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International Trade and its Impact on Economic Growth of Pakistan

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Abstract:

This paper is a theoretical approach frame work which investigates the impact of international trade on economic growth of Pakistan. Generally, this study targeted the economic growth and specifically standard of life of people in Pakistan. Economic growth is a comprehensive terminology where standard of life is a segment of growth therefore in this paper we focused standard of life of people. On another side, this study shows the importance of trade for Pakistan. We also tried to show a comparison of developed and developing economies in term of standard life of general public. After a long review of literature and economic theories we found that those countries which involve in international trade (open Economies) their standard life of people are higher than those countries which not involve in international trade (closed Economies). Trade further bringing investment to country, creates opportunities for employment because of which national income goes up and finally purchasing power of the people increases and a result standard life of people improving. This study suggests the developing economies like Pakistan, to enhance trade capacity for the social development of general public.

Key words: International trade, Economic growth, standard of life, Employment, Income

1. INTRODUCTION

Trade which recently considering a key injector of economic growth, has gained unexpected importance in the current age of market competition. World became a global village where technology shifted from developed to developing countries. The development and creation of high technology increased dependency of economies on each other since two decades. Demand for product is growing with the rapid increase in population and enhance standard of living.

In this paper, I have tried to link the importance of trade with the economic growth of Pakistan economy in light of various economist views that how trade affect standard of living. A solid comprehensive past studies state that trade affects standard of living in various ways and manners. Trade which creates new opportunities and environment for new investment in the country, can changed the standard life of people by shifting capital to host country and hence the production increasing many times, similarly the export capacity enhancing in the fastest manner. National income increasing, employment opportunities creating. The wage rates go up and finally living of standard become moderate. Elhanan Help man (1990) states that countries which have adopted an outward oriented development strategy have grown faster and achieved a higher level of economic well Bing than those which adopted a conservative strategy of trade.

The World Bank investigates all the countries around the world and it research in what category the countries fit in, there are three main categories which are low income, middle income and high-income countries. Most countries fall in low income group and middle-income groups, few countries fall in the high-income group. Higher incomes are one of the signs to rising standards of living.

Technology which provide support for economic stability in the long run are the main source of accelerating economic growth of a country. New technology is important factor which transfer to host country and bring drastic changes in economic development. It supports will Bing of the community from the production side. Increase in production not only related to technological progress but it also closely connected with stock of knowledge capital and many others factors. Heal (1984) find out that knowhow and technological progress affect the economic growth of a country in long term. Development is not a short-term process it may occur in long run. Full filing, sitting up and understanding of new technologies take many years. Especially for developing countries to understand the new technologies are very difficult.

I used a theoretical indirect approach in this paper to find out that how trade changing the standard of life in the country by various manner. Due to liberalization and globalization, a country's economy has become much more closely associated with external factors such as openness. Urata (2002) says that why FTAs have become more popular than multilateral trade liberalization under the WTO. He defines various economic effects of globalization and liberalization such as static and dynamic affects. In globalization, it's very difficult for an economy to stay alone without involving in international trade. Thus, conducting a study on the effects of international trade on economic growth is of great significance in this globalized age. It helps policy maker's map out appropriate policies by determining the source of productivity growth with respect to international trade.

Echevarria (2008) indicates that global economic changing driven by involving in international trade. The countries which involve in international trade, their general public are more prosperous than those which involve in domestic product only. The role of international trade plays in enhancing economic growth and fulfill the demand for product at domestic level as well as on international level. It increases opportunities of investment in the country to promote standard of life in the country. This issue of discussion adopted serious consideration since 1990 after technological spillover. After technological revolution, international trade came the main discussion of developing economies. Why the developing countries in particular take it so serious to promote the trade position in the country, there are many reasons which compel developing countries to involve in international trade.

The main and important reason are the sovereignty of the country which the poorest country feeling since many decades. they have no adequate amount of foreign exchange reserve to fulfill their demands for product, for this they became colonies of developed economies by supporting their weak financial economies developed economies offer them loans, aids and investment opportunities with some conditions which some time against the sovereignty and autonomy of the country, therefore now every country wants to enhance their own export for saving certain amount of foreign exchange reserve. Another reason which seem important are the employment situation of the developing economies. In LDCs Employment situation is not so favorable. A lot of population portion unemployed and half of the population of developing countries below the poverty line, therefore these economies thinking seriously to crates new opportunities of employment to provide employment according to skill of the people. Life standard directly associated with full employment capacity.

