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The Influence of Global Trade on The Financial Growth of India

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Abstract: Continued debates and research on the outcome of trade on financial growth have been prompted by the rising scale of foreign trade. By reducing trade obstacles, the research empirically analyses the effect of foreign exchange on Indian financial development. The wald test demonstrates the co-integration of the series. The long-term estimates for the link between exports and internal investment with GDP show a positive and vital relationship. There is a harmful and statistically relevant connection among imports and exchange rates for GDP. Short-term connection estimates show a positive and vital correlation between export and domestic investment and GDP, though negative but statistically unimportant, in the short-term import-exchange rate relationship. There was also a considerable speed of adjustment time. The short-term causality results show short-term causalities between exports, local investment and GDP exchange rates. The Policy Recommendation involves improving the export promotion and import discouragement coupled with domestic investment promotion and improvement and exchange rate reduction.

Keywords: Global Trade, Financial Growth, Upgrowing India.

Introduction:

International economics talks about countries' global interdependence.The option of development policies in developing countries, in particular, is one of the highly contentious topics for foreign trade and its relationship to economic growth [1]. Political, cultural, economic, infrastructural, technological, competitors, distribution and other factors are among the most significant uncheckable elements of the international circle. Following are the four key strategies for stable and strong economic systems are established in developing and less developed countries: importation replacement policy, export growing policy, balanced growing policy and imbalanced growing policy for developing and less developed countries. In these countries, import substitution, as well as export growth,is divided into two distinct groups. The country guides that types of export succession policies should almost contravene the substitution order for imports [7].

The increased volumes of foreign exchange and lowered trade barriers have led to discussion and analysis of the countries' economic development due to international trade [2][3]. Historical validation shows that countries with foreign activity appear to be more profitable than countries producing for the local market alone. A country may have a positive or negative connection among foreign trade and financial development. What determines the essence of this relationship is the financial mechanisms

that are developed to regulate the trade. In our world today, it is hardly possible for a nation to exist independently without having engage in economic ties with others. Classical and neoclassical economists have stated that foreign trade a solid motor for economic development [6].

The apparent aim of the Indian economic reform strategy for the external sector after 1991 was to make a significant shift in growth and the export-based FDI export-oriented influx of foreign capital. The study aims to explore the connection between India's foreign trade and financial development [5].

Objectives:

The aims of the study are:

- To examine the effect on Indian financial growing of foreign trade.
- To examine the connection between India's foreign trade components and financial development.
- To define the causal connection between India's trading components and economic development.

Literature review:

Zahool et al. (2012) looked at the international trade-economic growth relationship using the methodology of OLS; their results indicate that the importation of raw materials, exports, jobs and production has been enhanced as a result of international trade. They concluded that foreign trade plays a important part in enriching a country's financial progress.

Azees et al. (2014) expressed a clear and optimistic effect on economic development in foreign trade. His result shows that import, export and open economic relationships are positive.

According to Atoyebi et al. (2010) the connection among international commerce and economic development is good. Both the volume of foreign trade and the structure of trade towards higher-tech exports have a positive economic impact.

Giaruzazmi was studying the impact of trade freedom on the economic performance of OIC countries who liberalised their economies since the 1970s (2011). His findings shows that, while the impact differs from nation to country, trade liberalisation has improved on average countries' per capita GDP in the medium term, but the export, import and trade ratios to GDP have not improved as trade liberalisation continues to be a result.

The effect of foreign liberalisation on the Indian economy has been investigated by Shreesh and Kishore (2012) using the Solow model as a base for research. Their results show that the total production level of foreign trade and economic openness has increased, resulting in faster economic development.

Jayati, G (2006) argued in her paper was strategic to generate major shifts in growth and to draw substantial foreign investment inflows, but these goals have not been realized. Instead, the challenge of import penetration limited manufacturing investment.

Openness to Indian Trade:

In the Indian economy, 1991 was a critical moment. The deficit and current deficit in balance of payments were greatly impacted, along with nearly all the macro-variables for growth and development in the region. The research discusses the effect of trade on Indian economy. The Indeximum is a financial metric as a proportion of a total country trade to the gross domestic product, the export amount plus imports. The higher the percentage, the greater the country's external trade exposure[1].

With the exception of a few years, in 2009, it was seen a further negative period due to the US subprime crisis and 2015 and 2016, due to a massive foreign inflationary rise in petroleum and gold. The growth trend in exporting and imports persisted.

