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Foreign trade and economic growth: An analysis of the impact of development

Comércio exterior e o crescimento econômico: Uma análise no impacto do desenvolvimento

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ABSTRACT

International trade plays a central role in countries' economic growth prospects. The advantages of international trade are related to specialization in the production of goods and services in which a country has a comparative advantage, allowing for a more efficient allocation of resources and increased productivity. However, the impact of trade on the economy goes beyond theoretical benefits. Empirical studies have analyzed the impact of trade policies, such as trade liberalization, on developing economies. Many of these studies have highlighted the importance of country-specific characteristics, such as the income elasticity of imports and the institutional environment, in determining the effects of trade on economic growth. Keynesian theory of international trade also emphasizes the relevance of effective demand and balance of payments in long-run economic growth. She argues that government demand-side policies play a crucial role in promoting economic growth, while balance-of-payments constraints can be significant obstacles. In summary, the study of the relationship between foreign trade and economic growth is multifaceted and complex, involving an analysis of classical and contemporary economic theories, as well as the implications of international trade policies and the institutional environment. This article aims to contribute to a deeper understanding of this fundamental interaction for economic development.

Keywords. Foreign Trade, Economic Growth, Traditional and Contemporary Models, Keynesian Theory.

1 INTRODUCTION

Foreign trade plays a fundamental role in the global economic scenario, influencing the economic growth and development of countries, this topic is of great relevance and interest, since

the interconnection of national economies through international trade has intensified in recent decades, as foreign trade involves the exchange of goods, services and capital between nations, and its dynamics have profound consequences for national economies, income distribution, and the well-being of the population.

In this context, this research proposes to analyze the impact of foreign trade on economic growth, considering its influence on the development of nations, the choice of this theme is justified by the importance of international trade as one of the main engines of global economic growth, because with globalization, trade barriers have decreased, allowing greater access to foreign markets and a wide range of opportunities for companies and countries. However, the impact of foreign trade on development is not uniform and can vary significantly according to the trade policies adopted, the economic characteristics and the productive structure of each nation, therefore, understanding how foreign trade affects economic growth is essential to guide public policies and business strategies, based on this will be focused on traditional concepts, and the Keynesian tradition.

The general objective of this research is to investigate the impact of foreign trade on the economic growth and development of countries within Latin America among other countries, identifying the main factors that influence this relationship, with the specific objectives of analyzing the existing academic literature on the subject, reviewing previous studies and identifying research gaps; evaluate the different foreign trade strategies adopted by countries and their effects on economic growth; Investigate the influence of trade policies, trade agreements, and trade barriers on foreign trade and economic growth.

To achieve the proposed objectives, this research will use a methodology that will involve a comprehensive literature review focusing on scientific articles published in Scielo Brazil and Google Scholar based on a quantitative analysis, in which this process will allow the collection of relevant information on the relations between foreign trade and economic growth in the Brazilian context. The issue that gave rise to this theme is: "How does foreign trade influence the economic growth and development of countries, and what are the main factors that determine this relationship?" This question is fundamental to understand how nations can maximize the benefits of international trade and promote sustainable and equitable economic development, as the research will seek to answer this problem through theoretical and empirical analyses, contributing to the advancement of knowledge in the area of international economics and trade policies.

2 THEORETICAL BACKGROUND

The relationship between foreign trade and economic growth is a topic of great relevance in the field of economics and has been the subject of studies and debates over the decades.

The discussion focuses on the analysis of the effects of international trade on the economic development of a country, from classical economic theories to contemporary approaches, foreign trade has played a central role in the prospects of economic growth, highlighted the importance of international trade as a source of mutual gains, allowing countries to specialize in the production of goods in which they had comparative advantages and to exchange these goods in the global market. (VÁZQUEZ, 2015).

According to Curado (2001), discussions on trade and growth are not limited only to the potential benefits of international trade, as more recent models, such as the endogenous growth model, emphasize the importance of trade policies and a country's capacity for innovation in stimulating sustained economic growth, in addition, The impact of international trade policies on developing economies has been the subject of intense research, many studies have analyzed the effects of trade liberalization policies and the implications for economic growth in developing countries, considering factors such as the income elasticity of imports, the institutional environment and the specific characteristics of each economy.

According to Oreiro (2015), the Keynesian theory of international trade also plays an important role in this context, highlighting the importance of effective demand and balance of payments in determining long-term economic growth, in which it is a dynamic field that continues to evolve as new studies and approaches are developed to better understand this complex interaction.

