



Assessment Question:

In the light of past experiences and prospective judgement, should developing countries adopt an import substitution industrialisation growth and development policy, an export-led growth policy, or should they pursue some combination of both? What are the arguments for and against these alternative trade strategies for economic development?

Executive summary:

This project is based on international trade and different policies that one nation can adopt for the development of international trade. The two different policies are the import substitution policy and the export-led growth policy. Different types of trade strategies are incorporated which are playing an important role in the international approach of developing countries. Different trade regimes of the previous time and current time are included in this study. Apart from the exchange process of different goods, the exchange of different kinds of services from one order to another border of a nation is also considered under international trade practices.

Table of Contents

Introduction.....	5
Aim and objectives	5
Critical analysis	5
The theoretical foundation of international trade.....	5
Different types of trade strategies adopted by the government of developing countries.....	8
Issues related to international trade.....	10
Previous international trade regime and Current international trade regime	11
Identification of the main factors contributing to the contemporary international trade issue and the development of the world economy	11
Assessment of national dynamic in terms of international trade	111
Conclusions.....	12
Recommendations	12
Reference List	14

Introduction:

This study is based on the different aspects of the international trade approach. The term international trade is associated with the business practices in which the selling and purchasing of different goods and items are performed by different companies from one nation to another across the globe (Gruszczynski, 2020). Through this trade process, different items are brought as well as sold in different marketplaces of international platforms. These different products are consumer goods, raw materials, food items, and different kinds of technological instruments. Usually, three different types of trade are observed such as “export trade,” “import trade”, and “entrepot trade” (Khan *et al.* 2020).

Aim and objectives:

Aim

The study aims to identify all the opportunities that are associated with the theoretical framework of the international trade approach. With the help of developing this aim of the study, the main purpose of developing this study is described.

Objectives

Apart from this, the objective of the study is helping to accomplish the aim of the project. Therefore, the objectives are

- *To identify the opportunities by analysing the theoretical framework of international trade*
- *To detect the issues that can affect the international trade activities that are performed across the world*
- *To estimate the role of different factors that are playing the role of developing world economy*
- *To describe the policies selected by the governments of developing countries for performing different international trade activity*

Critical analysis:

The theoretical foundation of international trade

Mercantilist Theory of Trade:

In this theory, an idea has been established which help improve the nation's wealth and power capacity. Therefore, with the help of this increased capacity of wealth and power capacity, the nation develops the ability to increase its export business and lower its import business.

