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The Contribution of International Trade to Economic Growth and Productivity

Riska Puspitasari [1*], Zia Ullah Arif [2], Maya Inayati Sari[3], Ali M. Ahmed[4]
[1]Institut Islam Al-Mujaddid Sabak, Tanjung Jabung Timur, Jambi, Indonesia
[2]University of Management & Technology, Lahore, Sialkot Campus Pakistan
[3]Sekolah Tinggi Agama Islam Ibnu Sina Batam, Kepri, Indonesia
[4]Department of Economics, University of Gothenburg, Sweden
*Correspondent Author: puspitasarinayu02@gmail.com

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Abstract:
This study examines the role of international trade in driving economic growth and development, particularly in emerging countries. Economic growth has long been considered a central indicator of national progress, though it is also interconnected with issues such as poverty, unemployment, inflation, and income inequality. International trade through exports and imports serves as a key catalyst for expansion by stimulating specialization, generating investible surplus, enabling vent-for-surplus opportunities, and increasing overall productivity. Using an experimental research approach, this study evaluates the impact of trade on domestic production, highlighting that globalization, technological transfer, and economies of scale significantly contribute to growth. Findings show that international trade not only provides access to scarce goods and broader markets but also facilitates knowledge and technology transfer, which enhances efficiency and competitiveness. However, challenges remain in ensuring equitable distribution of trade benefits, preparedness of local industries to absorb new technologies, and the willingness of developed countries to share innovation. Thus, while international trade accelerates growth, its effectiveness depends on domestic policies and the appropriateness of transferred technologies for developing nations' needs.

Keywords:
International trade, Economic Growth, Productivity.

INTRODUCTION

One of the most common discussions regarding a nation's economy is that of economic growth. Even so, there are also discussions regarding issues like poverty, income equality, unemployment, inflation, or concurrent rises in the prices of commodities. When considering a nation's economy, economic growth is significant since it can serve as one indicator of the economy's success or growth, even while other indicators are unavoidable. According to Abidin, one measure of the advancement of development is economic growth (Abidin, 2022; Sartika, et al., 2024)). International commerce is one of the things that may be used to propel progress. Trade, according to Amelia, can drive economic expansion (Amelia, 2022). If exports and imports make up international trade, then either one of these items, or both, may act as a catalyst for expansion. According to Abidin, Indonesia implemented an export promotion policy in the early 1980s (Abidin, 2023; Yand, 2004; Tambunan, 2000). As a result, this policy turns exports into a growth engine. Naturally, when the subject of international trade comes up for debate, the flow of cash between nations must also be

thoroughly examined.

Vernon's thesis states that international trade is the starting point for the movement of capital, particularly for direct investment (Amanda, 2022). The prospect of relocating the production site arises when exports and imports take place on a worldwide scale. The prospect of producing the goods in the importing country will arise due to the growing market size, which is increasingly indicated by an increase in imports of a certain type of goods in a country. This option is predicated on comparing the costs associated with producing the items in the importing country with the production costs in the exporting country plus transportation expenses. Investors will relocate their manufacturing facilities to the importing nation if the cost of production in the exporting nation plus the cost of transportation exceeds the cost of production in the importing nation (Amanda, 2022; Suradjiman, 1997).

The impact of foreign commerce on the domestic production sector is multifaceted. Generally speaking, there are four different kinds of influence that operate via: 1. Specialization in production. 2. A rise in "investment surplus" 3. "Surplus for Venting" 4. A rise in output. Every nation is encouraged by international commerce to focus on producing goods in which it has a competitive advantage. Production will be fully specialized in the constant-cost scenario and partially specialized in the rising-cost scenario. It is important to keep in mind that specialization by itself does not serve society unless it is combined with the ability to exchange the products of its production for other necessities.

Trade in conjunction with specialization can boost society's real income, but specialization alone may have the opposite effect. But does a nation always gain from commerce and specialization? It is clear from the foregoing justification that the CPF following a trade is always greater than or equal to the CPF before to the trade. This indicates that trade has the potential to increase rather than decrease society's real income. However, keep in mind that this type of analysis is "static," meaning it ignores the impacts that arise as the situation evolves or changes, as is the case in real life.

Real incomes rise as a result of trade. An increase in real income allows the nation to reserve more funds for investments; this is known as "investible surplus". Increased investment equates to faster rates of economic growth. Thus, commerce can accelerate rates of economic growth. This sums up how commerce between countries affects output through investible excess. The aforementioned explanation essentially states that there is an actual increase in investible surplus as a result of trade. However, we also need to consider who gains, how much comes from local investment, and whether gains actually contribute to real economic progress.

