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Impact of International Trade on Economic Growth in Bangladesh

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Abstract: ***International trade is so much essential for the development of any country because at the time of globalization one country's people can easily buy or sell products to another country's people. The objectives of this study were to determine the impact of international trade on economic growth in Bangladesh and the relationship between international trade and economic growth in Bangladesh. This study analyzed the achievements of the economy in terms of important variables asexport and import which together formsinternational trade and economic growth was determined by GDP. This study usedPearson Correlation and Multiple regression model for empirical findings.Secondary data was used to conduct this study and the required data was collected from the Bangladesh Bureau of Statistics,Wikipediaand from the website of Trading Economics. The study found that international trade (export and import) has a significantpositive impact on economic growth (GDP) in Bangladesh and international trade is strongly positively correlated with economic growth (GDP) in Bangladesh.***

Keywords: Bangladesh, Economic Growth, Export, Import, International Trade

1. Introduction

International trade plays a significant role in economic growth of a country and in modern economy both international trade and economic growth are the most popular concepts.The term international trade is used to indicate the buying and selling of goods and services between countries for satisfying the needs of its population. International trade enables the countries to sell their domestically produced goodsand services to other countries.Economic growth helps to increase the real per capital income of a population of the country which can be sustained over a long period of time.

The neo-classical and classical economists attributed so much relevance to international trade in a development process of a nation which is regarded as an engine of growth. Over the past years, the nations of the world have been immensely linked together through globalization and international trade(Afolabi, Danladi, & Azeez, 2017). Economic growth is one of the most vitaldeterminants of economic growth of a country and the relationship between international trade and economic growth is a frequent topic of discussion, when economists try to explain the different levels of economic growth between countries as well as exports of goods and services represent one of the most significant sources of foreign exchange income that ease the pressure on the balance of payments and create employment opportunities for the population of a nation that ultimately increase the socio-economic conditions of people(Shihab, Soufan, & Abdul-Khaliq, 2014).

International trade in recent decades has considerable growth and it is evident that most conducted traded in this area is associated with monetary and financial system and many banks and financial institutions do financing the exchange of goods and services(Levine & Renelt, 1992). Over the past years, it has been witness gradual development of integrated global economic system and developing of science and technology in the various areas has followed different conditions of business in these years(Sala-i-Martin & V Artadi, 2003). Communications development and widespread access of customer to information, has changed markets face and influenced their demands as well as production based on advanced technology and improved methods provides possible of respond to the changing demands of customers(Frankel & Rose, 1998).

International trade fosters innovation, the discrimination of technological progress through exposure to new goods and imports of high-tech inputs and efficient production (Daumal, 2010).

2. Literature Review

Several studies address the impact of international trade on economic growth of a country. The findings of these studies indicate that international trade i.e. exports and imports has a statistically significant positive impact on economic growth (GDP) of a country. Some of these studies that have addressed the issue of causality between international trade and economic growth as follows:

International trade contains efficiency and welfare achievement to all countries regardless of their initial conditions, technological capabilities, development level, and resources endowments (Helpman, 1987).International trade affects the economic growth of nations via the attraction of FDI. A study found that the main boulevards through which FDI impacts positively to economic growth are access to international market, job creation, technology transfer, capital accumulation, marketing and managerial practices(Lall, 2003).

Researchers investigated the causal links between trade, economic growth and inward foreign direct investment (FDI) in China at the aggregate level and the study found bidirectional causality between economic growth, FDI and exports(Shan & Sun, 1998).A study on the long run effect of FDI and trade on economic growth in Ghana for the period 1970 and 2002.The researchers discovered a long-run relationship between determinants of economic growth and economic growth itself in their model and the findings of that study indicated a negative and positive growth impact of trade and FDI respectively(Frimpong Magnus & Oteng-Abayie).

A study that examined the impact of export composition on economic growth, indicated that not all exports contribute equally to economic growth. Many developing countries depend on exports of primary products, which are subject to excessive price fluctuations and this category of exports had negligible impact on economic growth, while manufactured exports had a positive and significant effect on economic growth(Kim & Lin, 2009).

A study found that government earn revenue through international trade activities. International trade, as a major factor of openness, has made an increasingly significant impact to economic growth (Sun & Heshmati, 2010).The mercantilist doctrine attributed great importance to foreign trade, in other words; the international exchange process of capital accumulation, which is a notable requirement for economic growth(Tapşın, 2016).