2.1 GLOBAL TRADE AND ECONOMIC GROWTH: EXAMINING OLD MODELS AND NEW APPROACHES

In any analysis relating to global trade, the theory of comparative advantage is invariably the first to be addressed. According to this model, commercial activity enables the most effective use of economic resources, since it enables the acquisition of goods and services from abroad that otherwise could only be manufactured domestically at a higher cost. Participation in international trade makes it possible for developing nations to import capital products and intermediaries (which play a crucial role in long-term growth) at more advantageous prices than domestically produced equivalents. (VÁZQUEZ, 2015).

According to Curado (2001), a conventional example of trade benefits is based on the

theory of comparative advantage. In a static context, when a country decides to open up its economy, it makes net gains in terms of quality of life. As widely recognized, the Ricardian model justifies these welfare gains when a country chooses to specialize in the manufacture of products in which it has a comparative advantage, starting with the Ricardian model that focuses on two countries and two commodities, simplifying all elements of production to a single factor: labor. In addition, it assumes that the production of each commodity is determined by fixed technical coefficients. Under these premises, technology plays a key role in explaining the pattern of international trade.

Considering that there are no transportation costs, the model establishes as a condition for the existence of international trade the existence of differences in opportunity costs between the production of the two commodities in the two countries.

This is how Curado (2001) analyzes this:

> "Even if a country is more efficient in the production of both commodities, specialization followed by trade is preferable to self-sufficiency in production. When the conditions for trade are met, and each country specializes in producing the commodity in which it has the lowest opportunity cost, by participating in international trade, the well-being of both economies, as well as the global economy, increases." (CURED, 2001).

However, Nassif (2007) argues that the fundamental Heckscher-Ohlin (H-O) model attributes the difference in factor endowments as the main reason behind trade. In particular, according to the H-O theorem, in a two-country scenario, each nation exports the commodity that makes the most intensive use of the factor of production that is most abundant domestically. However, the validity of the H-O model is supported by some fundamental and highly restrictive assumptions, which in part explains its limited capacity for empirical verification in its static version. The first assumption assumes that production functions exhibit positive productivity, but with decline, and constant returns to scale. In addition, both commodities must have distinct production functions in order to be considered different commodities. This first hypothesis is essential to neoclassical argumentation. The second assumption assumes that the structure of demand is the same in both countries. This means that, given any relative price, the proportion at which the two goods are consumed does not depend on the level of income (an example of this is a homothetical utility function). Finally, the third hypothesis rules out the possibility of variations in the intensity of the use of factors.

However, according to the Stolper–Samuelson theorem it is an extension of the H-O model, which is the Heckscher–Ohlin–Samuelson (H-O-S) model. The latter model investigates

the impacts of international trade on employment and income distribution. According to this model, international trade leads to an efficient Pareto equilibrium with greater well-being through the reallocation of resources between different sectors of the economy. Changes in relative prices create disparities in factor pay between sectors, encouraging the movement of factors of production until such disparities are eliminated. Let's suppose that in a country, the importing sector is capital-intensive, while the export sector is labor-intensive. (BIELSCHOWSKY, 2009).

According to Bonelli (2018), if the country moves from an import substitution strategy to an export-oriented one, this will reduce the relative prices of imported goods in the domestic market. As a result, if the economy is already operating at the limit of its production capacity, the output of the exporting sector will increase, while the output of the importing sector will decrease.

Given that the export sector requires less capital than the importing sector, the change in the composition of production will increase the total demand for labor and reduce the demand for capital, in which this will result in a new equilibrium, in which real wages rise, while the profitability of capital decreases, thus promoting a redistribution of income after trade opening. Therefore, according to the H-O-S model, trade liberalization is an important policy for developing countries as it can simultaneously increase their economic growth rate and real wages. (EARTH, 2015).

According to Lamonica (2012), another relevant neoclassical model that addresses the connection between trade and growth is the Bagwhati model, in which the level of well-being of a nation decreases as a result of a process of economic growth driven by technological progress. This result arises due to the worsening of the terms of trade that occurs during the growth process. The central idea of this model is that well-being decreases after the absorption of technological progress. This effect results from the deterioration of the terms of trade to a magnitude sufficient to cancel out the positive impacts of growth on welfare at constant relative prices. In other words, the change in the terms of trade affects consumption in ways that contribute to a reduction in global well-being. In short, this implies that, in the presence of distortions, trade openness can have impoverishing effects and, consequently, diminish the well-being of the economy.