It is important to keep in mind that using new agricultural land demands a significant amount of capital, far more than the nation can afford. Thus, it is documented throughout history that foreign capital is nearly always used to establish plantations. The histories of numerous nations, including Indonesia, Malaysia, India, Sri Lanka, and others, make this evident. These days, natural resources particularly energy and occasionally cheap, plentiful labor are the most abundant untapped economic resources. Agricultural areas are no longer the main source of untapped economic resources, though

they nevertheless are occasionally.

National governments have the key to determining whether this "vent for surplus" process leads to actual economic development or just "economic growth," as has historically occurred. They must be able to seize the majority of the "trade benefits" produced and put them to real use for the advancement of their country's growth.

METHOD

It goes without saying that a research methodology that aligns with the goals of the study must be used. The research technique is generally understood to be a scientific approach to gathering data for specific purposes (Suharsimi, 2002). The experimental method is the one employed in this study. According to Sugiyono, the experimental research approach can be understood as a technique for determining how commerce with other countries affects the economy (Sugiyono, 2012). Foreign trade has a significant impact on productivity in the production sector by raising overall productivity and efficiency.

RESULT AND DISCUSSION

Result

1. The International Trade

International trade is the exchange of goods and services between citizens of one nation and those of another, based on mutual consent. The residents that are being discussed can be between individuals (individuals with individuals), between individuals and a nation's government, or between a nation's government and another nation's government. International commerce is one of the key drivers of GDP growth in many nations. The impact of international trade on social, political, and economic interests has only recently become apparent, despite the fact that it has been going on for thousands of years (see the Silk Road and Amber Road). Globalization, transportation advancements, industrialization, and the existence of multinational corporations are all influenced by international commerce.

Political and state boundaries that can impede trade, such as the presence of taxes, tariffs, or quotas on imported goods, are among the factors contributing to these difficulties. Differences in trade rules, estimates and weights, currency, and culture all cause further challenges. There are various international trade models (Prabowo, 2015; Anggraeni, 2012; Djirimu, et al., 2023; Maiwan, 2015), such as:

a) The Ricardian Model; The Ricardian model, which emphasizes comparative advantage, is arguably the most significant idea in the theory of international commerce. According to a Ricardian model, nations focus on generating their strongest industries. In contrast to other models, this one's framework assumes that nations would develop into complete specialists as opposed to manufacturing a range of commodity items. Furthermore, the relative quantities of capital and labor in a nation are examples of supporting variables that are not explicitly included in the Ricardian model.

b) Model Heckscher-Ohlin; As an alternative to the Ricardian model and the theory of comparative advantage, the Heckscher-Ohlin model was developed. The model does not show to be more predictively accurate despite its increased complexity. But theoretically speaking, the model's integration of the neoclassical price mechanism into the theory of international commerce falls short of offering an elegant answer. According to this idea, variations in the endowments of factors influence the pattern of international trade. According to the model, nations will import items that heavily utilize locally scarce elements and export goods that heavily utilize their endowment factors. Wassily Leontief discovered an empirical flaw in the H-o model when he observed that the US exports more labor-intensive items than capital-intensive goods.
c) Particular elements When capital is immobile within an industry in the near term, labor mobility between industries is feasible in this scenario. Endowments that are short-term specific components of production—like physical capital—that are difficult to transfer between industries are referred to as specific factors. According to the hypothesis, owners of the production elements unique to a thing will be more willing to export in actual terms if the price of those good rises. Additionally, while pushing for labor immigration limitations, owners of opposing specific inputs of production (such as labor and capital) typically have different agendas. In actuality, the inverse connection causes both labor and capital owners to raise the provision of capital. There are industries where this model works best. It works well for comprehending the distribution of income, but not for figuring out trading patterns. It's a lie, so don't believe it.
d) Model of Gravity Compared to the more theoretical models mentioned above, the gravity model of commerce offers a more empirical understanding of trade trends. In its most basic form, the gravity model forecasts commerce based on the relationship between countries' economic sizes and their distance from one another. This model incorporates the physical distance and size between two objects in addition to simulating Newton's law of gravity. Econometric study has demonstrated the empirical robustness of this paradigm. Larger versions of this model also incorporate other variables including trade policy, economic levels, and diplomatic connections.