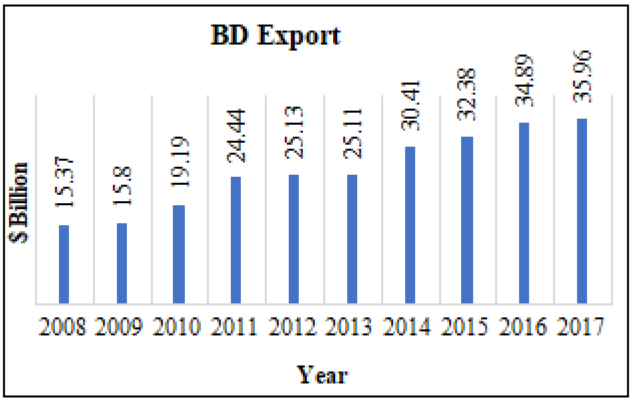
Some researchers conducted a research on the relationship between foreign trade and the GDP growth of East China for a period 1981-2008. Using the unit root test, co-integration analysis and error correction model, they found out that foreign trade is the long-term and short-term reason of GDP growth, but no evidence proved that there exists long-term stationary causality between import trade and GDP(Li, Chen, & San, 2010).

A study, investigated the impact of international trade on economic growth using a rank correlation analysis among developed countries. The results of the study showed a positive relationship between international trade and economic growth(Kehinde, Jubril, & Felix, 2012).

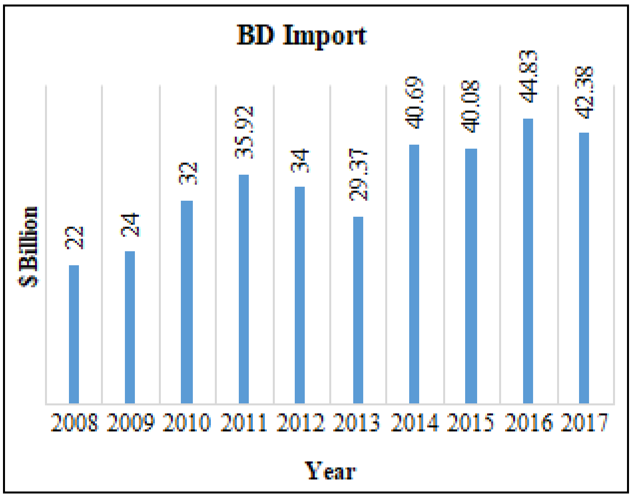
Objectives of the Study

The objectives of the study are:
- To determine the impact of international trade on economic growth in Bangladesh.
- To determine the relationship between international trade and economic growth in Bangladesh.

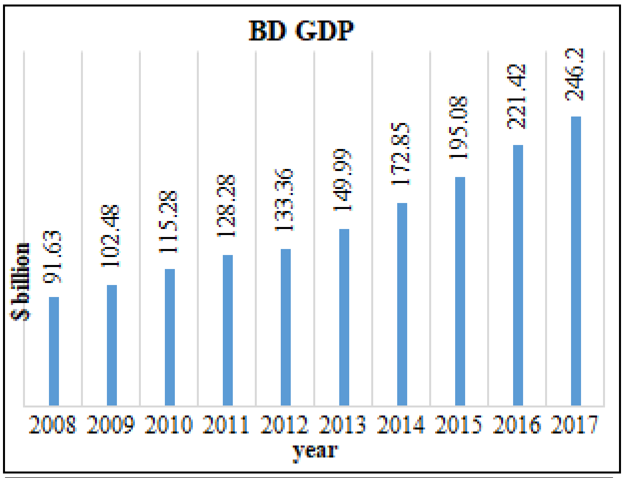
Export
The term export refers to the sending of goods or services produced in one country to another country to satisfy their needs. It indicates the goods and services produced in one country and purchased by citizens of another country for satisfying their desires. The sender of goods or services is known as exporter and receiver of goods or services is known as importer.Export occurs when a product or services is produced domestically and sold to a foreign country.The total export of goods and services by Bangladesh from 2008-2017 is presented here.

