

Determinants of Promotion of International Trade and Economic Development

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Abstract

For decades, trade has been a part of global growth. By stimulating economic growth, generating employment, lowering costs, growing the choice of products for customers, and helping countries acquire new technology, it has the potential to be a major factor for reducing global poverty. International trade has significant emphasis on foreign policy makers and analysts. Its value lies in the opportunity to purchase products that cannot be manufactured within the country or that can only be produced at higher prices. It also helps a country to export its domestically manufactured products to other nations around the world. The objectives of this study were to work out the connection between international trade and economic development in China. This study used Pearson Correlation model for empirical findings. Secondary data was used to conduct this study and the required data was collected from the National Bureau of Statistics of China, Wikipedia and from the website of Trading Economics. The study found that international trade is strongly positively correlated with economic growth (GDP) in China. This documentary research also examined the factors which affect international trade. Some identified factors include foreign policy, government policy, rate of exchange, foreign currency reserves, inflation, and demand. Solutions to the identified factors were offered at the top of the study. Past studies were reviewed and therefore the conceptual framework generated supported past findings. This study provides some Suggestions for investors, international business, as well as entrepreneurs.

Keywords

Determinants, International Trade, GDP, China

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1. Introduction

International trade is a ground breaking figure in the economic development of a country and in the advanced economy. Both International trade and the monetary cycle are preeminent mainstream ideas. The term International trade alludes to the purchasing and selling of merchandise and ventures between nations for fulfilling the necessities of their populace. International trade sanctions a nation to offer its locally delivered products and enterprises to different nations. Financial development advances the genuine per capita Income of a populace of the country which can be

supported throughout an extensive stretch of time. Absolute trade approaches send out in addition to imports. The World Bank estimates that overall global trade was \$39.7 trillion in 2018. That's 20.8 trillion dollars of exports and 18.9 trillion dollars of imports. 46 percent of the \$86 trillion global economy is powered by trade. In 2019, after two consecutive years of growth, the value of world merchandise trade dropped by 2.8 per cent. Global exports accounted for 18.9 trillion US dollars. In view of COVID-19, was seen in quarter two of 2020. To rebound more in quarter three prior to being nowcast. Despite this recovery, for the third quarter of 2020, a year-on-year decline of 11.9 per cent is now expected [1].

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Many developing countries rely on export of manufactured products that are vulnerable to outbursts price volatility and have had a marginal effect on economic growth in this segment of exports, while manufactured exports have had a significant and meaningful impact on economic growth [2]. Neo-traditional and old-style economic analysts credited such

a lot of pertinence to international trade as an advancement cycle of a country that is viewed as a wheel of development. From several decades, the countries of the world have been enormously connected through globalization and international trade [3]. Trade development is quite possibly the most imperative determinants of economic