In summary of conventional theories of international trade holds that, in the absence of market distortions or failures, international trade leads to a condition of greater well-being compared to a state of self-sufficiency. Therefore, policy guidelines often recommend that

openness to trade is the best alternative, as trade liberalization and capital flow policies have the potential to improve well-being in a static model of efficiency or boost economic growth in a dynamic model.

Thus, the perspective of Lamonica (2012) reinforces that:

> "The limitations and restrictive assumptions of most of these models, such as the H-O-S model, have resulted in their limited empirical validation. In fact, even mainstream economists have highlighted the fragility of these models, led by the New Theory of International Trade, which emphasizes the nature of misbehaving functions grounded in the H-O-S tradition. However, the structuralist and post-Keynesian traditions operate from distinct premises, which will be addressed in the third section of this article. At this point, it is crucial to underscore that a more comprehensive analysis of the relationship between trade and growth should consider institutional aspects and the potential effects of the factors that stimulate demand, as well as the balance of payments constraints that may be associated with the processes of economic opening." (LAMONICA, 2012, p.25).

For Nassif and Feijó (2010), in response to criticism from those who question the effectiveness of liberal trade policies in promoting economic development, they argued that the conventional theory of international trade remains the best tool available to understand the relationship between trade and growth, even today. They argue that openness to trade and the free movement of factors of production and technology have the potential to contribute to economic growth. They argue that it is incorrect to criticize the relationship between trade and growth as proposed by traditional theory, pointing out that this theory encompasses the theoretical possibility that, in the presence of market failures, trade openness can lead to lower welfare and reduced growth.

Therefore, according to traditional theory, opening up to trade allows countries to take advantage of their comparative advantages, thereby improving efficiency in the allocation of their domestic resources. Moreover, from the perspective of the aforementioned authors, the benefits of knowledge technology and innovation can be applied anywhere.

According to Nonnenberg and Nassif (2010), they introduce a model of trade and dynamic growth, involving two countries and considering technical progress as an endogenous factor. According to these authors, a comprehensive understanding of economic growth must incorporate knowledge accumulation as a crucial element. This model highlights the importance of economies of scale and technical progress in the growth process, in essence, it is a model that involves two countries, each of which engages in three types of productive activities: the manufacture of a final product, the production of a variety of differentiated intermediate products, and, finally, research and development (R&D).

Thus, the model developed by Nonnenberg and Nassif (2010) generates a long-term

growth rate that is intrinsically linked to trade, mediated by the dissemination of technology and knowledge. Their results highlight some key features of the relationship between trade and growth, for first, they show that a relatively stronger demand for final products from a country that has a comparative advantage in research and development (R&D) reduces its long-term share of intermediate product production and slows long-term global economic growth. however, in the absence of comparative advantages in R&D, long-term growth remains independent of relative demand for final products. Secondly, it is important to highlight that a reduced import tariff or an export subsidy applied to final products tends to reduce, in a balanced growth scenario, the country's participation in the production of intermediate products and in research and development (R&D). Moreover, the long-term economic growth rate on a global scale will only increase if the country implementing this policy has a comparative disadvantage in the area of R&D. On the other hand, a small R&D subsidy in both countries, applied at the same rate, results in an increase in the long-term growth rate of the world economy. (NONNENBERG AND NASSIF, 2010)

Third, the provision of R&D subsidies in a specific country contributes to long-term growth, provided that the division of spending between the two types of goods remains constant and that the policy is adopted by the country that has a comparative advantage in R&D. Otherwise, the long-term growth rate can either increase or decrease. Another important proposition of the model highlights that import tariffs can lead to ambiguous results in relation to economic growth, depending on the level of the behavior coefficients incorporated in the model. The fundamental critique directed at endogenous growth models revolves around their adherence to a uniform approach to analyzing economic growth.

In other words, these models assume that Say's Law is valid and that individuals act according to individual maximization, where each agent is able to optimize their satisfaction over time. In endogenous growth models, the main drivers of growth are savings and ideas (or technology), in contrast to demand-based models (which focus on demand) and macroeconomic models that take into account factors such as institutions, demand, and their constraints. (NONNENBERG AND NASSIF, 2010)

As highlighted by Haddad and Martins (2012), investment plays the central role in stimulating growth. In this context, investment is usually a demand-related variable, which is why neoclassical models, both traditional and more recent, tend to underestimate the relevance of aggregate demand in the growth of capitalist economies.

