

# Impact of International Trade on Economic Growth

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## Abstract

International trade plays an important role in the economy of each individual country. It allows to satisfy the needs of the population; stimulates the internal development of the country. International trade is the exchange of goods and services between countries.

The issues of international trade were considered by many economists. The representative of neo-classicism E. Heckscher is among them. According to him, foreign trade leads to an increase in the owners' incomes, relative to excess factors of production and export of the product, and stimulates economic growth.

This article is devoted to the role of foreign trade in the economies of China, the United States, Russia and Germany. The relevance of the study is to analyze the process of integrating countries into international trade and its impact on the development of countries.

The authors studied and analyzed economic trends for the period 2015-2016, which had a significant impact on China, the United States, Russia and Germany:

1) Despite China's role in the world arena, its economy is in a stage of recovery from a recession. A high increase in the value of exports and imports of the country is observed compared to the previous year (-24.5% and -13.8% in 2015, -7.7% and -5.5% in 2016), but foreign trade indicators remain negative.

2) Investigating the USA economy, it is important to note its openness. However, the consequences of the economic crisis of 2006-2008 led to the negative values of exports and imports. There is an increase in the foreign trade deficit.

3) Analyzing the economy of Russia, it can be noted, that the "oil curse" is the passed stage for the country, and the sanctions, despite their impact on the well-being of the population, were the stage of strengthening the domestic economy of the country.

4) The economy of Germany is on the rise, with a peak in 2015. The increase of imports is + 6.4%, compared to last year; the growth of exports is + 4.2%; and the volume of the foreign trade balance is + 16%.

Thus, the latest trends in the world economy, studied by a team of authors, allowed to propose their ranking of countries in the order of importance of foreign trade in their economies: Germany, China and the United States, Russia.

The discrepancy between this ranking and the results of the questionnaire survey showed, that the article has high practical significance and the possibility of applying the results for both scientific and practical purposes.

**Key words:** International trade, Export, Import, Foreign trade balance, Globalization

## INTRODUCTION

International trade has a huge impact on the level of the country well-being. In this paper, the process of

international trade is considered as one of the main directions of the economy of any country.

International cooperation and the development of globalization have a favorable impact on the market economy. The consequences of these processes are the further integration of countries into international trade, which continues to take an increasingly important role in the economies of developed countries. The analysis of current statistic data on international trade is of great interest of Russian and foreign scientists, but at the moment, it is difficult to find material, containing a large amount of reliable data on the research in one source.

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This problem caused the study and systematization of information, related to the international trade and its impact on the economies of different countries.

The main goal of the work is to investigate the dependence of different countries economies on their foreign trade.

To achieve this goal, the author posed the following tasks:

- to consider the economy of developed countries and put forward a hypothesis about the role and influence of international trade;
- based on the results of the research, to propose own ranking of countries, according to the importance of foreign trade in the economy of a particular country.<sup>1,2</sup>

According to the results of the economic study of four developed countries-leaders in international trade: China, the United States, Germany and Russia, the team of authors proposed a ranking of these countries in the order of importance of foreign trade for their economies.

**MATERIALS AND METHODS**

The methodology of the research is presented by the method of system analysis, the method of comparative macroeconomic analysis, questionnaires and ranking.

**RESULTS**

The purpose of the study is to investigate the importance of international trade for the economies of different countries. The hypothesis was developed on the basis of questionnaire survey, to analyze this issue (Figure 1).

*Hypothesis: The economy of China is the leader among countries in international trade; the country’s foreign trade determines its economic development. The foreign trade in the Russian economy has a smaller, but significant influence on the domestic general economic situation. The next country is the United States. The economy of German has the least dependence on international trade.*

We have studied each of the represented countries, have identified changes in their position in the international arena and have described foreign trade indicators. Further in the work, the analysis is considered.

