India's readiness to embrace international best practices in the production of various goods and services. India has garnered a substantial U$195 billion in foreign direct investment over the last five years. “In 2013, India's GDP, assessed at US$ 1.9 trillion at current prices, ranks as the 10th largest globally." The Indian government aims for an 8 percent growth rate during the current Five Year Plan (2012-2017), reflecting a commitment to maintaining robust national economic progress.The government of India, under the leadership of Prime Minister Narendra Modi, is characterised by its pro-growth stance and is regarded as favourable towards business initiatives. The Bharatiya Janata Party (BJP), also known as the Indian People’s Party, ascended to power in May 2014, securing a decisive majority in the 543-seat parliament during a general election that witnessed a voter turnout of 66.38%.This paper will provide a more in-depth examination of the reasoning behind the exploration of trade in India. The interconnections between trade, productivity, and economic growth have been thoroughly elucidated through both theoretical frameworks and empirical investigations. Nations with substantial internal markets have reaped advantages by assimilating into the global economy, thereby liberalising their economies, as exemplified by South Africa and India, both of which are part of the BRICS coalition. India is anticipated to emerge as the most rapidly expanding economy globally in the coming decades. The engagement in trade with various nations has positioned India as a prominent trading hub, second only to China among the BRICS countries.

India's recent domestic growth represents a noteworthy accomplishment, particularly when considering its population, which is estimated at 1.5 billion individuals, and its status as the world's third-largest economy in terms of purchasing power parity. It is considered one of the emerging nations within the BRICS framework. It is increasingly evident that the equilibrium of global economic influence is shifting from developed nations to emerging economies like India, which is rightly recognised as a formidable player in international trade. Following its independence in 1947 from British colonial rule, the nation has undergone a significant agricultural revolution, evolving from a state of chronic reliance on grain imports to becoming an agricultural powerhouse and a net exporter of food. The duration of human life has significantly increased, the rates of literacy have seen a remarkable fourfold rise, health standards have advanced considerably, and a substantial middle class has developed. India has emerged as a hub for internationally acknowledged enterprises in pharmaceuticals, steel, information technology, and space technologies, and possesses a presence on the global stage that aligns more closely with its substantial size and potential.

Articulating the Concept of Trade

As noted by Hill (2014:160), trade encompasses the activities of purchasing, selling, or exchanging goods, whether at wholesale or retail levels, both domestically and internationally. Hill (2014: 160) elaborates that free trade denotes a condition where a government refrains from exerting influence via quotas or duties regarding what its citizens may purchase from foreign nations, or what they are permitted to produce and sell to those nations. Each nation must engage with various foreign entities for the purposes of trade, investment, and other commercial endeavours. This trend is increasingly evident as globalisation continues to gain momentum. India's membership in the BRICS nations underscores the significance of engaging in trade with the country, presenting a strategic opportunity that can yield substantial benefits for businesses overall.

Foreign Direct Investment

Kishor Sharma (2000) posits that the rate of export growth in India has significantly outpaced GDP growth in recent decades. A multitude of factors seems to have played a role in this phenomenon, notably including Foreign Direct Investment (FDI). Hill (2014:223) posits that Foreign Direct Investment entails a direct investment in business operations within foreign nations. Braunstein and Brenner (2007) assert that numerous economists and policy-makers regard foreign direct investment (FDI) as a principal catalyst for economic growth in developing nations. In the aftermath of the financial crises of the late 1990s, characterised by the unreliability and destabilising nature of short-term capital flows, governments have increasingly sought foreign direct investment as the preferred form of international capital flow. In addition to directly increasing investment, trade, and subsequent growth, foreign direct investment is frequently praised for its role in enhancing employment opportunities, introducing advanced technological and managerial expertise, and offering crucial access to highly competitive export markets. Engaging in trade or business with India, a prominent developing nation, necessitates careful consideration of the following factors:

1. Imposition of Tariffs on Consumers and Producers

As noted by Hill (2011), tariffs represent one of the seven instruments of trade employed by governments worldwide to engage in international trade intervention. Governments implement tariffs as a means to safeguard local domestic producers from the competition posed by foreign entities. This safeguard is accomplished through the imposition of taxes on imports or by increasing the expenses associated with goods imported from abroad. Reducing tariffs enhances the volume of trade. In the absence of trade, the interplay of domestic supply and demand within the two nations engaged in commerce will culminate in equilibrium prices, ultimately leading to adverse consequences for consumers.

2. Impact on the Producer

Tariffs are perceived as advantageous to producers. Domestic producers benefit from tariffs, as these measures result in elevated prices for their goods. Local producers benefit from enhanced safeguards against international competitors. In the interim, elevated tariffs are perceived as a means to mitigate unemployment rates within domestic borders, as the labour force is essential for the continuity of production processes. Kawahara, 2013. Ultimately, the elevation of tariffs contributes to an augmentation of government revenue. In India, the import tax stands at 40%, while foreign companies investing in the nation are subject to a 30% levy. The government's approach to Foreign Direct Investment (FDI) aims to tackle the prevailing unemployment rate within the country.

3. Minimising trade expenses

It is widely recognised that trade costs often present a more substantial impediment to trade compared to policy barriers. In 2004, for instance in India, the total expenditure on shipping was threefold greater than the total tariff duty paid, as noted by Anderson and Van Wincoop (2004). Thus, any alteration in trade costs is expected to have a substantial impact on trade dynamics. The influence of technological innovation on trade costs has been profound. The advent of containerisation and jet propulsion technology has markedly diminished the expenses associated with maritime and aerial transportation.