The third reason of promoting trade and involving in international trade are the globalization and liberalization. Without involving in international trade no country can live alone. In light of absolute advantage theory, no every country specialized in each product. Every economy has need of export and import. To apply this theory every country trying to maximize their product capacity position, therefore they involving in international trade and focusing on absolute advantage theory to creates the specializes product in which their cost and time consuming limited and to import those goods which they can import through minimum cost. Khan (1999) describe that After 1990 people republic of china and other East Asian countries like Singapore and South Korea in particular and some Asian countries in general has gained a huge level of foreign direct investment, therefore their imports Economies shifted to export economies. Involving in international trade and improving standard of life are the main example of these economies that how trade can be enhancing life expectancy of people.

Before the Asian crises the world had experienced rapid growth in the flow of FDI, which rose from $204.2 billion in 1990 to $400.5 billion in 1997. Developing countries have gains impressive position for attracting FDI, the flow rising from $33.7 billion to nearly $150 billion during the same period. The gains owe, to a large extent, to the growing attractiveness of the PRC, which accounted for 30.4% of total FDI to developing countries in 1997. The Asian countries have also strengthened their role as the largest developing-country FDI recipient region with an estimated $87 billion of inflows in 1997. The East and Southeast Asian countries have attracted $82 billion in FDI in 1997 accounting for 21% of the total world flows and 55% of total developing countries' flows.

A large number of economists have the same ideas that international trade openness cooperates to a country economic growth dynamic position. The way through which international trade may enhance long run growth of an economy have rarely been articulated. Various sources of trade through which standard of life obtaining include specialization according to absolute advantage and the realization of economic scale, which recommended that an open economy will be higher prosperous financially as well as standard of life will be high compare with closed economic system. In closed economic system, recent advantages of trade opening cannot gain in term of high income and other increased consumption. The consumption level in closed economic system are not so high than openness economies. Consumption which mostly related with high income can obtained from trade openness which not allow in closed economy.

Most of the developing countries situated in Africa and Asia, therefore they have no access towards FDI of developing countries. Another reason of the developing countries low level of trade mechanism and policies which stop their curiosity of attracting high product market for export. With soft and flexible policies government can attract an impressive FDI as well as their Export can gain popularity in the international market which promote and creates curiosity for further production. Developed countries gained high standard of life by providing flexible policies for investment as well as export and import. Asian society which failed to invite maximum investment even return on investment in these countries higher than western countries. The basic reason of the low trade and investment are weak mechanism and policies of the government. Maximum Asian society are conservative which cannot allow the international investors to invest in the host country from the sovereignty risk. Most of the countries where life expectancy is low and life quality not improving, mostly they are thinking about country negatively of the risk or aggression of other countries.

With the passage of time the markets have established, lengthened and played an increasing significant role in product distribution. Therefore, the fundamental government still straight allots capital resources through bank credit forecasting and control of interest rate. This direct loan apportionment favors the state sectors, irrespective of credit risk and profitability. This repetition replicates the government's deep anxiety about political and social cost of insolvency and unemployment which may result from deserting the customary capital allocation system. Economically, therefore it disseminates the moral hazard problem and soft-budget limitation for the state-owned sector. The trade-stimulating inventions contain the following area.

Moreover, there are many other ways to evaluate the international trade effect of economic growth such as the gravity model approach and causality model approach. These models could be applied in international trade to evaluate the effect of international trade on economic growth for an economy that how it can affect the economies positively.

This study focuses to provide valuable information for the readers knowledge, related the current importance of trade impact on economic growth of pakistan. On another side, this paper provides an overview of the opportunities for developing countries to strengthen position of trade and increase their export to create new opportunities for investment and employment sectors to improve quality life of citizens. Briefly what is known about this importance and what are the reasons for them.

Further there are three parts of this paper second part consist of importance of trade in light of various theories while the third part shows literature review of the study and final part is the conclusion of this work.

2. TRADE OPENNESS ECONOMIC GROWTH THEORIES

The discussion of international trade impact on economic growth has gained serious importance with the introduction of trade liberalization policies in the developing nations across the world. International trade impact on economic growth are crucially depend on globalization. As far as the impact of international trade on economic growth is associated with globalization, the economists and financial researcher of the developed and developing economies are divided into two separate groups.

One group of economists is of the view that international trade has brought about unfavorable changes in the economic and financial scenarios of the developing countries. According to them, the gains from trade have gone mostly to the developed nations of the world. Liberalization of trade policies, reduction of tariffs and globalization have adversely affected the industrial setups of the less developed and developing economies. As after of liberalization, majority of the infant industries in these nations have closed their operations. Many other industries that used to operate under government protection found it very difficult to compete with their global counterparts.