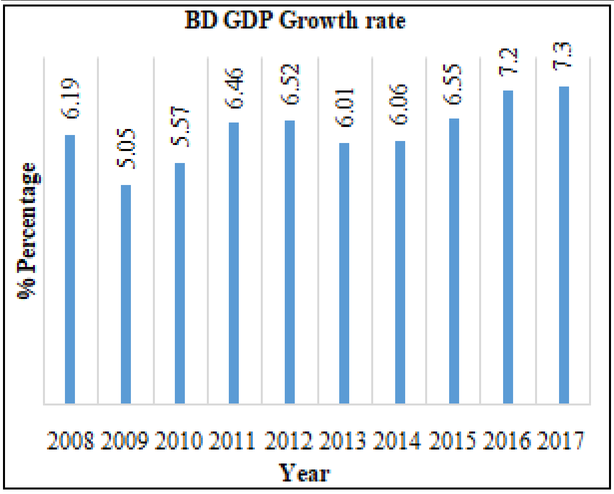


Import
The term import refers to the purchasing of goods or services another country to satisfy requirement of the people. It indicates the goods and services produced in foreign country and purchased by citizens of home country for satisfying their desires.Imports of goods or services consist of all goods or services rendered by non-residents to residents.The receiver of goods or services is known as importerand the sender of goods or services is known as exporter. Import occurs when a product or services is produced in foreign country and purchasedby home country.The total import of goods and services by Bangladesh from 2008-2017 is presented here.



GDP
Gross Domestic Product (GDP) refers to the monetary measure of the market value of all goods and services produced in a country within a definite period of time. Nowadays,GDP is considered as the world's most powerful statistical indicator of national economic growth of a country.The GDP and GDP growth rates of Bangladesh from 2008-2017 are presented here.





3. Methodology of the Study

Research Design

This research problem was studied through the use of causal research design. Causal research deals with cause-effect relationship(Ahamad & Das, 2018). In causal research design, the emphasis is on specific objectives about the effects of changes of one variable on another variable and it involves an experiment where an independent variable is used to see how it affects a dependent variable. Causal research design was useful in this study since it enabled the researcher to examine the impact on the dependent variable from variations in the independent variables. Dependent variable is GDP (economic Growth) and Independent variables are Export and Import (international trade).

Sources of Data

To conduct this study, necessary secondary data was collected from the Bangladesh Bureau of Statistics,Wikipedia and from the website of Trading Economics.

Model Specification

The data analysis method used was based on Pearson correlation analysis and a multiple regression model. A multiple regression model was used since it enables the prediction one variable on the basis of several other variables. The multiple regression model took the form of:

$Y = \beta_0 + \beta1X1 + \beta2X2 + \varepsilon$

Where: Y = Dependent variable

X1-.n= Independent variables

β_0= Constant

β1 - n = Regression coefficients or change included in Y by each X

ε = error term

GDP= α+β1Export+ β2Import+ε

Following null hypotheses are developed to conduct the study:

1) H_0: Export has a significant positive impact on GDP (economic growth).
2) H_0: Import hasa significant positive impact on GDP (economic growth).

4. Results and Discussion

Correlation Analysis

Table 1: Correlation matrix among dependent and independent variables

Correlations				
		GDP	Export	Import
GDP	Pearson Correlation	1	.927**	.867**
	Sig. (2-tailed)		0	0.001
	N	11	11	11
Export	Pearson Correlation	.927**	1	.951**
	Sig. (2-tailed)	0		0
	N	11	11	11
Import	Pearson Correlation	.867**	.951**	1
	Sig. (2-tailed)	0.001	0	
	N	11	11	11
**. Correlation is significant at the 0.01 level (2-tailed).				

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

Regression Analysis

Table 2: Regression Analysis

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-26.184	43.16		-0.607	0.561
	Export	8.87	3.527	1.072	2.515	0.036
	Import	-1.214	3.402	-0.152	-0.357	0.73
a. Dependent Variable: GDP						

According to the statistical analysis in this section,all of those hypotheses are accepted. So, the results indicates that the exports and import havepositive impact on GDP (Economic Growth).

5. Conclusion

For the betterment of any country, international trade is essential as a country can't be always up to date in every sector of production of goods and services efficiently and effectively that is why international trade occurs between two countries to overcome this handicap. Bangladesh is also like another countries associated with international trade i.e. export and import. Economic growth of Bangladesh was measured by the GDP of Bangladesh. International trade (export and import) has a significant positive impact on economic growth (GDP) in Bangladesh and international trade is positively correlated with economic growth (GDP) in Bangladesh.For the development of Bangladesh, government should formulate export leading fiscal and monetary policies to increase its exports as well as rates of GDP growth. Hence, with the empirical evidence and analysis the study tries to reveal the overall impact of international trade (export and import) on economic growth (GDP) of Bangladesh.

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