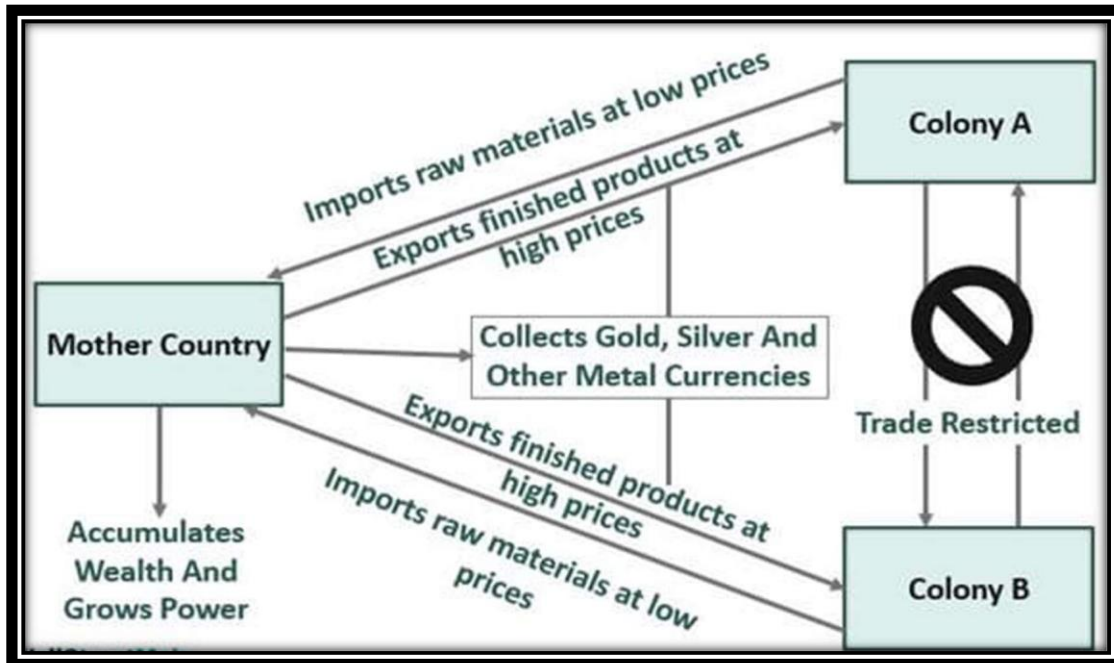


Figure 1: Mercantilist Theory of Trade

(Source: Arif, 2019)

This theory is helpful for increasing the yearly revenue of the company as this theory develops a situation where the nation can improve its export business and when the export business capacity is getting better than it is associated with increasing the yearly revenue as well (Arif, 2019)).

Classical Theory of Trade:

This theory involves giving different types of ideas that the country can use in order to achieve different types of competitive advantages while performing different tasks in international business. By implementing this theory, the country gets the idea to improve the quality of the product. After that, the country can supply and export those better-quality products in the international market and gain advantages from different competitive markets.



Figure 2: Classical Theory of Trade

(Source: Cipollina and Demaria, 2020)

Moreover, this theory also suggests a cheaper price production process by enhancing the standard quality of the product. Apart from this, there is a shortcoming that also must be faced by the country while using the classical theory of trade (Khan *et al.* 2020). This theory does not give any idea about the incorporation of innovative ideas in the business processes and production processes as well.

The modern theory of trade:

The development of the modern theory of trade is based on the factors of endowments. The factors of endowments are further dependent on the resource category that is present inside the country. Therefore the country needs to plan the production process as per the category of resources the country has in a large amount.

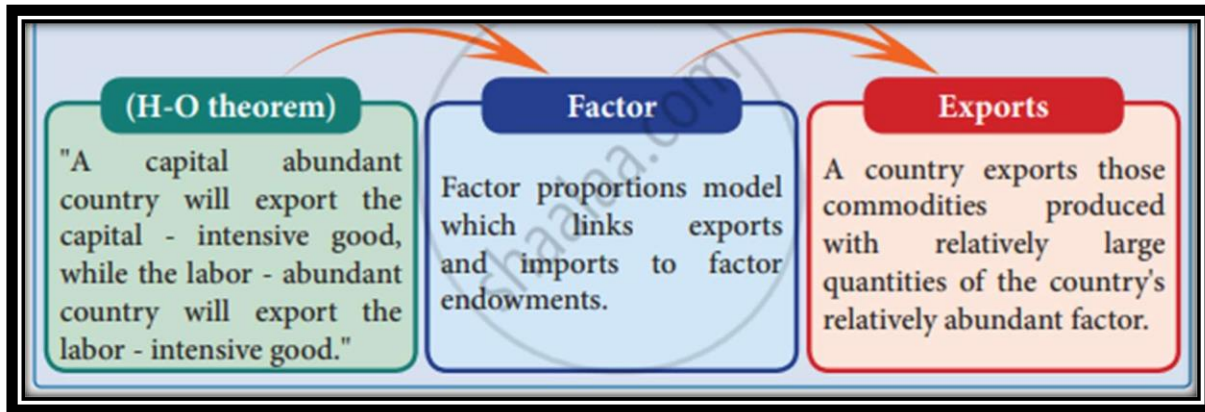


Figure 3: The modern theory of trade

(Source: Gruszczynski, 2020)

The country has two kinds of resources, one is the number of labourers and the other one is the money. When the company has a large number of labourers the company can use this labor for producing labor-intensive products (Gruszczynski, 2020). On the other hand, when the company finds a huge amount of money as a resource then the country can use this endowment factor and produce capital-intensive products.