In addition, Holland (2012) points out that:

> "New growth models tend to be isolated models, and even those that incorporate aspects of trade, such as Grosman and Helpman's (1990) model, tend to focus only on the relationship between trade and growth, neglecting the constraints imposed by balance of payments. The importance of institutions in the context of economic growth cannot be ignored, since the level of investment is closely linked to the institutional environment of each country." (HOLLAND, 2012, p. 30).

In short, the text highlights a gap in the new growth models, which often focus only on the relationship between trade and growth, without taking into account the constraints imposed by the balance of payments, in addition, it underscores the importance of institutions in the context of economic growth, emphasizing that the institutional environment of each country plays a key role in determining the level of investment, Therefore, the main conclusion is that growth models need to be more comprehensive, incorporating both international and institutional trade dimensions to provide a more complete understanding of the determinants of economic growth.

2.2 THE EMPIRICAL STUDY OF THE EFFECTS OF INTERNATIONAL TRADE POLICY ON GROWTH

However, Rodrik (1997) understands that empirical research on trade policy and growth is an important part of the discussion on economic development, since trade policy is often used as a measure to represent the share of trade in the Gross Domestic Product (GDP) of each country, as the advancement of the trade integration process has motivated several studies that have sought to identify the positive effects of trade liberalization on growth economical. However, despite the use of multiple models, these studies have failed to reach consistent conclusions. On the contrary, the experience of some developing countries that faced macroeconomic imbalances in the aftermath of the debt crisis demonstrates that trade openness can in some cases trigger macroeconomic imbalances, including exchange rate overvaluation and balance of payments deficits.

The study conducted by Irwin (1990), is one of the most widely mentioned and debated studies in the discussion of the benefits of trade liberalization, as they developed an indicator of openness and then applied a model to assess whether trade liberalization and the implementation of reforms result in improved economic performance.

In this study, a country is considered to have a closed economy if it exhibits at least one of the following three characteristics: 1) non-tariff barriers that affect 40% or more of trade; 2) an average rate of 40% or more; 3) a premium of 20% or more on the parallel foreign exchange

market; 4) a socialist economic system; or 5) a state monopoly on most exports. On the other hand, an economy is considered open if none of the above conditions apply to it. Based on this criterion, the authors found results that suggest that economic growth is more robust in open economies compared to closed ones, and concluded that open economies tend to approach balanced growth more quickly than closed economies. However, Rodrik (1997) argues that Irwin's (1990) results are substantially influenced by factors other than trade openness, thus suggesting a significant bias in the study.

Edwards (1993) analyzed the relationship between trade policy and economic performance, focusing on the evolution of productivity in Latin American countries. Starting from the premise that trade liberalization programs in these countries aimed to reduce "anti-production" tendencies toward export trade policies and to turn international trade into an engine of growth, the author conducted a regression analysis covering 54 countries, as his objective was to investigate how trade distortions affected productivity growth during the period from 1971 to 1982. Edwards' conclusions strengthen the view that trade openness promotes economic growth.

- Portanto the Edwards (1993), alleges that:

> "In the conventional neoclassical model, its aggregate output function is represented by yt = Af (Kt,Lt), and Total Factor Productivity (TFP) growth is captured by A/A. Edwards considers that there are two sources of TFP growth, namely domestic innovation and imitation of foreign technologies, as he emphasizes that more open economies, Especially in developing countries, they have the opportunity to adopt international technological innovations by opening their economies to global trade." (EDWARDS, 1993).

In addition, Edwards (1993) chose a set of variables that includes the growth of Total Factor Productivity (TFP), which he derived from the residues of the Gross Domestic Product (GDP) growth regressions of the countries under analysis, as he also considered trade distortions, a term related to technological backwardness (catch-up term), the level of human capital, the role played by the government, political stability, and the rate of inflation. Although his study presented satisfactory results with regard to the relationship between trade and economic growth, it left some questions unresolved, such as the speed of reforms or the implications of macroeconomic imbalances that may arise due to exchange rate appreciation

Melitz (2003) conducted an analysis using panel data, which consist of time series from several countries, covering a period of 17 annual observations, and ten Latin American countries, in which his conclusions highlighted that the economic growth following the reforms was disappointing, because by employing several performance indicators such as the ratio of investment to Gross Domestic Product (GDP), Considering real exports, real exchange rate,

consumer price indices and balance of public finances, he was unable to demonstrate that variables related to trade liberalization resulted in better economic performance, but these results contradict the findings of Edwards (1993), which indicate that Latin America experienced a positive performance in terms of economic growth after economic reforms.