4. India Commerce and creativity

Anderson & Van Wincoop (2004) assert that trade influences a company's motivation to innovate by impacting both the market size in which the company functions and the dynamics of competition, technology transfers, and institutional frameworks. Many companies allocate significant resources to Research and Development in order to enhance profitability or to maintain competitiveness against other innovative firms. Assuming all other factors remain constant, a larger market correlates with an increase in the anticipated profits a company can derive from innovation. By expanding the market scope within which a company functions, trade equips organisations with enhanced insights and comprehension of conducting business in India.

The subsequent elements represent the essential economic considerations to take into account when engaging in trade with India, a developing nation and a respected member of BRICS:

1. Shifts in population dynamics

As noted by Anderson & Van Wincoop (2004), the population of India is projected to attain 6.3 billion by the year 2030 and 9.3 billion by 2050. A considerable portion of this will occur in specific areas of developing cities, such as New Delhi, which are currently experiencing the initial phases of their demographic transition and are poised to witness substantial growth in the young working-age population of both genders. They further assert that in various developing cities, as well as in the majority of developed ones, the demographic transition has reached its most advanced stage. The decline in fertility rates has led to an increasingly aged demographic and a contraction in the available workforce. In certain urban centres, it is probable that immigration will emerge as the primary catalyst for future population growth and will significantly influence the nation's economic output. Moreover, Anderson & Van Wincoop (2004) assert that education and urbanisation are progressing throughout Indian cities, particularly in the southern region of the country. This section aims to elucidate the manner in which enduring demographic trends in nations like India are poised to influence international trade dynamics, particularly through their effects on comparative advantage and the nature and volume of import demand.

2. Investment

The aggregation of physical capital can influence the dynamics of international trade in numerous respects. Enhanced investment in public infrastructure can significantly bolster a nation's engagement in global markets by, for example, lowering trade expenses and thereby augmenting supply capacity. Kawahara (2013) posits that investment in physical capital can consequently facilitate the emergence of "new players" or novel business ventures within a nation's trade landscape.

Investment in roads, ports, and other transport infrastructure has the potential to enhance regional trade, while investment in information and communications technology infrastructure can facilitate broader participation among countries in the increasingly expansive trade in services. In an economic landscape where the mobility of production factors, such as capital, is restricted across national borders, it follows

that investment must be supported by resources available within the domestic sphere. Nevertheless, the present situation involves the movement of resources across countries.

3. The realm of technology

Cetindamar (2010) posits that technology constitutes a process, technique, or methodology encapsulated within a product design or within a manufacturing or service process, which converts inputs of labour, capital, information, materials, and energy into outputs of enhanced value. The disparities in technology among nations serve as a significant factor influencing income levels and trade dynamics. In the current age, the absence of technology renders trading an endeavour that is fundamentally unattainable. Empirical research indicates that the accumulation of physical and human capital can only partially elucidate the variations in income levels among countries, as well as the differing trade patterns observed. Easterly and Levine (2001). The residual is frequently ascribed to the technological disparities among nations, where technology is understood as the information or knowledge necessary for production. The advancement of technology is undeniably the primary driver behind the rapid increase in income, a trend that will persist throughout the 21st century, particularly in developing nations such as India and South Africa.

4. Expenses related to transportation

Behar and Venables (2010) assert that the expenses associated with the transportation of goods from producers to consumers significantly influence the volume, direction, and patterns of trade. It delineates the boundary between goods that can be traded and those that cannot, influencing which enterprises are permitted to engage in trade and the manner in which they will structure their international production. The expense associated with transportation is consequently shaped by a diverse array of essential factors. The analysis encompasses the geographical characteristics of nations such as India and South Africa, the calibre and extent of physical infrastructure facilitating transportation services, the protocols and regulations governing the transit of goods across borders, the level of competition within the transportation industry, the rate of technological advancements in the field, and the implications of fuel pricing. The attributes of the products being transported significantly influence the expenses associated with transportation. When considering business operations in India, it is essential to examine transportation options to ensure the effective delivery of products being transported.

5. Institutions

This section examines the interplay between international trade and the institutional framework of the nation.

5.1. Governance Structures

Political institutions influence economic interactions through two distinct mechanisms: To begin with, they establish limitations on governmental operations; furthermore, they shape the array of economic institutions that societies choose to implement. The body of economic literature has predominantly concentrated on the influence of governmental structures and political boundaries on the dynamics of international trade. The structure of governance, characterised by the degree of accountability, legitimacy, transparency, and choice within a political framework, can influence trade in an indirect manner through economic development or directly by modifying the incentives of policymakers in the formulation of trade policy. Moreover, political boundaries exert a direct influence on trade dynamics by elevating trade expenses and an indirect effect by disrupting the coherence of the international political framework within the affected nations.

5.2. Economic Institutions

Behar and Venables (2010) assert that economic institutions, particularly the quality of rules and the rule of law in India, establish a crucial framework for economic engagement with foreign entities seeking to conduct business in the country. Stable and enforceable regulations are essential to international commercial relations, as they mitigate uncertainty by establishing a framework for economic interchange.

Conclusion:

Clearly, India ranks among the top three developing nations with which other countries engage in commerce. Several elements contribute to the seamless execution of trade and must be adhered to. Moreover, when contemplating business engagements with the country, it is imperative to consistently evaluate variables such as technology, political stability or volatility, and, most importantly, economic factors. It is essential to recognise that India is advancing its economy at a rapid speed, presenting chances for international investors to engage in trade and contribute to the nation's economic growth.

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