During the post-war era, East Asian economies were the key beneficiaries of globalisation by adopting export-orientated economic policies and capturing new markets, resulting in increasingimports from the developed countries for manufactured goods. Thanks to many world economies, the Indian economy has combined its budget with world economies with 1991 policy changes. As a consequence, its indices of trade openness steadily increased. In India, the average TOI indicator is 31.012, less than that in the rest of Asia. There is an indicator of TOI at 19.701, and there has been a progressive increase to 42.142 by 2008, and a notable increase to 30.378 by 2017, apart from 2014 (31.622) and 2015 (31.622). As a result of the series of trade liberalisation steps implemented to achieve economic liberalisation, a steady growth in economic integration could be seen to move the country towards the 77th position of a market index in 2019.

Methodology:

They included a Wald test, a Long run OLS estimation test, an Error correction test, and a short run cause test for the root and ARDL approach. Data were collected in the Database Statistics Guide of the Indian Economy and the World Bank. Data were collected between 1991 and 2017.

Model Specification:

Real Gross Domestic Product(GDP) = $f(EXP,\ IMP,\ EXR,\ INF,\ DI)$

Here:

Shorts form	Meaning
GDP	Real Gross Domestic Product
IMP	Imports
EX	Exports
DI	Domestic Investment
INF	Inflation
EXR	Exchange Rate

Hence,

Real Gross Domestic Product(GDP) = $\alpha + \beta_1 EX + \beta_2 IMP + \beta_3 EXR + \beta_4 INF + \beta_5 DI + U.$

where U is random term.

Model estimation:

To prevent spurious regression, the series is evaluated initially whether the time series information are inactive or not. The ADF Root Test Unit was used in this analysis.

	Level			First Difference			
Variable	None	Intercept	Int & Trend	None	Intercept	Int & Trend	Order
Real Gross Domestic Product	13.60	7.59	1.36	1.95	-1.88	-3.88*	I(1)
Domestic Investment	1.21	-0.68	-5.18*	-	-	-	I(0)
Exports	3.80	2.05	-1.23	-3.87	-3.88*	-4.34*	I(1)
Exchange Rate	2.63	-0.56	-1.46	-3.61*	-5.13*	-5.02*	I(1)
Imports	2.39	0.87	-1.18	-3.69*	-5.53*	-3.22	I(1)
Inflation	-1.24	-3.37*	-3.62*	-	-	-	I(0)

Table 1: Unit Root Test Results

(H_O: Unit root in series,* which indicates that H_0 is rejected at the 5% level.)

The foregoing results show that some variables are integrated into order one and zero (i.e. I(1) and I) into order one (0). Pesaran et al. (2001) offer the autoregressive distributive lag (ARDL) approach as the best estimate method to utilise in this scenario (Table-1).

ARDL model:

The ARDL estimation model is specified as:

$$\Delta GDP = \alpha + \beta_1 GDP_{t-1} + \beta_2 EX_{t-1} + \beta_3 IMP_{t-1} + \beta_4 EXR_{t-1} + \beta_5 DI_{t-1} + \beta_6 INF_{t-1} + \sum \ominus_i \Delta GDP_{t-i} + \sum \upsilon_i \Delta EX_{t-i} + \sum \gamma_i \Delta IMP_{t-i} + \sum \phi_i \Delta EXR_{t-i} + \sum \omega_i \Delta DI_{t-i} + \sum \beta_i \Delta INF_{t-i} + U_t.$$

Where: β_i- Long run multipliers.

α – Intercept.

U_t- Error term.

$\theta, \upsilon, \gamma, \phi, \omega, \beta$ – Dynamic coefficients for short-run.

The first test in the ARDL model is the cointegration test. The Wald test may be employed for non-cointegration tests of zero hypotheses.

i.e., H_0: $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = 0$

The test results are presented in the table below.

Country	F-Stat	Lag	L. B.	U. B.
India	3.988	2.01	2.28	3.79

Table-2: Bound Test Result

(Rule of Decision: Reject H_0 when F-statistic is outside the limit.)

The aforementioned results reveal that the F- statistic is beyond the boundaries and we thus reject zero hypotheses and co-integrate the variables. The next stage in the ARDL technique is to identify the long-term coefficient as the variables are co-integrated (table-2).