The other group of economists, which speaks in favor of globalization and international trade, come with a brighter view of the international trade and its impact on economic growth of the developing nations. According to them developing countries, which have followed trade liberalization policies, have experienced all the favorable effects of globalization and international trade. China and India are regarded as the trend-setters in this case.

There is no denying that international trade is beneficial for the countries involved in trade, if experienced properly. International trade opens up the opportunities of global market to the entrepreneurs of the developing nations. International trade also makes the latest technology readily available to the businesses operating in these countries. It results in increased competition both in the domestic and global fronts. To compete with their global counterparts, the domestic entrepreneurs try to be more efficient and this in turn ensures efficient utilization of available resources. Open trade policies also bring in a host of related opportunities for the countries that are involved in international trade.

However, even if we take the positive impacts of international trade, it is important to consider that international trade alone cannot bring about economic growth and prosperity in any country. There are many other factors like flexible trade policies, favorable macroeconomic scenario and political stability that need to be there to complement the gains from trade.

There are examples of countries, which have failed to reap the benefits of international trade due to lack of appropriate policy measures. Especially Asian developing economies, where no suitable environment available for investment. Due to these challenges, their economic position of trade are many time low than developing economies where favorable environment existing for investors, therefore standard of life in those countries are more better than developing countries. In conclusion, it can be said that, international trade leads to economic growth provided the policy measures and economic infrastructure are accommodative enough to cope with the changes in social and financial scenario that result from it. In this part of paper, a theoretical background of international trade has been described in views of various classical and new classical economist to show the importance of trade and their impact on economic growth. Here I included some famous economist theories about international trade.

3. LITERATURE REVIEW

A large number of studies have been undertaken to examine the importance and advantages of international trade. To link international trade in term of importance various Economist, Financial advisors, financial institutions, financial consultancy firms, non-government organizations and political economist have different ideas about trade impact on Economic growth. The majority of the researcher fined that trade and economic growth are deeply connected with each other and trade has effectively accelerated economic growth of a country. These experts says that Economic growth is a comprehensive terminology which associated directly proportionally with international trade. These experts targeted trade impact over economic growth in different views.

Dodzin et al., (2004) indicate that international trade has a great impact on economic growth of a country, Trade shifting the economy from small scale to large scale production and from agricultural sector to industrial sectors which demand for raw material increased and hence the economy growing efficiently from every side, production increasing because of export, industrial sector of the economy boosting rapidly which is considering a sign of increasing international demand for product trade. The allocation of production across sectors in developing countries especially taking place to catch up the position of developing countries. Increase in openness to trade leads to an increase in the industrial value-added share of production, at the expense of the agricultural share. Therefore, trade leads the developing countries to industrialization. High technology transfer to host country, foreign capital starting inward to the host country and the economy grows on fastest way.

Schneider (2002) describes that role of high-technology trade, IPRs and FDI determining a country's rate of innovation and economic growth. They conducted using a unique panel data set of 47 developed and developing countries from 1970 to 1990 and resulted that high-technology imports are relevant in exploring domestic innovation both inside developing and developed countries. Foreign technology has a stronger impact on per capita GDP growth than domestic technology IPRs affect the innovation rate, but this impact is more significant for developed countries. International trade promoting new technology in the country which directly affecting production and hence trade increased which accelerate national income, resulted Economic growth. R&D sector growing in a substantial way to help innovation. R&D sector of the economy closely connected with high technology and education, the main difference between developing and developed countries are the R&D. In less develop countries this sectors many time low than developed countries, this sector of the economy positively affects production sector of the economy which directly affect economic growth by increasing national income.

Makki et al., (2004) argue that two tools are very important for the economic growth of a country which accelerate economic growth of an economy, trade and FDI. Trade issue became a Vitol discussion recently in developing countries after Foreign direct investment (FDI), trade which often seen as important catalysts for economic growth in the developing countries. FDI is an important vehicle of technology transfer from developed countries to developing countries. FDI also stimulates domestic investment and facilitates improvements in human capital and institutions in the host countries. International trade is also known to be an instrument of economic growth. Trade facilitates more efficient production of goods and services by shifting production to countries that have comparative advantage in producing them.