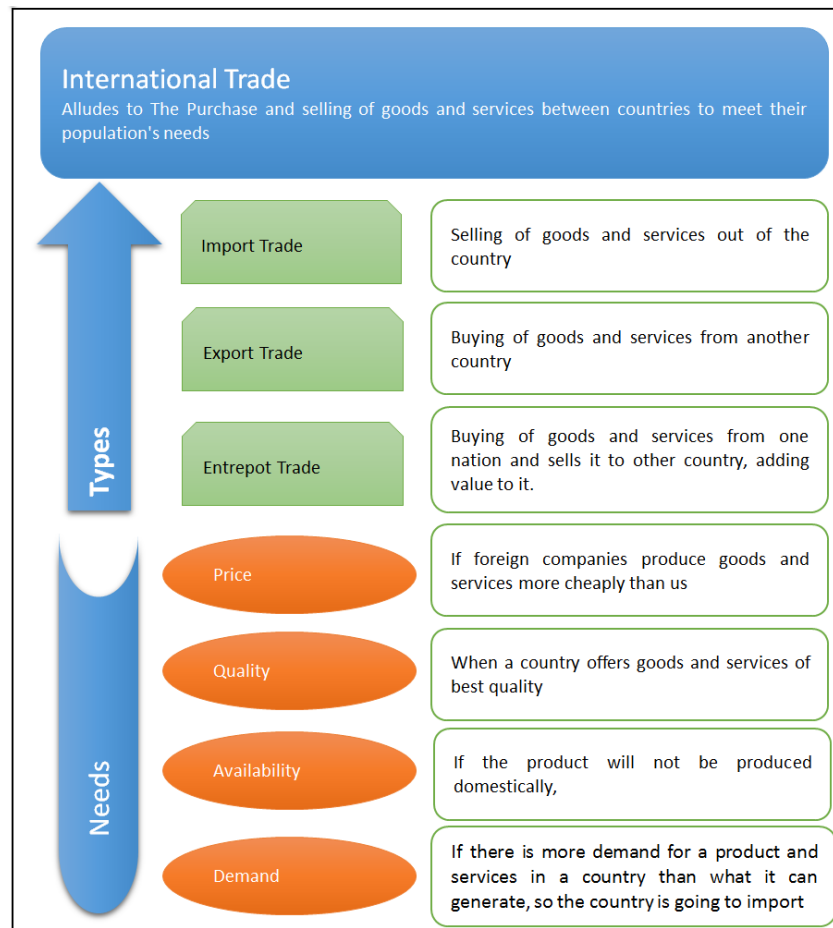


Figure 1. Conceptual Framework of International trade.

development of a country, and the connection between international trade and economic development is a successive subject of conversation, when business analysts attempt to clarify the various degrees of economic development between nations, just as fares of merchandise and enterprises address perhaps the main wellsprings of unfamiliar trade pay that facilitate the tension on the equilibrium of instalments and make work openings for the number of inhabitants in a country that eventually increment, the financial states of individuals [4].

It is also important to judge the determinants which can influence international trade of nations to develop policies to reinforce the trade of a country's products. A country's economic process depends on its international trade. Gross domestic product (GDP) is that the basic measurement of a country's overall economic output, growth or the full value of all final goods and services produced in a very country in an

exceedingly given year is one such factor. Today, the mathematical predictor of the rustic national economic process is considered the world's strongest GDP. The growth rate of the economy will increase as a country's exports and imports grow. This paper will discuss the determinants that affect the Promotion of international trade and the way economic development is correlated with international trade.

1.1. Importance of the Study

International trade is vital to the rise of the world economy, in order to increase living standards, provide jobs and encourage customers to experience a higher form of product, foreign trade between various countries may be an important factor. International trade has been important for the growth of a world since the earliest civilizations, but international trade has become particularly important in recent years, with a much larger share of GDP devoted to exports and imports.

The goal of this analysis is to recognize the determinants influencing international trade and to create a mechanism for the eradication of these determinants. The study will find that international trade is strongly positively correlated with economic process (GDP) in China.

1.2. Scope of the Study

The significance of this study is to deeply outline the factors that affect the international trade and economic development in order to get the findings as well as the established framework suitable to eradicate these factors. And, to be able to have a suitable recommendation and the significant of this research includes.

- i. To make sure that the government understand the need to eliminate those factors that affect international trade.
- ii. To defend the conjectural findings of past research on the factor that affects and influences the trade.
- iii. Check for the link between international trade and economic growth (GDP).
- iv. To provide a suitable finding and recommendations and well as solutions on how to solve a practical issue in other country about international trade operation.

1.3. Objectives of the Study

- i. To find out the determinants that affect the promotion of international trade and economic development.
- ii. To find out the relationship between International trade and economic development.

1.4. Sources of Data and Methodology of the Study

The data used for this analysis is of a secondary sort. Various foreign trade and economic development reports will be gathered from various significant and relevant blogs, journals, newspapers, magazines, etc. Based on the findings, important debates will take place. The sample country for studying the association between foreign trade and economic growth would be China and the causal analysis design used. The dependent variable is GDP, indicating economic expansion, and the export and import variables are independent variables, indicating foreign trade.

1.5. Literature Review

Several reports deal with the determinants of foreign trade in a country's economic development. The results of these analyses show that foreign trade, i.e., exports and imports, is statistically strongly linked to a country's economic growth (GDP). Any of these researches discussed the problem of causality between foreign exchange and economic

development as follows.

In China, analysts investigated the relations between trade, economic growth, and internal unfamiliar direct speculation (FDI) at the overall level and found bidirectional causality between economic development, FDI and exports in the examination [5]. An analysis on the long-term influence of trade on economic growth in Ghana for the period 1970 and 2002. In their model, the researchers discovered a long-term association between economic growth determinants and economic growth itself, and the results of that study showed that trade and FDI had a negative and development impact respectively [6].

