

D2 - External Sector

Topic - Role of Foreign trade in economic development of countries

Introduction - There is no country in the world today which produces all the commodities in which it has advantages. or produces commodities it needs. Every country, therefore tries to produce those commodities in which it has comparative advantage & exchanges part of those commodities with the commodities produced by other countries relatively more efficiently.

Role of foreign trade in economic development :-

- Foreign trade & economic development
- Foreign exchange earning - which can be used to remove poverty & other productive purposes.
- Market expansion - The demand factor plays very important role in increasing the production of any country.
- Increase in investment - Foreign trade encourages the investor to increase the investment to produce more goods
- Foreign investment - Foreign trade provides incentives for the foreign

investors to invest in those countries where there is a shortage of investment.

→ Increase in national income - Foreign trade increases the scale of production and national income of the country.

→ Decrease in unemployment - With the rise in the demand of goods domestic resources are fully utilized and it increases the rate of development in the country.

→ Price stability,

→ Remove monopolies.

→ Removal of food shortage.

→ To improve quality of local products.

→ Useful for world peace.

Some negative effect :-

→ International trade has resulted in creating dual economies in under-developed countries.

→ Not much beneficial for poor countries.

→ Limited possibility of gain.

→ Adverse effect on demonstration effect.

→ secular deterioration in the terms of trade.

With the help of foreign trade policies, a country can lead to equality of pricing to ensure a stable demand and supply situation within the economy. Therefore foreign trade policy in India is a complete policy to enhance the position of India in international market.