A large numerical and theoretical evidence from developing counties over three decades, indicates that FDI and trade contribute significantly towards advancing economic growth in developing countries. FDI interact positively with trade and stimulates domestic investment. Sound macroeconomic policies and institutional stability are necessary pre-conditions for FDI-driven growth to materialize. By lowering inflation rate, tax rates, and government consumption would promote economic growth in developing countries. Sound economic development bases on these two sectors of the economy and both are interrelated with each other if one increased other automatically can increased and hence economic development and growth take place, particularly in developing countries where return on investment high than developing countries can attract more and more FDI by generating economic activities of the country in term of employment, social sector development and industrial sector development.

Halite (2002) says that trade liberalization has no significant impact on economic growth of a country, especially in developing countries of the world where own demand for production are so high which not allowing the economy to export and if they do the same then they will be affected inversely. They presented numerical views as an evidence and show negative impact. Trade barrier is used positive tool which better for developing countries. Trade liberalization does not have a simple and straightforward relationship with growth using a large number of openness measures for a cross section of countries over the last three decades. We use two groups of trade openness measures. The regression results for numerous trade intensity ratios are mostly consistent with the existing literature. However, contrary to the conventional view on the growth effects of trade barriers, our estimation results show that trade barriers are positively and, in most specifications, significantly associated with growth, especially for developing countries and they are consistent with the findings of theoretical growth and development literature.

Sharif (1981) describes positive relation of trade with economic growth and income inequality. They link economic growth with inequality by using a tool of employment. whenever there is an employment in the country the inequality of income distribution will be reduce and in a result economic growth will be take place. Employment opportunities can increased trade indirectly and reduce inequality of income distribution in a normal economy. Employment Concern of the effectiveness of trade policies and their assessment in achieving economic growth and income equality.

A link between growth and equality is provided through employment. If there is substantial increase in employment, the inequality of income distribution is likely to be reduced. Thus, trade by bringing about higher levels of production and employment may reduce income inequality. It has been found from various evidence particularly from Asian economies that employment opportunities could be raised substantially through redistribution as well as through export promotion in developing countries such as India, if capital and foreign exchange constraints are not binding. Import substitution, however, does not turn out to be as effective a strategy to achieve these goals.

Qureshi (2013) described that spillover effects of regional conflicts, defined as internal or external armed conflicts in contiguous states, on international trade. The impact increases with conflict duration, and is persistent—on average, it takes bilateral trade 3–5 years to recover after the end of a regional conflict. The regional conflicts in term of war, political crisis, internal state trade policies, and many other challenges affect international trade which adversely affect the economic growth of a country. This is an indirect approach towards the economic growth and trade. If these challenges exist in the economy then trade will be reducing and consequences will be further decline the confidence of producers to produce new goods in the market.

Toan Do Andrei et al., (2016) sate the relation between international trade and fertility. They used simple data from various industries to show the ratio of male and female employment and their impact on economic growth in term of comparative advantage. Theoretically and empirically the impact of comparative advantage in international trade on fertility are negative in those countries where female labor are intensive compare with male labor, because of female low wage rate and the opportunity cost of children are higher in those countries. Those industries differ in the extent which they use female relative to male labor, and countries are characterized by Ricardian comparative advantage in either female-labor or male-labor intensive goods. The main prediction is those countries with comparative advantage in female-labor intensive goods are characterized by lower fertility. This is because female wages, and therefore the opportunity cost of children are higher in those countries. The countries with comparative advantage in industries employing primarily women exhibit lower fertility. We use a geography-based instrument for trade patterns to isolate the causal effect of comparative advantage on fertility

Maloney et al., (2003) says that both the markets, domestic and foreign are trade are relatively connected with the development of economy. They used a simple portfolio optimization framework to analyze both the direct impact of liberalization measures and the impact of reduced relative riskiness of exporting vs. producing for the domestic market arising from a commitment to an outward orientation. They examine the very counterintuitive implications of the covariance for export behavior.

Kohli (1989) says that export has a positive impact on economic growth, by using Feder model with tow ideas, critical minimum effort, and, diminishing returns, with respect to export. With the increase of export technique efficiency production increasing, which gives good result for the development of economic activities. It provides some extensions and qualifications concerning the empirical evidence for the positive impact of exports on growth.

Heal (1984) indicates that in a perfectly competitive market, an increase in the exports of a labor-intensive good by a labor-abundant developing country may make the exporter worse, an expansion of labor-intensive exports thus leads to a net transfer of welfare from the exporting to the importing country. Transferring the new ideas and knowhow by supporting labor efficiency are the main role in economic growth of import base economy and thus reached to the top position by adopting new ways of developed economies techniques. This is the basic approach of economic growth to follow the developed economies method of succession.