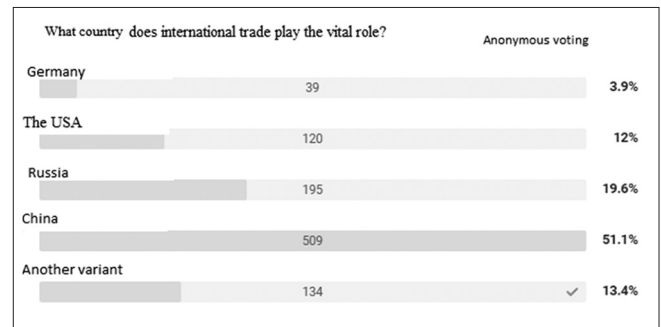
The largest number of votes was given to China (51.1%). The first thing, drawing attention in the study of China’s role in the international arena, is the following statement in 2013: “China has become the center of international trade.” At that time, one third part of the country’s GDP belonged to the foreign trade. What is the situation today? Over the past few years, experts have noted a decline in China’s

economy (Table 1). According to the customs service of China, in February of that year, the most significant falling of the exports volume in dollars have been recorded since 2009. It had decreased by 25.4% (by February 2015). The reduction of imports was 13.8%, compared to last year’s figure. As a result, the foreign trade surplus of China in February 2016 decreased to 32.59 billion dollars [3].

Thus, China has a tendency to reduce its role in international trade. This can be explained by many reasons: the celebration of the lunar New Year in the country and the slowing of economic activity at that time; the weakness of the world economy and the decline in demand for products of exporters from China; the aggravation of competition and the emergence of modern enterprises in Southeast Asia.

To date, the economy of China is recovering, but it remains at the level of negative values of changes in exports and imports, and significant increase in foreign trade balances is due to the increase in oil imports into the country.

The next country by the number of votes is Russia (19.6%). When considering the Russian economy, it is worth paying attention to the predominantly raw exports of the country. Russia is rich in minerals, oil and gas. For a long time, it was precisely their export, which kept the economy. However, the country has gone from the “oil course” long ago. For example, the share of oil in GDP is only 16%, and in exports - about 40%. The transition from a resource-based



**Figure 1: Questionnaire survey of the population about the importance of international trade in the economies of developed countries.**

**Table 1: The analysis of China’s foreign trade during 2015-2016**

Year/month	Changes in exports (%)	Changes in imports (%)	Foreign trade balance (billions of dollars)
2015	-24.5	-13.8	+32.59
2016 (January)	-11.2	-18.8	+63.3
2016 (June)	-4.8	-8.4	+48.11
2016 (December)	-7.7	-5.5	+509.96

economy to an innovative way of development requires substantial investment to modernize our economy [4].

An important event for the Russian economy was the sanctions, imposed on Russia by leading foreign countries. When considering the issue of sanctions, it is necessary to think, what influence it had for the economy of Russia.

Immediately after the sanctions, negative consequences were visible to the unaided eye. GDP fell by 3.7%, inflation increased (it was 12.9%), household incomes fell by 4%, a record capital outflow (\$ 151.1 billion) occurred.

The beginning of 2016 was extremely unsuccessful for the Russian economy. The fall in oil prices and the subsequent devaluation of the ruble were the main reasons for the record low indices of foreign trade (Figure 2). Foreign trade turnover, compared with last year, fell by 28.7%. However, by February, the export data had gradually begun to increase. Imports decreased by 8.9%. However, despite such data, the foreign trade surplus remained: +63.1 billion dollars.

Consider the dynamics of foreign trade of Russia, during 2015 - 2016 [5].

Is it possible to say that the sanctions have so strong influence on the Russian economy? Despite the aforementioned negative consequences and disappointing forecasts of European countries, many experts believe, that Europe was not able to achieve its goals; the expectations of the countries were not justified [6]. The economy has not only adapted to such circumstances, but has also risen to a fairly

good level. First, it stimulated the development of its own industrial and agricultural sector. Secondly, this situation moved Russia forward for creating a new system of inter-bank payments, allowing the state to break the monopoly of SWIFT. Thirdly, the European countries suffered greatly from their own sanctions themselves, because most of the imported goods were from Russia.

Thus, it is wrong to consider the Russian economy dependent on foreign trade relations.

The next country in the rating is the United States of America (12% of the vote). Speaking about the United States, an open and liberal country is appeared, whose economy consists of free transactions between various subjects of economic relations in the international market. For a long time, it was the United States, which remained the most important country in international relations. Numerous goods were exported, mainly equipment. Raw materials were imported.