An analysis on the relationship between international trade and East China's GDP growth for the period 1981-2008 was undertaken by some scholars. They observed that international exchange is the long-term and short-term explanation for GDP growth using the unit root measure, co-integration analysis and error correction model, but there was no proof that there is a long-term stationary causality between import trade and import demand [7].

A research, using a rank correlation analysis among developing countries, investigated the effect of international trade on economic growth. The findings of the analysis revealed a strong correlation between foreign trade and economic development [8].

1.5.1. Inflation and Demand

If the rate of inflation of a country rises in comparison to the countries in which it deals, it is assumed that its accounting will decline, all things being equal. The country's customers and companies are expected to buy more goods overseas (due to high local inflation), while the country's exports to other nations will decrease. Inflation cause climb in prices measured against a regular degree of buying International trade Country in political instability inflation are going to be high and the investor who doing there they need got the ability to placed their price (high) and consumer they do not have a choice. Life is costly and investors who doing business there are benefited from the high price of products. People work to them and find salary and by the top of the day, they supply again that cash to them. this is often to mention foreign can transfer resources to their home country indirectly [9].

1.5.2. Exchange Rate

Largely in each region, charging per unit plays a major role these days, a currency price can be a benefit for a domestic producer, and may also be a dispute the alternate solution round, at first in the colonial period, importers trade either by exchange of goods before this period of cash, and simultaneously the value of money is not the same as the regions. Therefore, Nigeria has dropped sharply in recent times, this impacts foreign companies importing goods or a

region of their content outside the world, this problem is that the reason for the removal of numerous international companies in Nigeria as a result of the decrease in the Nigerian monetary unit fee per unit to US dollars [10]. The goal of the world trade activity is to exchange its regionally manufactured commodity, which has the enhanced competitive advantage for a particular country, and to exchange domestic producers to be powered by the output of regionally generated products. However, the economic specialist has discovered that in returns, the pace at which this can be achieved maybe a downside for the country whose worth of money or charge per unit is extremely poor to meet the alternative countries.

Because of the rate for Nigerian monetary unit to bucks consistently depreciates to that value every time, this has caused a lot of damage and is claimed to be politically driven, the rate has become a component that hinders the expansion of foreign trade activity in Nigeria [11].

1.5.3. Poor Infrastructural Development

Poor infrastructural development is additionally a good factor that affects international trade. It seems that the health and working atmosphere for overseas companies or merchants is not pleasant, making it extremely hard for traders outside the home country to survive health care or well-being, even affecting domestic producers' competitiveness, improving good infrastructure, and allowing domestic producers to urge access to the fabric. The rationale or one of the reasons hindering the economic boom in operations has been the development, insufficient or lack of infrastructure in Nigeria [12].

1.5.4. Trade Policy

Trade policy contains a nice impact in a very country's international trade, because it determines the rating system, demand and provide also add a restriction to import and export of a selected country (Ndubuisi, P., et al 2016). The need to modify the plan would also promote the expansion of the commercial mechanism, other than tribalism and ethnic strife, as many investors will want to exchange either import or sell alongside domestic dealers in African countries [13].

2. Determinants of International Trade in China

2.1. Inflation

The rate of inflation of a rustic is said to its trades. If inflation of a country's increases international trade is going to be expected to decrease other things being same. The Consumers and agencies therein a country will purchase more goods from a far-off country thanks to the high local inflations at that point the country's exports to other countries

will decrease. Inflation causes a better index that's measured against a typical degree of buying. The table shows that the higher the inflation the lower the International trade balance of China. When the inflation rate is 2.90% the total trade balance is 181,898, million USD. When the inflation rate is 1.59% the total trade balance is 205,755, million USD.

Table 1. Inflation Rate of China (2017-2019).