Different types of trade strategies adopted by the government of developing countries:

An import substitution industrialization growth and development policy

Import Substitution Industrialization (ISI) is an economic policy that encourages the population of the country to develop different kinds of domestic industry. Moreover, this policy also ensures the lowering nature of depending on the foreign manufactured imports items. According to Jackson and Jabbie (2021), when the country adopts this strategy, it gets a chance to improve the number of domestic products and lower the imports of foreign products and such actions help to increase the gross income of the country.

An export-led growth policy

On the other hand, the export-led growth policy is the exact opposite of the import substitution policy. As per the viewpoint of Akçay and Türel (2022), when the country selects this policy then the country develops the opportunity by opening the markets of the country for different kinds of international business. Therefore, this policy helps the country to improve business practices by accepting all kinds of opportunities for internal trade business whether it is import or export.

In the case of selecting the trading strategy, the country can either select one of the import substitution strategies or the export-led strategy. The selection of both strategies required supporting the theoretical framework as well. Mercantilist Theory of Trade supports the export-led growth policy by enhancing the wealth condition and the nation's power capacity. As opined by Grinberg (2022), when the country develops the power of absorbing all the opportunities then the company also develops the ability to allow the growth of different types of internal business in the internal market of the country.

On the other hand, as per the words by Irwin (2021), the modern theory of trade supports the adoption of the import substitution industrialization (ISI) policy. This modern theory of trade helps to identify the endowment factor that is observed in the internal sectors of the country. With the help of this endowment factor, the country will be able to develop domestic business ideas. Therefore, both of these policies are associated with different advantages as well as limitations. As commented by Hernández Lasso (2019), the main benefit observed while adopting the export-led policy is the growth in the export business which decreases the revenue rate of the company to a high level. As opposed to Adedoyin *et al.* (2022), the export-led policy can adversely affect the number of resources contained by a country by extracting all the resources and developing an unstable condition. On the other hand, the adoption of an import substitution policy is associated with both different types of advantages and shortcomings as well. As per the opinion by Odhiambo *et al.* (2022), the adoption of the ISI policy is helpful for improving the independence of domestic business opportunities. As argued by Malefane *et al.* (2021), the business expansion of different domestic trades is not performed by adopting the ISI policy.

Apart from that it has been observed that the country can perhaps use both of these trading strategies at the same time. The application of both of these strategies would help to improve the international trade export and the development of domestic business together at the same time. As per the words by Baccaro and Neimanns (2022), with the help of adopting both policies, the nation can be able to export the products that are developed by the domestic businesses of the country. On the other hand, as opined by Orhan *et al.* (2022) the risk of developing an unstable business condition and loss of a huge amount of resources is also observed while adopting both of these policies together. Therefore, rather than selecting one policy the country needs to select

the combination of both policies as this creates the chances of domestic business expansion and growth in the yearly revenue as well.

Issues related to international trade:

While developing an internal business the concerned organization faced different types of issues. These issues are further involved in developing a barrier for the organizations while performing different actions for the development of the business on international platforms.

Language barrier

While expanding the business in whole new places the workers of the business organization need to communicate with the customers of those places. In order to communicate with the customers, they need to know the spoken languages of the where they develop their businesses (Cipollina and Demaria, 2020). In such cases, insufficient knowledge of their languages resulted in the development of barriers.

Cultural barrier

Along with the languages the workers also need to learn about their cultural norms, ethics, and behavioural norms. Without proper etiquette and manners, they may not be able to interact with the customers and understand their requirements (Arif, 2019).