Looi Kee. et al., (1998) say that increase in export price, capital stock, and stable inflation are those factors which responsible for the decline of Singapore's unemployment rate over the period 1966-2000. These factors reduce structural unemployment in Singapore during four decades. Also, these factors increased Singapore production capacity into certain level and a result country economy expended many times than before. The wage bargaining and unions into a specific-factors, two-sector economy with an export sector and a non-tradable sector to obtain an endogenous natural unemployment rate. Empirically, capital accumulation in the export sector explains most of the decline in Singapore's unemployment.

In many endogenous growth models, trade leads to the convergence of growth rates across countries. What has not been adequately recognized is that this result depends on one crucial assumption: that trade occurs simultaneously with the international diffusion of knowledge. If instead we drop this assumption, and consider the case where no diffusion of knowledge occurs, then we find that trade in goods can lead to a divergence of growth rates. We also explore how these results are affected by trade in intermediate inputs or by multinational corporations, which may facilitate the diffusion of knowledge.

4. CONCLUSION

Trade is an important tool and we know that without it, standard of life, life expectancy, economic growth, jobs creation, and economic development are more difficult to attain, therefore international trade gained an impressive attraction by the world economies especially in the current age of globalization. This is a shining reality that trade is a catalyst for greater efficiency and productivity. The international trade has experienced rapid economic growth throughout the reform epoch. Trade is an important key for job creation it can give access to new technology and knowhow which they cannot obtain in a closed economy, therefore trade innovation and creativity in the workplace coming because of trade. Open economies tend to grow faster more than closed economies. Trade provides a great opportunity for Pakistan economy to open their markets for international trade transactions to improve life standard of citizens.

Policies recommendations suggests that Pakistan government should have to take serious action to enhance the production level through International investment in the country, second the government should focus on the standard of people to increased it and balance with international standard. Life standard not according to international standard in Pakistan. Food shortage, shelter problems, advance medicines and well education are the needs of time. This is a simple way towards development of Pakistan economy. This study focusses how to enhance the standard of life by boosting up export also trying to show that how international trade are important and beneficial for poorest economies particularly for Pakistan. Further the Aim of this study to show that how international trade can improve the standard of life of the people, on another side it shows a detail importance of involving in international trade. This theoretical study tried to show the comparison between developed and developing economies in term of standard of life. This paper recommended the developing economies to involve in international trade to enhance standard social life of the citizens by creating investment opportunities and increasing export.

This sort of research papers that fixed capital investment and exports are two main significant elements for industrial output development, while imports are not a significant element for output. To an enormous magnitude, the escalation in fixed capital investment and foreign trade are owed to fluctuations in the economic system, particularly the evolution of economic marketization and decentralization. The export stimulating policies result in a righteous circle which efficaciously augments the economic growth. The concern is how to preserve the extensive export impetus in the progressively competitive world market atmosphere through the significant enhancement in initiatives industrious efficacy and further liberalization of this trade system.

The big problem of developing countries are closed economic system in which they have no open opportunities for exploration their markets. Another problem of less development countries is the market mechanism, which provides a large-scale exploration opportunities for developing countries. Increase in Exports, increase in Fixed capital investment and foreign trade have extraordinarily prolonged. Developing countries are countries that have a low standard living; these countries usually have a low gross national income per capita even though they are in an economic development. They also have a high gross domestic product per capita. Another economic measure is also industrialization. A number of international organizations like the World Bank have researched many developing countries and one of the developing countries is china. They also researched developed countries which are countries with a higher GAI per capita such as the USA and United Kingdom. The World Bank investigates all the countries around the world and it researches in what category the countries fit in, there are three main categories which are low income, middle income and high-income countries.

Most countries fall in low income group and middle-income groups, few countries fall in the high-income group. Higher incomes are one of the signs to rising standards of living, there are, however many more aspects to the standards of living of an individual, one reason is education. Education does not only let the workforce become more productive but also increases the ability of the individual to enjoy and appreciate their culture. Another example such as working. Access to working does not only provides an income but also provides selfesteem and purpose of working. Rising living standards are also linked to the ability of people to contribute in society. The poor are not given that opportunity as they do not have the income to buy. Generally, this study targeted the economic growth and specifically standard of life. Economic growth is a comprehensive terminology where standard of life is a segment of growth therefore in this paper we mostly focused standard of life of people. After a long review of literature and economic theories we found that those countries which involve in international trade (open Economies) their standard life of people are higher than those Economies which not involve in international trade (closed Economies). Trade further bringing investment to country, creates opportunities for employment because of which national income goes up and finally purchasing power of the people increases and a result standard life of people improving.

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