Year	2017	2018	2019
Trade Balance (Million USD)	181,808	99,961	205,755
Inflation Rate	2.90%	2.07%	1.59%

Source: <https://santandertrade.com/>

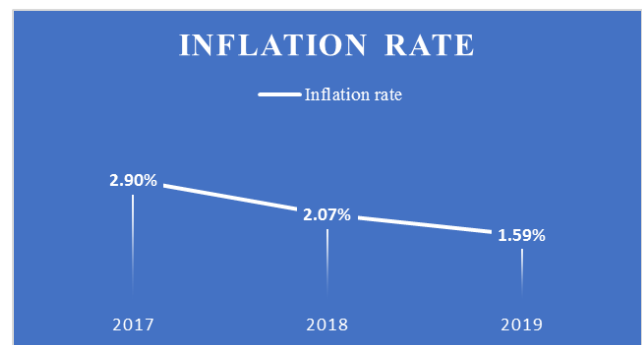


Figure 2. Inflation Rate of China.

Source: National Bureau of Statistics of China

2.2. Exchange Rate

The rate of exchange plays an enormous role in international trade. Speed refers to the value of the currency of a country versus the price of the currency of another nation. The fluctuation of the speed depends on the demand for a nation's currency. For eg, it takes \$1 to purchase 6.53 Chinese yuan. When the currency value of a nation becomes strong, so its price can continue to increase. Importing commodities in one nation and selling them to a diverse country would always be easier if currencies fluctuate in value. For this reason, the exchange rate affects international trade. Today's rate of China is .15 USD.

The Formula for exchange rate Money after exchange/ Money before exchange

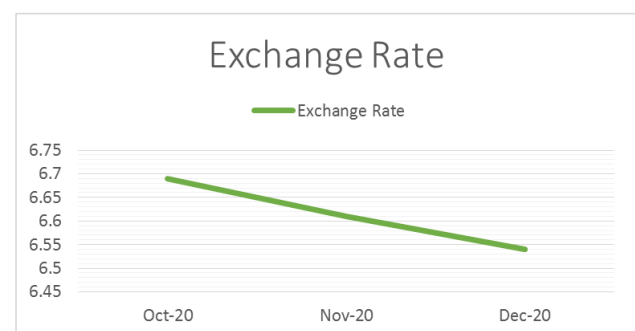


Figure 3. Exchange Rate of China.

Source: National Bureau of Statistics of China

2.3. Poor Infrastructural Development

Poor infrastructural development is additionally an excellent determinant that affects international trade operations. If the cordial reception and living conditions for the foreign traders

aren't been comfy and tough to survive, it'll hamper international trade. It additionally affects the productivity of domestic producers. Smart infrastructure will improve smart production and support stimulate the fabric for the assembly by domestic manufacturers. Investment in Infrastructure development of China from 2017 to 2020:

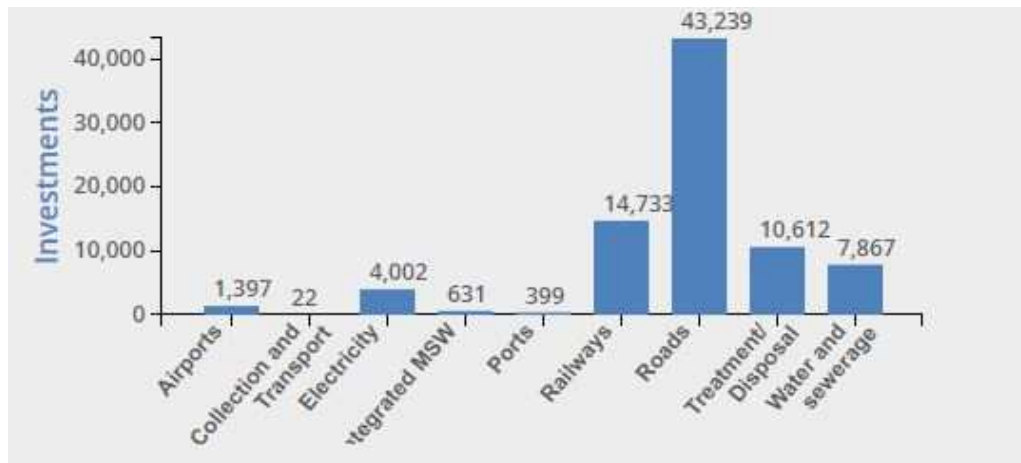


Figure 4. Infrastructure Budget of China.