According to Rodrik (1997), he points out that, although some studies have identified a consistent connection between international trade and economic growth, others have not been able to achieve similar results, in fact, these authors have highlighted the weak statistical robustness of certain studies, such as those carried out by Sachs and Warner (1995). This lack of robustness can be attributed to the fragility of the databases used, the need to address endogenous issues associated with the relationship between trade policies and growth, and, finally, the importance of considering the independent role played by exchange rate and trade policies.

Some studies have pointed out that the gains resulting from economic openness in terms of stable growth are relatively modest, which raises some complex questions. While international comparative analyses, which use cross-section regressions or panel data, have struggled to establish precise relationships between trade openness and economic growth, individual case studies at the national level seem to offer more instructive results, as this is because these studies incorporate country-specific characteristics, such as institutional or historical variables. For example, countries with similar development strategies, such as Mexico, Argentina, and Brazil, differ substantially from Asian or developed nations, as a result, the opening of their economies produces diverse results due to the particularities of their institutional variables and economic characteristics, i.e., in these circumstances, the generalizations applied in cross-section analyses or panel data for a large number of countries, Both developing and developed can obscure important differences, even between countries with similar development patterns and institutions, it is challenging to make generalizations, although there are some common tendencies

(TAYLOR, 1991).

In fact, as emphasized by Frenkel (1998):

> "Financial reforms in Latin America were not independent policy actions, but were generally implemented as an integral part of the Washington Consensus' set of structural reforms, in conjunction with significant macroeconomic stabilization programs." (FRENKEL, 1998, p.1).

Moreover, any study that seeks to analyze the relationship between economic growth and trade must take into account not only the policy measures of the Washington Consensus, but also the institutional framework and specific historical context of each country.

As highlighted by Subramanian and Wei (2007), unraveling the impacts of trade in

developing countries is a complex task. In fact, most trade liberalization programs were accompanied by macroeconomic policy packages for stabilization and also involved financial liberalization to allow foreign investment to enter. In this scenario, they argue that it is categorical to analyze and question what the theories propose about the determinants and consequences of trade flows, starting at a microeconomic level and then expanding this analysis to a macroeconomic level. Thus, trade liberalization was accompanied by macroeconomic policy packages for stabilization and also involved financial liberalization to allow the entry of foreign investment. In this scenario, they argue that it is categorical to analyze and question what the theories propose about the determinants and consequences of trade flows, starting at a microeconomic level and then expanding this analysis to a macroeconomic level. Therefore, while some studies have identified a connection between economic openness and growth, many others have refuted it, so it is clear that openness in no way guarantees sustained economic growth in the long run. On the contrary, the experience of Latin America suggests that economic openness can result in greater external vulnerability and lower rates of economic growth, perhaps the only consistent relationship found in studies on trade liberalization is the strong correlation between openness and increased income inequality.

It is emphasized that Rodrik (1997), argues that in countries such as South Korea, Singapore, and Taiwan, which are often held up as examples of successful outward-looking economic growth strategies, the accumulation of physical capital played a central role in driving economic growth, in addition, the creation of a robust, government-backed financial system, has played a decisive role in promoting sustained long-term economic growth, as these observations also apply to the Import Substitution Industrialization (ISI) strategy, which preceded the outward-oriented approach in the development of these countries.

These examples demonstrate that well-defined investment strategies, along with other factors such as macroeconomic stability and balance in external relations, have played a key role in promoting sustainable economic growth. On the other hand, the history of countries such as Argentina, Brazil, Mexico, and Chile clearly highlights that one of the main obstacles to achieving stable economic growth in the long term is the imbalance in international transactions, both in the current account and in the capital account of the balance of payments.

In the current account analysis, the chronic deficit in the balance of services has the potential to undermine the stability of economic growth, as for the capital account, the concern focuses on the volatile flows of short-term speculative capital, as well as on the behavior and structure of the long-term external debt, relative to the balance of payments as a whole, The

instability of international reserves emerges as another point of concern, therefore, it is evident that trade and economic growth are closely linked to the challenges posed by balance of payments constraints, where demand-related variables in current accounts play a crucial role and in the face of these characteristics and constraints, the opening of trade and financial markets does not necessarily lead to increased economic growth.