Today, there is a similar tendency; however, the state of the economy over the last few years is estimated by economists as volatile. So, during 2006-2008, the economy has weakened; it was in a recession. The balance of foreign trade turnover fell to the lowest values (-1084, 5 billion dollars). After this period, the economic growth began. In 2014, numerous historical picks were recorded. The foreign trade balance remained negative, but the percentage of exports covered by imports was 67% (the second highest result for the 21<sup>st</sup> century). The value of exports increased. Its value was 1.62 trillion, and this became a new historical peak. The country retained the second place in the list of

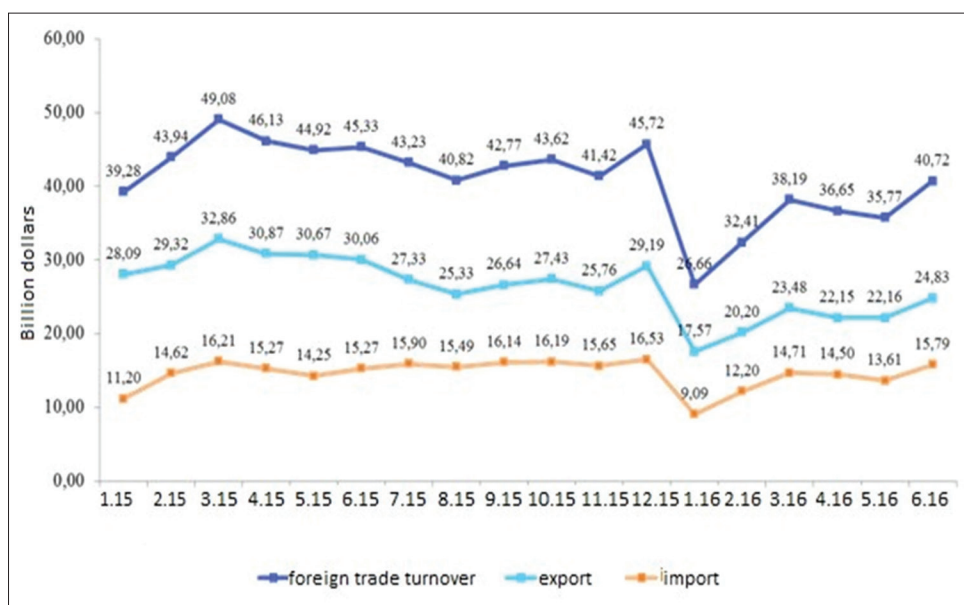


Figure 2: The analysis of the Russian economy in 2015-2016.

the largest exporters, which was taken by it in 2010. The USA imports in 2014 increased by 3.5% or \$ 80.7 billion, compared to the previous year (in 2013 there was a decrease by 0.3% or 7.5 billion dollars). Its value was 2.41 trillion, and this became a new historic high, significantly exceeding the previous record of 2012. The USA still has a big advantage over any other country in terms of imports.

In 2015, however, there was another decline in the economy (Table 2) [7]. The export figures have fallen to the lowest levels since February 2011. The decline in export volumes was partly due to the strengthening of dollar, which made US goods and services more expensive for buyers abroad. A similar situation remained in 2016 [8]. Against the backdrop of the foreign trade, the domestic economy had the greatest losses. Its condition is constantly changing and remains unstable. GDP growth rates in the second quarter of 2016 were worse than expectations by more than 2 times (1.2% vs. the forecast of 2.6% in per year terms). Retail sales in July showed no growth. The rate of inflation was below expectations. The consumer price index in July rose by 0.8% with the forecast of 0.9% and the June value of 1.0%.

It can be concluded, that the USA economy is highly dependent on foreign trade. The situation on the international scene affects the state of domestic economy of the country. Foreign trade in the economy plays a leading role.

However, the global changes that have occurred in the USA policy should also be noted. The new president of the country, Donald Trump, came to power with completely opposite views. His slogan: "Americanism, not globalism" invites us the assumption, that in the future there may be cessation of support or even the withdrawal of the USA from global and regional security and free trade systems [9]. If such trends really show themselves in the future, then the USA will no longer have a major importance in international trade, since there will be less impact of free trade on the state of domestic economy of the country [10].