Source: National Bureau of Statistics of China

2.4. Impact of National Income

When a country's per capita value will increase than those of different countries, the trade gap can decrease, different things being a similar. Due to the rise in value, the consumption of products can rise. In what share the consumption increase, the demand for foreign merchandise can increase. National Income of China:

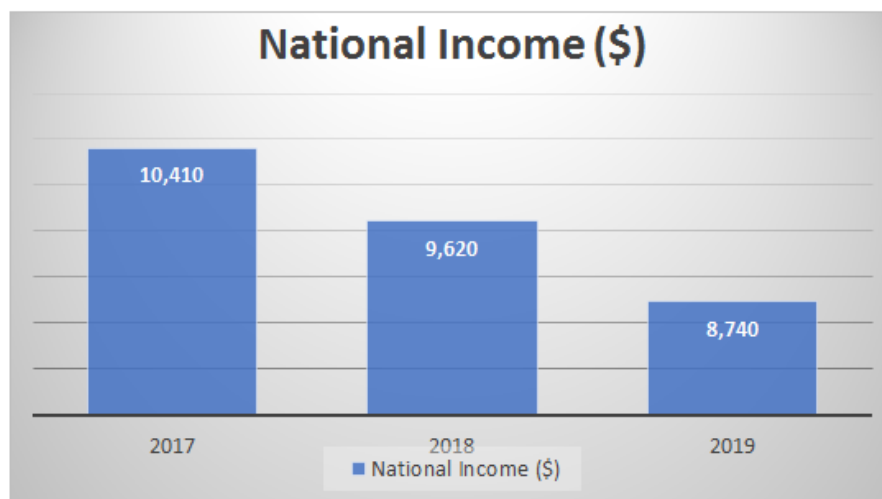


Figure 5. National Income of China.

Source: National Bureau of Statistics of China

2.5. Government Policy

In developing countries, governments offer subsidies to their national companies, therefore those corporations can manufacture the merchandise at a lower price than their International competitors. So, the demand for exports

exaggerated because of subsidies. Usually, many companies in China secure free loans or free land from the government. As a result, these firms suffer a lower operating value and can value their commodity lower, allowing them to gain a significantly larger share of the worldwide market.

2.6. Restrictions on Imports

When a country's government determined to need high taxes on foreign product, the prices of the foreign products to shopper's area unit redoubled. Import tax obligatory by the U.S. government is on the typical below those obligatory by various governments. Some industries, however, square measure tons of extraordinarily protected by tariffs than others. Yank clothing goods and farm products have traditionally enjoyed a great deal of protection from international competition by high duties on associated imports. In addition, a government can prune the country's imports to tariffs by enforcing a cap, or part of the maximum, which will be international. Quotas are often added to an international product range by u. s. and various countries.

2.7. Trade Policy

To understand the impact of international national commercialism policy, we tend to ought to first focus on the impact of national trading policy. Trade policies define rules, and laws of trade agreements between countries. Policies area unit distinctive to each individual country. The national trading policy is that the structure of each country's policies on trade. These policies may replicate impose an officer ban on (trade or a country or commodity) and totally different trade barriers that square measure in situ. Trade policies square measure formed between a try of countries to manage business and trade relations between them. Naturally, the policy ought to be favourable for every party for a rational

outcome. To make such a strategy, the national trade policy area unit of each country thought-about hunting out a golden midway that would run for each group concerned. The international trade policies square measure determined by international economic organizations, in addition because the Organization for Economic Cooperation and Development (OECD), the earth Trade Organization (WTO), and the International fund (IMF). These organizations identify foreign trade policies in order to protect the main successful priorities of the economies of developed and developing countries and financial development. These policies, however, squarely calculate the duty to cause foreign trade.

3. Data analysis and Interpretations

3.1. China Export

The term export refers to the causation of products or services created in one country to a different country to satisfy their desires. It indicates the products and services created in one country and purchased by voters of another country for satisfying their needs. The sender of products or services is understood as associate degree bourgeois, and therefore the receiver of products or services is understood as associate degree bourgeois. Export happens once a product or service is created domestically and sold-out to an overseas country. The total export of goods and services by China from 2010- 2019 is presented here.



Figure 6. Total Export of China.

Source: National Bureau of Statistics of China

3.2. China Import

The term import refers to the buying of products or services in another country to satisfy needs of individuals. It indicates products and services made during a foreign country and

purchased by voters of the house country for satisfying their needs. Imports merchandise of products} or services accommodates all goods or services rendered by non-residents to residents. The receiver of products or services is thought as associate businessperson and therefore the sender

of products or services is thought as associate bourgeois. Import happens once a product or service is created in a foreign country and purchased by the house country. The

total import of goods and services by China from 2010-2019 is presented here.