Estimated Long-Run relationship:

Variables	Coefficient	T-Statistic	Probability
Exchange Rate	-119.26	-1.3221	0.0029
Exports	25441.9	2.8225	0.007
Domestic Investment	8115.6	10.151	0.0000
Imports	-9296.1	-1.0103	0.066
Inflation	-21.30	-0.6661	0.435
C	-1051.58	-2.0088	0.006
R-Squared	0.92		
DW STAT	1.92		
F-STAT	46.63		
PROB	0.00		

Table-3: Estimated Long-Run relationship

The preceding results from the OLS demonstrate a substantial negative exchange rate and imports with GDP. A positive and strong correlation was nevertheless shown between exports and domestic investment and GDP. This is a negative relationship between GDP and inflation. The R-squared value suggests a high explanatory capacity for the separate factors for the dependent variables whilst the overall importance of the experiment reflects the importance of the model (Table-3). The serial correlation test LM demonstrates a lack of serial correlation, and the model's stability is seen in the CUSUM test (appendix one). The consequence of our long-term relationship thus corresponds to the Mercantilist principle of export promotion and import discouragement. The results also fit Atoyebi et al. (2012) and Zahoor et al. analytical works.

Short-run relationship estimation:

Variables	Co-efficient	T-Statistic	Probability
C	-65.866	-0.539	0.425
D (Gross Domestic Product (-1))	-0.002	-0.006	0.885
D(Exports)	32247.03	3.242	0.006
D (Exports (-1))	13114.27	0.963	0.335
D (Exports (-2))	5211.195	0.306	0.581
D(Imports)	-7532.092	-0.923	0.363
D (Imports (-1))	771.768	0.101	0.822

D (Imports (-2))	-1412.57	-0.213	0.722
D(Exchange Rate)	-72.328	-1.002	0.323
D (Exchange Rate (-1))	27.401	0.314	0.686
D(Domestic Invesment)	12456.29	2.415	0.023
D(Domestic Investment (-1))	-1873.85	-0.275	0.685
D(Inflation)	-36.371	-0.886	0.332
D (Inflation (-1))	-66.159	-1.731	0.105
Error correction term (-1)	-0.8133	-2.376	0.032
C	-65.867	-0.619	0.425
R-SQUARED	0.74		
F-STAT	5.37		
Probability	0.00		

Table-4: Error Correction Representation

A relevant error correction term (ECT) confirms the existing long-term relationship. The ECT coefficient shows the pace of change, i.e., an adjustment of 81 per cent to the long-term balance is finished within a year. A positive and significant association is shown by the short-term link between exports, domestic investment and GDP. The association between import, exchange rate and GDP inflation of variables was negative and negligible. The R-squared value is of strong explanatory value in F-statistical data of the independent variables (Table-4). The serial LM correlation test indicates the lack of automotive correlation, while a model consistency is also demonstrated by the CUSUM test application.

Causality of Short Run:

Dynamic relations between time series data are analysed using a causality test. Testing of causality It seeks to show whether or not a time series is helpful in predicting the other. The investigation uses the Wald test to evaluate the short-term source of the variables.

These data show that export, exchange rates and GDP are causative in the short-term. The table emphasises, however, that there is no short-term causality between imports and GDP inflation (Table 5):

Variables	F-Stats	Probability
Exports	3.74	0.03*
Imports	0.52	0.57
Exchange Rate	6.31	0.02*
Domestic Investment	3.33	0.03*
Inflation	0.96	0.33

Table-5: Short Run Causality Outcome

(* denotes reject H_0.)

Conclusions and recommendation:

Our results are compatible with theories of economics such as conventional and neoclassical models in which foreign trade is considered a driving force for economic growth. The government's policy recommendation includes increasing the involvement of India in foreign trade. This can be accomplished by developing a favourable environment to promote trade and increasing India's presence in the world market. In particular, by giving producers tax incentives and providing subsidies when they need, government can improve the production of more exportable commodities. Also, the government needs to cut export tariffs to boost exports because exports have a positive impact on India's economic development. The government should also dissuade imports, excluding capital goods, which can be used in manufacturing rather than consumption. The administration can enforce strict limits, including quotas and increasing import tariffs, as imports negatively impact India's economic development. Furthermore, the government should reduce the exchange rate because itsimpact on economic growth is negative. Finally, by enhancing gross capital creation, the Government can foster domestic investment, boosting India's economic progress.

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