
THE IMPACT OF INTERNATIONAL TRADE AND ECONOMIC GROWTH

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ABSTRACT

Intercontinental/international trade plays an important role in influencing economic growth and development across countries. By facilitating the trade of goods, services, capital, and technology, trade enhances creation, efficiency, and transformation within national economies. This manuscript highlight the connection between intercontinental trade and economic expansion through theoretical perspectives and experimental studies that have been carried out by different scholars their view or argument and their suggestions.

This manuscript reviews studies from other scholars who came up with their own theories and perspectives like the absolute advantage, classical and modern trade theories including , comparative advantage, and factor endowment theory, as well as modern trade openness models. A broad literature identified empirical facts from industrial and rising economies, indicating of how exports, imports, trade policies and economic growth relate to each other.

This manuscript furthermore identifies clarification gaps in the existing literature, mainly concerning the responsibility of trade in least industrial countries and the relations between trade sincerity and institutional quality. The result point out that although global trade generally promotes trade and industrial growth through improved effectiveness, knowledge transfer, and market growth, the degree of its force differ across countries depending on economic structure, institution guidelines, and principle guidings on the environments.

This manuscript concludes that countries should adopt strategic trade regulations that support export_diversification develop trade communications, and support institutional potential to make best use of the growth benefits of intercontinental trade.

KEYWORDS: Intercontinental trade, trade and industry growth, globalization, Comparative advantage, trade theory.

1. INTRODUCTION

According to Smith A. (1776) intercontinental trade is referred to as the exchange of goods and services between countries, based on the ethics of absolute advantage. From their outlook trade plays significant function in determining worldwide economic growth and integration.

According to Smith Intercontinental trade has been one of the mainly significant drivers of trade and industry growth which enhance enlargement throughout history because it has help increase the markets and production according to world bank (2020). Nations involve in trade to acquire goods and services that are either out of stock internally or can be created more efficiently in a different place.

According to David Ricardo (1817) He gave an opinion that countries should concentrate in producing commodities in which they have a relative advantage, by doing this it helps in growing intercontinental production effectiveness and improves living standards. The importance of intercontinental trade is clear in both industrial and rising economies. World trade organization (2020) recognizes countries, Such as South korea, leading in intercontinental trade. In spite of its benefit intercontinental trade also has a number of dimerits. Critiques argue that free trade benefits already developed nations more than rising one. Fried Rich (1841),viewed that intercontinental trade enhance capitalist exploitation which referred to using others people labor for profit without providing what is considered which encourages poor working conditions. Karl Marx (1867) also argued that trade allows developed nations and capitalist to utilize labor in less developed nations this enhance or lead to global discrimination. Immanuel a wallerstain (1974) in world system theory argued that intercontinental trade reinforces global unfairness.

According to Ricardo (1817) and Adam smith (1776) classical theories, of gains of trade theory intercontinental trade allows nations to consume beyond their manufacturing potential. They also argued that valued of goods is measured by the quantity of labor.

According to INDIGO study index launched in late (2025) there is an index of digital trade intergration and openness, This framework measures how communication policies are to intercontinental trade. Good communication has also enhance shipping of goods which has minimize barriers to trade. countries have adopted trade liberalization rules in an effort to encourage economic development and attract foreign investment. Research identified that trade liberazation can lead to more working hours in developing nations which lead to

competition in labour cost. Krisna P Pole j.p & senses (2024) However, according to Hechscher and Ohlin (1991) The connection or link between intercontinental trade and economic expansion is difficult and may differ across countries depending on factors such as economic structure, institutional quality, and level of development. The aim of this manuscript was to look at the theoretical and empirical liaison between intercontinental trade and economic development, reviewing existing literature from other authors on the topic, identify gaps in the literature, and provide policy recommendations for maximizing the benefits of trade.

2. Literature Review

2.1 The following are the theoretical Perspectives on intercontinental Trade and Economic development.

Mercantilist Theory

According to Thomas Mun (16th to 18th)centuries suggest that countries should export more than they import this will enable them to increase national wealth. this theory has been replaced by modern trade theories.

Absolute Advantage Theory

Adam Smith in his concept of absolute advantage in (1776) The Wealth of Nations. Suggested that countries should specialize in producing goods that they can produce more efficiently than other countries. This leads to global out which led to benefits from trading.

Comparative Advantage Theory

David Ricardo (1817) later expanded on Smith's theory by introducing the idea of comparative advantage. Ricardo argued that countries should concentrate in producing goods for which they have the lowest opportunity cost which reffered to the smallest potential benefits or profits when choosing one alternative over the others. Even if one country has an economic principle where they can produce quantity of a goods or services than competitors using the same amount using fewer resources in producing all goods, trade can still be beneficial if countries concentrate based on comparative advantage.

Factor Endowment Theory

This theory was founded by the the Heckscher–Ohlin theory (1919) and (1933) who also explain the factor endowments among nations. This theory, suggest that countries should export goods that add more input to their a factors of production and import goods that are inadequate.

2.2 modern trade of international trade

New Trade Theory

This theory highlight economies of scale, technology, and imperfect competition. Emerging in the 1970 and 1980 pioneered by Economist Paul Krugman. It explains how trade can enhance output and innovation through information knowledge and technological transmission.

Product life cycle theory

Founded by Raymond Venison (1966). Venison explains how production and trade patterns alteration of products as evolve through different stages of improvement. He states that at first products which are new are introduced in industrial countries where innovation occurs, as product and production process become standardized, manufacturing move to rising countries where there is low labor cost. This theory helps explain the moving of manufacturing industries to up coming economies.