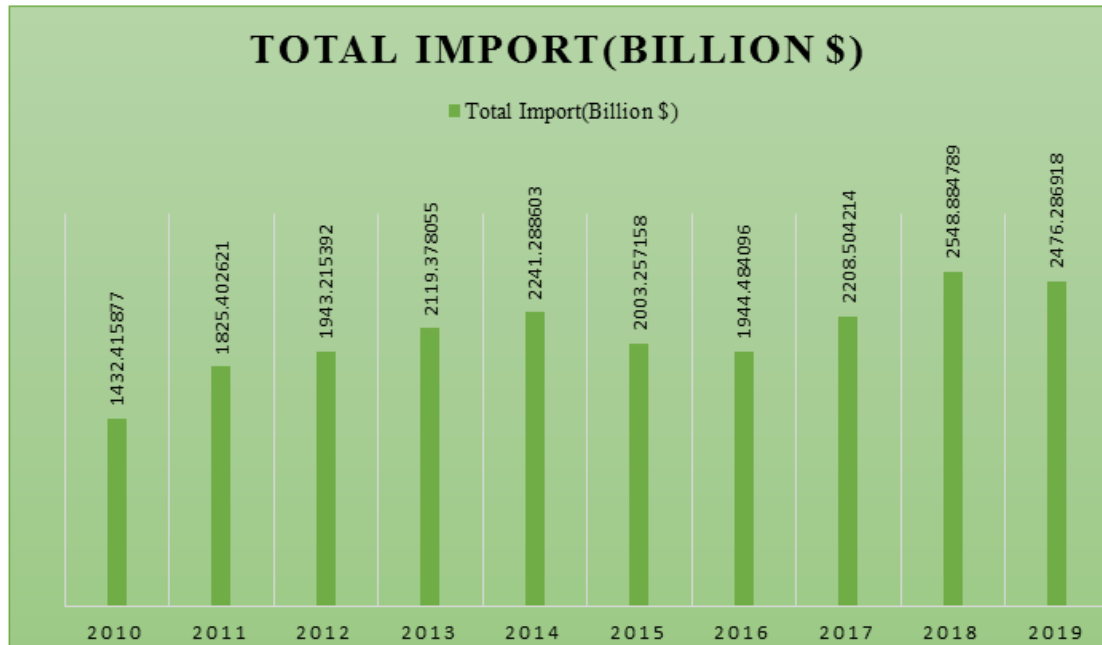


Figure 7. Total Import of China.

Source: National Bureau of Statistics of China

3.3. China GDP

Gross domestic product (GDP) refers to a monetary calculation of the consumer value, over a given duration, of all goods and services produced in a region. Nowadays, GDP is regarded as the world's most important statistical measure of national economic development of a country. The GDP and GDP growth rates of China from 2010-2019 are presented here.



Figure 8. GDP of China.