Managing global business regulations

Each country contains different business regulations and rules. Therefore, without knowing the rules and regulations, the company cannot be able to develop business in a whole new market (Brynjolfsson *et al.* 2019).

Increasing inflation rate

A continuously increasing inflation rate creates different types of issues. Due to a higher rate of inflation, the transportation cost of the products also increased as well which affects the development process of international trade (Rojas and Pineda, 2020).

Exchange process of currency

In order to perform the business activity such as selling and purchasing the product the organization needs to exchange the currency they bought in the place where they want to develop the business (Shakibi and Ameri, 2022). This process is time-consuming and in some this exchange of currency requires different documentation as well.

Foreign politics

The politics of foreign countries play an important role in terms of developing a whole new business setup. Sometimes it has been observed that an unstable condition of the political parties develops a barrier to international trade approaches (Qiao *et al.* 2023).

Previous international trade regime and Current international trade regime:

The previous international trade regime was the General Agreement on Tariffs and Trades also known as GATT which is responsible for monitoring all the internal trade in goods products. This agreement is signed by many countries and only after agreeing with the rules and principles the countries can be able to perform the import and export business of goods among them. In a later stage, GATT is transformed and developed into WTO or the World Trade Organisation (Shakibi and Ameri, 2022). The WTO is known as the current international trade regime. The lack of institutional structure and a proper framework is the main reason for transforming the GATT into WTO.

Identification of the main factors contributing to the contemporary international trade issue and the development of the world economy:

The *use of different technology* is considered one of the main factors that contribute to the development of contemporary international trade issues. Due to the application of different techniques, the workers of nations faced problems while traveling to a new location in the seek of internal trade. Moreover, *government policies* are another factor that also contributed to the contemporary issues of international trade (Garton *et al.* 2021). Each nation has its own government policies which are different from one another therefore the development of international trade faces different complexities.

On the hand, *technology* is also considered a contributing factor to the development of the world economy (Qiao *et al.* 2023). Technological advancement is proportionate with growth in the business which further positively impacted the economic structure across the globe. *Physical capital* and *human resources* are other important contributing factors to the development process of the world economy.

Assessment of national dynamic in terms of international trade:

The place where the country wants to develop its business and the amount of capital the country has for developing internal trade are the two most important national dynamics the country needs to consider at the time of developing international trade. Moreover, the selection of the right

place for developing the business is important without this the country can experience losses in international trade.

Conclusions:

Thus, it can be concluded that, in this study, the internal trade and different aspects associated with this approach are described. Moreover, different theories are included in this report in order to outline international trade in a better and more understandable way. Issues associated with the international trade approach are also highlighted. In addition to these factors that contributed to the development of these issues are illustrated. Factors that play an important role in the development world economic system are also added in this conducted report. Different national dynamic factors of internal trade are described in order to state the relationship with the internal trade approaches.

Recommendations:

The recommendations are based on the improvement of the international trade approaches. Moreover, with the help of these recommendations, the issues developed in the internal trade are also resolved. Therefore, the recommendations are described in the below section,

- *In order to improve international trade practices any business organization of a country needs to improve the offerings the company made to other organizations of different countries (Ortiz et al. 2021). Without unique product offerings, the other companies can get interested in developing the business with the organization. Along with the uniqueness of the product the company also needs to give focus on the improvement of the quality of the product as well.*
- *In order to develop a successful internal trade, the company needs to identify the market opportunities that are underlying in all internal marketplaces. After identifying the market opportunity, the company needs to grab this opportunity and make it useful for business expansion in the internal marketplace (Gruszczynski, 2020). Along with the identification of the market opportunity the company needs to recognize the market opportunities which are suitable for their international trade activities.*
- *Before developing international trade, the company needs to develop a proper management system that supports the transportation of logistic items under the supply chain. Without a proper transportation system and transportation medium, the company may not be able to transport the logistics items and products to the internal*

market (Khan et al. 2020). Moreover, this effective transportation system is also required to meet all the demands of the international market.

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