2. The Benefits of international trade

The following are some advantages of global trade (Sukirno, 2017; Manik, 2022; Nilfatri, et al., 2024; Tambunan, 2000; Riris, et al., 2019):

a) Acquiring products that are not able to be produced in the country. The variations in production outcomes among nations are influenced by numerous factors. These variables include, but are not limited to, geographical location, climate, and degree of scientific and technological proficiency. Every nation can satisfy requirements that it cannot supply on its own thanks to international trade.
b) Making money with specialization Gaining profits through specialization is the primary driver of international trade. Even when a nation can create items of the same kind as other nations, there are instances in which importing things from overseas is preferable for the nation.
c) growing the market and boosting revenue. Sometimes, business owners are afraid that overproduction would result in lower product pricing, therefore they do not operate their machines (production equipment) to the fullest extent possible. Through international trade, business owners may maximize the performance of their machinery and export any excess inventory.

d) Transfer of contemporary technology. A nation can acquire more advanced management approaches and more effective production techniques through foreign commerce.

3. The Motivating elements

A nation may be encouraged to trade internationally for a variety of reasons (Tamam, et al., 2024; Zuhriadi, et al., 2024; Susanto, 2020) such as the following:

a) To satisfy local demand for products and services.
b) The aim for financial benefit and a rise in state revenue
c) When it comes to processing financial resources, there exist disparities in one's capacity to grasp science and technology.
d) A surplus of domestic goods exists, necessitating the creation of new markets for their sale.
e) Variations in labor, culture, population, natural resource availability, and climate lead to variations in production constraints and outcomes.
f) There are product taste similarities.
g) The aspiration to expand international support, political ties, and cooperative efforts.
h) Since the world has become more interconnected, no nation can exist in isolation.

Discussion

International trade is fundamentally the exchange of goods and services between two or more countries, carried out through individuals, companies, or governments. The long history of international trade can be traced back to the Silk Road and the Amber Road, which demonstrate that cross-border economic interaction has played a vital role in shaping civilizations (Prabowo, 2015). International trade contributes significantly to the growth of a nation’s GDP. This is reinforced by Anggraeni (2012), who explains that a country’s involvement in global markets drives market expansion, product diversification, and enhanced competitiveness of domestic industries.

However, cross-border trade does not always run smoothly due to political barriers, regulatory differences, tariffs, quotas, and even challenges related to cultural and currency differences. Djirimu et al. (2023) emphasize that protectionist policies often reduce the efficiency of global markets, limiting the potential benefits of international trade. Several models have been developed to explain trade patterns among nations. The Ricardian Model, for instance, emphasizes the principle of comparative advantage, where countries export the products, they produce most efficiently (Maiwan, 2015).

Nevertheless, the Ricardian Model has been criticized for being overly simplistic. Important factors such as capital, labor, and technology that realistically influence trade are not fully addressed in the model (Anggraeni, 2012). Earlier studies have shown that this model works well for explaining simple bilateral trade but is less effective for describing complex multilateral trade. To address these limitations, the Heckscher-Ohlin (H-O) Model was introduced, incorporating factor endowments into the analysis. According to this model, countries export goods that use abundant production factors and import those requiring scarce resources (Prabowo, 2015).

Yet, Leontief discovered a paradox that challenged the H-O model, namely that the United States exported more labor-intensive goods rather than capital-intensive ones, which contradicted the

model's assumptions. Subsequent studies highlighted the importance of incorporating technology as a determinant in a country's export structure (Djirimu et al., 2023). The Specific Factors Model then emerged as an attempt to capture short-term trade dynamics. This model explains that certain production factors such as capital are less mobile across industries, while labor remains relatively flexible (Anggraeni, 2012).

Although useful for understanding income distribution across industries, the Specific Factors Model is not strong enough to explain global trade patterns. Maiwan (2015) notes that this model is better suited for micro-level analysis within specific sectors rather than macro-level international trade patterns. In contrast, the Gravity Model has become one of the most widely used empirical approaches in international trade research. By focusing on economic size and geographical distance, this model has proven accurate in predicting trade flows (Prabowo, 2015). More recent studies have expanded this model by including factors such as diplomatic ties, trade agreements, and cultural similarities, further strengthening its explanatory power.

One of the main benefits of international trade is the ability of nations to acquire goods that cannot be produced domestically. Factors such as climate, technological advancement, and geographical location contribute to these differences in production outcomes (Sukirno, 2017). Trade also enables countries to benefit from specialization. Manik (2022) states that through specialization, nations can allocate resources toward their most efficient industries while relying on imports for other needs, thereby maximizing efficiency. Moreover, international trade promotes market expansion and revenue growth. Riris et al. (2019) argue that global market access helps businesses optimize production capacity and reduce the risks of overproduction.