Source: National Bureau of Statistics of China

3.4. China GDP Growth Rate (%)

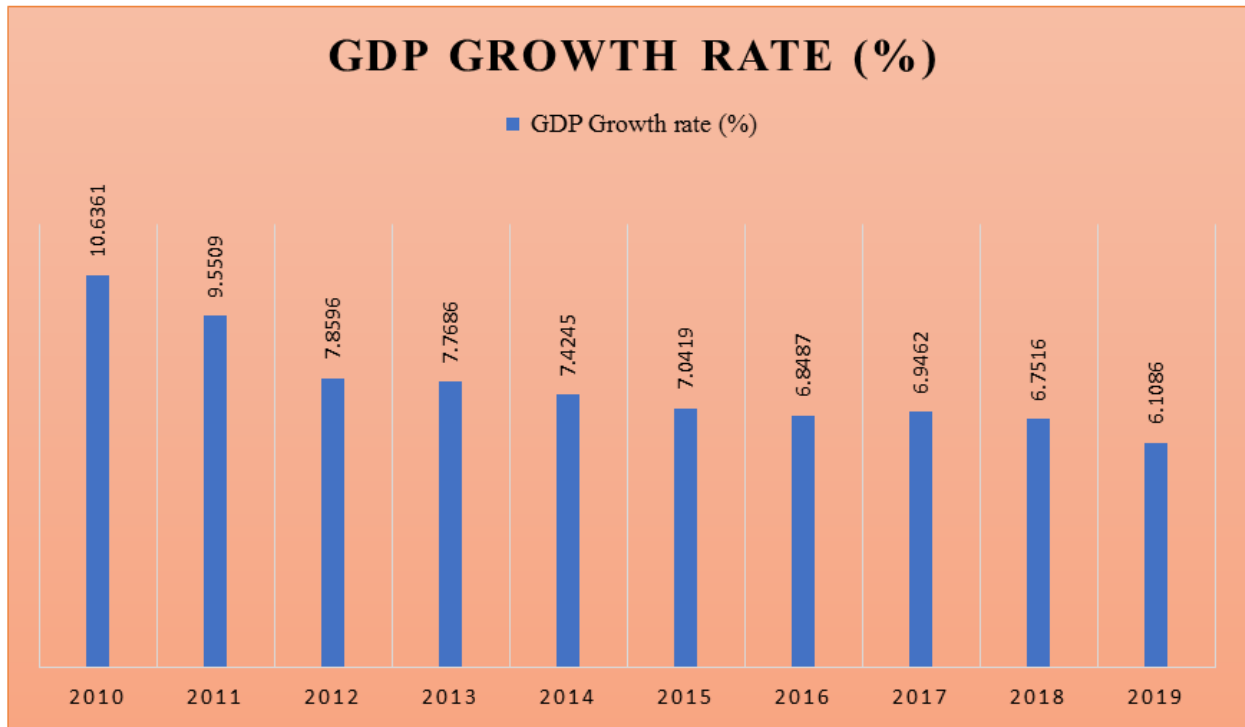


Figure 9. GDP Growth Rate of China.

Source: National Bureau of Statistics of China

3.5. Model Specification

The simplest econometric model consists of a relationship that is interrupted by a random error between variables.

Pearson Correlation Coefficient =

$$\rho_{x,y,z} = \sum (xi - \bar{x})(yi - \bar{y})(zi - \bar{z}) / \sigma x * \sigma y * \sigma z$$

Where

xi= GDP

yi= Import

zi= Export

σ = Standard deviation

$$\rho_{GDP,IMPORT,EXPORT} = \sum (GDP - \overline{GDP})(IMPORT - \overline{IMPORT})(EXPORT - \overline{EXPORT}) / \sigma_{GDP} * \sigma_{IMPORT} * \sigma_{EXPORT}$$

4. Result and Discussions

Table 2. Correlation matrix among dependent and independent variables.

Descriptive Statistics			
	Mean	Std. Deviation	N
GDP	10505.9943	2652.59960	10
EXPORT	2293.6407	301.73296	10
IMPORT	2074.3118	324.51669	10

Pearson Correlations		GDP	EXPORT	IMPORT
GDP	Pearson Correlation	1	.918**	.909**
	Sig. (2-tailed)		.000	.000
	N	10	10	10
EXPORT	Pearson Correlation	.918**	1	.981**
	Sig. (2-tailed)	.000		.000
	N	10	10	10
IMPORT	Pearson Correlation	.909**	.981**	1
	Sig. (2-tailed)	.000	.000	
	N	10	10	10

** . Correlation is significant at the 0.01 level (2-tailed).

The above table shows that International Trade (export and import) is strongly positively correlated with GDP (Economic Growth).

The report explained the determinants of economic development and foreign trade. It is necessary for the case of a rustic foreign trade as a country can not be expeditiously and efficiently continuously up to now in each sector of production of goods and services, which is why international trade exists between 2 countries to overcome this handicap. Economic development (GDP) in China and international trade is completely correlative with the economic development (GDP) in China. This analysis conjointly finds out that Inflation affects international trade if inflation of a rustic will increase the international trade are expected to decrease different things being same. Inflation affects not

exclusively international trade but put together the speed of exchange, healthcare, and demand. Factors that have an impression on international trade operation in China is worth. A few items that frustrate, dispirit, and mainly disempower investors can be value. The analysis finds out national commercialism policy conjointly have an effect on international exchange China, the study conjointly finds out that government policy and things unit of measurement still experiencing a crisis in terms of political balance, economic process and challenges expose by poorness and diseases, trade amount and foreign assets have enlarged over time. Finally, the someone identifies the country's rate, the country's rate of exchange, Productivity, Quality, the factors that influence international trade operation.