Gravity model

Jan Tinbergen (1962). Came up with suggestion that for trade to occur between two countries it will depend on their economic size and their economic distance, greater economies trade with each other and vice versa

Theoretical framework

This manuscript is based on three major foundational theories,

Comparative advantage,

David Ricardo (1817) explains how specialization is based on opportunity cost.

New trade theory –it explains modern trade patterns driven by economies of scale, modernization and market competition. Paul Krugman (1970-1980).

Ohlin Theory(1919) and (1933)

This theory explain trade pattern based on core economic resources that a country naturally possesses and can utilize for production and resource accessibility. It collectively provide a complete structure for understanding intercontinental trade and its economic implications.

METHODOLOGY USED IN THE STUDY

Several authors contributed to the methodology used in the study. James H Mark Watson (1962) uses econometrics in intercontinental trade which shows how trade can be predicted using economic size and distance which proved that trade can be tested qualitatively.

Another method used in this manuscript is panel data analysis by Baigtagi Badi (2005)

He analyses data across countries or regions for several years. He uses methods such as fixed

effect and random effects model which he used to control unnoticed non uniform element across countries. From the researcher it help in research process by separating the effects of variable like institutional quality, trade openness and foreign direct investment. Another method used is time series analysis by Clive Grange (1969|1987) according to Clive it is suitable for single country this method contributed to casually test and cointegration, widely which is used in intercontinental trade to analyse long run relationships like imports and exports. He proved that time series whose statistically properties such as mean, variance, and covariance, change overtime can still have meaningful in the long run equilibrium.

Another method used in the studies IS Generalized Method of Movement by peter Hansen (1982) this method is used where variable that is suppose to explain another variable is not truly independent it also helps where variables are omitted.

To compare multiple countries at a single point jeffrey A Frankel (1997) uses cross sectional method to analysis trade flows between countries, he used gravity model, which showed that distance, income and trade agreements significantly affect bilateral trade. In general methodology model in this manuscript is quantitative econometrics and information focusing on testing theoretical connection using robust statistical methods across countries and overtime.

The following is **Kenya trade summary 2021-2024**

2021 export 11.8B imports 22.0B recovery year

2022 export 13.9B imports decline in values

2023 exports 12.6B imports 22.0B

2024 exports saw growth earlier in the year Q1 and Q2 while imports level persist trade volume reached ksh 3.8 trillion with high VAT imports.

2.3 Empirical Evidence on Trade and economic Growth

Jeffrey Frankel and David Romer (1999) found that there is appositve relationship between trade openness and income level he used instrumental variables. Michael Dolla and Aart Kray (2003) uses cross country data and they showed that trade openness increase economic growth and reduces poverty, and that countries who are globalised grows faster than non globalised. According to Rostman Kavousi (1984,1985) when export expand there will be increase and expansion in economic growth in countries which are developing, through export there will be growth and growth improves productivity and efficiency .

Michael Michaely in his research (1977) demonstrated that there is a strong positive relationship between export growth and GDP growth countries with higher export grows faster than those with low export.

3. Gaps in the Literature

In spite of wide research on the relationship between intercontinental trade and economic development, several gaps remain in the existing literature.

1. Mixed empirical data

About trade growth some scholars argued like Sachs and Warner (1995) support that there is a positive relationship on intercontinental trade. However other scholars such as Francisco Rodriguez and Dani Rodrik (2002) question the finding of the trade openness and methodology issue which he said may give false result. From this view it showed that trade is complex.

2. role of institution

There is a problem in elaborating how institution play their role in governing intercontinental trade, and how they view the importance of trade growth. Institutions who are strong have merit from trade without proper leadership trade liberalization may lead to wastage, limited economic gains and corruption. Acemoglu Daon Simon Johnson and James (2001)

3. Structural factor

In developing nations trade has been link to structural transformation, and reduction of poverty. According to Dani Rodrik (2007) trade may led to growth by making countries to diversify their economies and put together their chains. However according to Mankiv Gregory studies (2024) research showed that countries like china and South Korea demonstrate how trade can improve industrialization and improve living starndards. From Rodrik view trade benefits depend on policies as institutional quality, education and infrastructure.

4. Digital Trade and Technology

From modern theory technology is being emphasized; use fo economies of scale and innovation. Scholars like paul Krugman (1977) introduces new trade to explain how trade improves growth of economy through market competition. on the other hand Paul Romer (1990).Argued that international trade encourages spill over of knowledge, innovation and human capital development according to him this issues are critical for sustaining growth.

5. Income inequality and uneven distribution of gains

Joseph Stieglitz (2002) argued that as trade may increase growth it may also widen income disparity which may occur within or between countries. Chang (2002) criticized the assumption that trade always benefits developing nations pointing out that many developing nations historically used protectionist policies during their early stage of development.

4. CONCLUSION

Intercontinental trade plays a vital role in promoting development growth in economies. By enabling countries to concentrate in the production of goods in which they can produce using lower opportunity cost. Trade increases efficiency, effectiveness and productivity in the global economy.

Theories and empirical evidence view that trade openness normally contributes to economic development through numerous channels, including technological distribution, economies of scale, increased competition, and access to larger markets etc. nevertheless, the benefits of intercontinental trade are not uniformly distributed across countries. Nations that are Developed tend to benefit more from trade because of to their stronger institutional frameworks, technological advancement, capabilities, and diversified industrial structures.

however many developing and least developed nations face challenges of benefiting from intercontinental trade due to structural constraints, reliance on primary commodity exports and inadequate infrastructure. For benefits of intercontinental trade to be made best, governments should adopt policies that encourage export diversification, improve trade transportation, support institutions, and maintain technological innovation.

Future research study should focus on the role of digital trade, institutional quality, and environmental sustainability in shaping the relationship between international trade and economic growth.

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