The smallest number - 39 people (3.9%) answered, that the country, where international trade plays the most important role is Germany.

According to the WTO, in 2005 Germany was considered the world's leading exporter. Germany had 9.3% of the total world merchandise exports. Germany also ranked in the top five countries with the highest level of competitiveness (after the USA, Finland and Singapore). However, the growth of its GDP at the beginning of the new century has significantly decreased. For several years it remained unchanged, and was 4 times less than the average statistical

data. However, the economy remained relatively stable, due to its exports. The wide commodity diversification allowed to increase the country's competitiveness at the international level.

To date, Germany continues to take one of the most stable places in the ratings of international competitiveness of national economies. Its foreign trade continues to be in the limelight. So in 2012, the article "Germany – is the motor of the world economy" was published (Martin Orth). He wrote: "Germany cracked the magical one-trillion-euro mark for exports in November 2012 for the second time in a row... No country is as closely integrated into the world economy and dependent on thriving world trade as Germany. 41% of its goods and services go abroad." [11].

In 2017, The Economic Times published its study on the position of Germany on the world scene. It states, that Germany acts as a developed country, with the most successful economy in the world [12]. It should also be noted the words of Trump, who said, that Germany was dependent on external demand.

As for the most recent data, the latest facts look like that: Germany's trade surplus reached its record peak in 2016 (it increased to \$ 270 billion), and there was a noticeable tendency to increase the imports and exports values (Table 3) [13].

The last item in the questionnaire was "your own opinion", and the number of people, who chose this point, was 13.4%. These people noted, that foreign trade can't be somewhere less important, and somewhere more important. Of course, on the one hand, it would find difficulty to quarrel with this statement. However, the analysis shows, that the role of foreign trade in the overall economic state of the country, can't be traced and, consequently, it differs in all countries.

**Table 2: The analysis of the United States foreign trade indicators for 2015-2016**

Year	Changes in exports (%)	Changes in imports (%)	Foreign trade balance (billions of dollars)
2015	-4.8	-3.1	-531.5
2016	-4.1	-3.5	-538.4

**Table 3: The analysis of foreign trade indicators of Germany for 2015-2016**

Year	Changes in exports	Changes in imports	Foreign trade balance (billions of dollars)
2015	+6.4%	+4.2%	267.6 billions of dollars (+16%)
2016	+1.5%	+0.6	288 billions of dollars



## DISCUSSION

To date, every market participant is an integral part of the world economy. The reason for this is the intensive process of globalization: there is a cultural, moral, social, political and economic unification of all cities, countries and continents. International trade is a manifestation of this process. Such indicators of foreign trade as the changes in exports, imports and foreign trade balances of China, the USA, Germany and Russia, are presented in the paper.

Based on the study, conducted in the work, the authors ranked the investigated countries in the following order:

The 1<sup>st</sup> place – is Germany, which depends on international trade, and its economy is mainly directed to export;

The 2<sup>nd</sup> place – is the USA, (it is an example of open economy), and China, which “captures” the whole world, but both countries have a decline and stabilization period;

The 3<sup>rd</sup> place – is Russia, where the recent events proved the absence of strong dependence of the economy on international trade.

## CONCLUSIONS

The results of the study allow to draw a conclusion about the erroneous opinion of the majority of respondents, who participated in the questionnaire survey. The ranking of countries, according to their dependence on foreign trade, is as follows: Germany, the USA, China, Russia.

As a result of the analysis, the following conclusions about the main economic trends of countries were made:

- 1) Germany is a country where the economy is most dependent on the foreign trade;
- 2) The USA is described as a country with open economy, which for a long time had a high level of economic development, but now it is going through its recovery from the crisis and the recession;
- 3) China has a similar situation as the USA, but in China, the impact of foreign trade on the economy is not so significant, and the indicator of that, is the level of well-being of the population, which continues to grow, despite the situation in the foreign trade;
- 4) The Russian economy, which has suffered the consequences of ruble devaluation and sanctions, now

is in the stage of growth, recovery; and the latest data are the indicators of decrease of Russia’s dependence on the foreign trade.

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