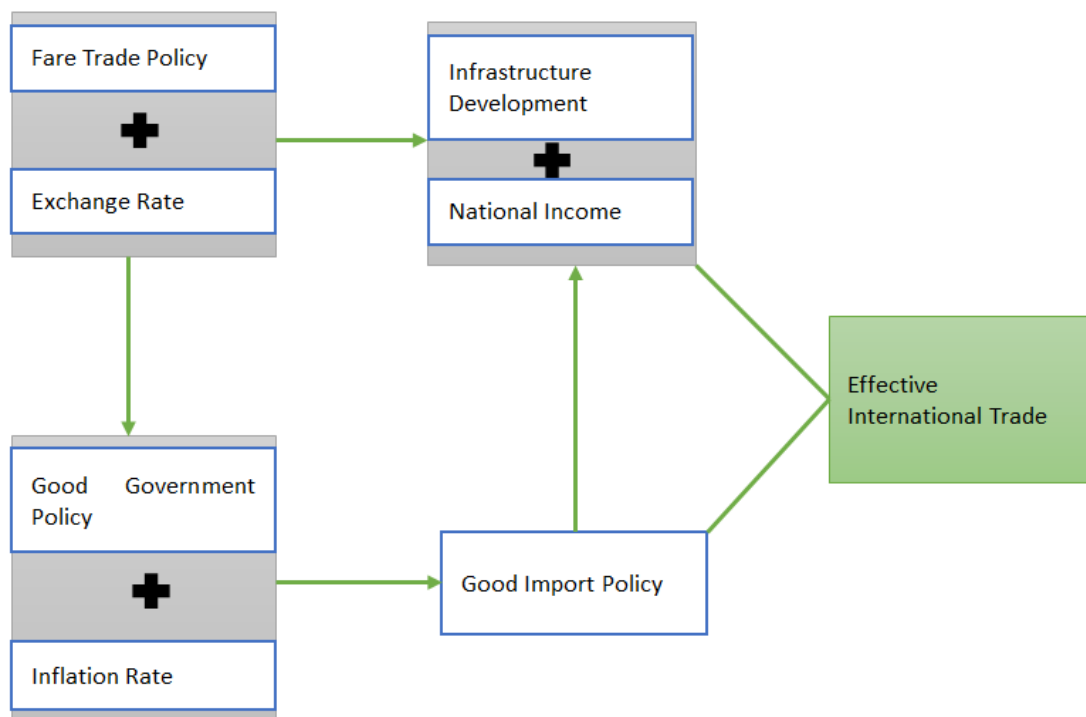


Figure 10. Framework for Effective International Trade.

The looks of the colonial rule that brought in their wares were common in foreign trading. The desire for trade, both

domestically and abroad. For decision makers and economists, foreign trade has become an issue. Its value lies

in the potential to promote products that cannot be made within the country or that can only be made at higher prices. It also helps a country to export its domestically manufactured goods to other countries on the globe. The success of the economy in terms of export growth rates and per capita gains has been supported not only by domestic manufacturing and consumption activities, but also by foreign commodity and service transactions. The classical conjointly neo-classical economics correlated the production of a country with so much significance to foreign trade that they treated it as an associate's engine of growth [14]. Trade has been created to be a powerful component of global growth. The importance of trade to overall economic development is enormous, owing primarily to the fact that nearly all the necessary elements for progress are evidently incontrovertible.

5. Recommendation and Conclusion

Based on the results of this study, a set of policy recommendations that would be specific to the nation must be submitted. Export promotion strategy should be reviewed, and import replacement strategy should also be reviewed so that its dimension can be changed by import and export. The study additionally recommends the availability of a peaceful economic and political atmosphere required for native and foreign investment. The govt ought to encourage export diversification.

For their production to be sustainable within the world economy, manufacturing companies should boost their products. In order to enable native enterprises to sell their products and services, excise duties should be down. The purchase of capital goods alone, the square measure necessary, had to be galvanized and not all imports are important for economic growth.

The government should devise export-leading market and monetary policies in the case of foreign trade to increase its exports as well as gross domestic product growth rates. Therefore, the research aims to expose the final determinants of foreign trade (export and import) on the economic mechanism through empirical data and interpretation (GDP).

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