Another significant benefit is the transfer of modern technology. International trade facilitates access to advanced management methods and more efficient production technologies, thereby enhancing industrial capacity (Tambunan, 2000). Nilfatri et al. (2024) find that developing countries actively engaged in international trade experience significant improvements in domestic industrial efficiency due to the adaptation of foreign technologies. This is consistent with the experience of South Korea, which successfully transformed from an agrarian society into an advanced industrial economy through trade. A primary motivation for countries to engage in international trade is to meet domestic demand that cannot be satisfied solely with local resources. Susanto (2020) highlights that international trade plays a key role in filling these economic gaps.

Beyond meeting domestic needs, trade also strengthens state revenues. Tamam et al. (2024) argue that through export earnings, tariffs, and taxes, governments can increase fiscal stability while boosting foreign exchange reserves. Technological disparities further motivate trade. Countries with limited technological capabilities rely on imports from technologically advanced nations, making trade an essential mechanism for narrowing developmental gaps (Zuhriadi et al., 2024). Surplus production is another driver of international trade. For instance, China's textile and electronics industries often produce more than domestic demand, prompting companies to seek export markets for their excess supply (Manik, 2022).

Additionally, variations in natural resources, labor, culture, and climate create differences in

production outputs among nations. These differences, rather than being weaknesses, provide opportunities for mutually beneficial exchanges (Sukirno, 2017). Consumer preferences also encourage international trade. Global demand for similar products, such as smartphones and motor vehicles, reflects converging tastes across nations and provides a strong foundation for international market expansion (Riris et al., 2019). Political motivations are also evident in international trade. Countries often pursue trade partnerships not only for economic gain but also to strengthen political alliances and ensure regional stability (Tamam et al., 2024).

Zuhriadi et al. (2024) emphasize that ASEAN's regional cooperation has enhanced not only trade flows but also diplomatic stability, demonstrating the dual economic and political benefits of trade integration. Furthermore, globalization has reinforced the need for interconnectedness. As Susanto (2020) argues, no nation can survive in complete isolation; participation in international trade is an inevitable requirement of modern global society.

In conclusion, international trade is not merely an economic activity but also a strategic instrument linking economic, political, social, and technological interests among nations. The breadth of scholarly studies across disciplines confirms its central role in shaping both national development and global relations.

CONCLUSION

Through these international linkages, productivity can be raised in a number of ways. Three main factors contribute to increased productivity: new technology, economies of scale, and competitive pressures. New technology is one that emerging nations place a lot of emphasis on and attention to. The issue of technology transfer from developed to developing nations is one that is most frequently brought up in academic circles and during international talks between developed and developing nations. One of the main factors contributing to successful growth in emerging nations is technology transfer. How much can new technology help poor nations through aid, foreign finance, and international trade?

1) How accepting of the new technology are local producers and economic players?
   This is about more than just the bare minimum of expertise and knowledge that local manufacturers and laborers need to have; it's also about their preparedness and whether or not there is an ecosystem that facilitates the transfer of technology. Although underdeveloped nations are occasionally reluctant to acknowledge it openly, the recipient's lack of preparation is a barrier.
2) To what degree are affluent nations—including international businesses doing business there—willing to lend and educate their technologies to emerging nations?
   The primary conditions for this technology transfer program's success are developed countries' willingness and integrity. If we consider how slowly "transfer of technology" actually happens, we also need to question the purpose of wealthy nations and their firms to teach and distribute their technologies.
3) What about further avenues for development?
   It is unfortunate that the new technological sources garner more attention than these two sources. For the purpose of raising production, each of these sources are equally significant.
4) Beyond the technology transfer procedure itself, there is one other issue that must be taken into account. Whether the transferred technology is appropriate for the interests of emerging

countries is the crux of this issue. The needs and circumstances in industrialized nations shape the technology created there. In the meantime, alternative technology can be required due to the conditions and needs in emerging nations. People are now beginning to wonder if the technology that developing nations currently want is computers, big tractors, and completely automated machinery. Developing nations should benefit more from the assistance of wealthy nations in creating cutting-edge technology that directly addresses their requirements, rather than merely receiving developed nations' technological advancements. Ideas regarding the significance of creating intermediate technologies and other related topics sprang from this. However, there hasn't been a consensus among economists themselves or a clear response to queries like these up until now.

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