Melitz (2003) elaborated other models that were developed in order to determine the cause-and-effect relationship between international trade and economic growth, making use of instrumental variables in which he considers the geographic characteristics of countries as factors that exert a significant influence on international trade, while remaining independent of income. As highlighted by these authors, one of the main difficulties in the empirical analysis of the relationship between trade and growth lies in the fact that a country's participation in international trade can be determined endogenously, since it is an approach that can circumvent this problem is to use trade policy as an indicator of this participation.

However, as Rodrik (1997) points out, this approach seems vulnerable, since most of the variables used in the model in question are correlated with both macroeconomic policy and other variables, since the objective of Frankel and Romer's (1999) study can present an alternative to deal with the issue of trade, seeking to measure its effects on economic growth without the challenges mentioned above. In other words, in this sense, the authors use geographic characteristics as instrumental variables to estimate the impact of trade on income and growth, taking as an indicator of international trade the share of the total trade flow (sum of the value of exports and imports) in the Gross Domestic Product (GDP).

In the study carried out by Melitz (2003), instrumental variables were used, including international trade, domestic trade and income as dependent variables, with regard to international trade, this was modeled based on the geographical proximity between one country and the others, since the choice of these instrumental variables aimed to avoid possible endogenous effects that other indicative variables could have on income, Thus, intuitively, smaller countries may have a more robust share of international trade simply due to limited opportunities to expand domestic trade, so the authors considered both international trade and the size of countries as relevant factors in their analysis.

The fundamental results of the model developed by Frankel and Romer indicate an economically relevant relationship between trade and income, considering that the volume of trade of a country is not determined by external factors, and to address this issue, the study focuses on the component of trade that can be explained by geographical factors, such as some countries

that have more intense trade due to their proximity to densely populated nations, while others have less active trade due to their geographical isolation. Importantly, geographic factors are not influenced by income or government policies, and there is no direct link between these factors and interactions between residents of different countries, so variations in trade explained by geographic variables serve as a kind of natural experiment to identify the effects of trade, What's more, the survey results also indicate that internal trade within a country contributes to increased income.

Once again, we can observe that both trade openness and capital account liberalization, whether through trade policies or regulations for the movement of capital, seem to support trade and growth models that focus on the supply side of the economy, because in this context, trade policy should be seen as a means to promote greater economic openness. In contrast to interventionist trade policies, such as those associated with import substitution strategies, in which the central idea here is the belief that, despite some distortions, greater international integration is linked to greater economic growth. The next section will look at a different theoretical perspective, built on a distinct approach, where investments are considered the main sources of growth.

2.3 KEYNESIAN THEORY OF INTERNATIONAL TRADE AND ITS IMPACT ON ECONOMIC GROWTH

The structuralist and post-Keynesian traditions address the relationship between trade and growth by considering the concept of export-led growth, import substitution strategies, and balance-of-payments challenges. In the post-Keynesian tradition, influenced by figures such as Harrod, Domar, and Kaldor, the relevance of investment multipliers and the external contribution to aggregate demand as determinants of long-run economic growth is highlighted, while structuralists, also guided by the demand perspective, emphasize the importance of current account deficits and financial issues related to the capital account. (OREIRO, 2015).

According to Davidson (2007), it addresses the importance of external imbalances and savings in restricting long-term economic growth, as later, more complex models of three imbalances were developed, such as those described by Oreiro (2015).

According to Oreiro (2015), a simplified structuralist model was developed that explores the relationship between trade and growth:

> "The simplified structuralist model is based on the context of the two-disequilibrium model, both the imbalance in domestic savings and the external imbalance play a significant role in determining the economic growth of countries, in this scenario, economic policy can be directed to address these imbalances in order to remove some of the obstacles that hinder long-term economic growth." (OREIRO, 2015).

Specifically, the structuralist approach is particularly appropriate for developing economies, where these imbalances prove to be particularly problematic, it is important to highlight that the external disequilibrium is of greater relevance, since we are focusing on the effects of trade on economic growth, an important point to highlight in the two imbalances model is that it does not take into account the role of relative prices in determining the performance of the In this approach, the external imbalance is determined exclusively by the income effect, because when considering a small country and the application of the Marshal-Lerner condition, there is an extensive literature that demonstrates that the price effect plays a secondary role in trade equations, therefore, according to this approach, changes in prices do not have a significant impact on exports. For this reason, this approach is based on the assumption that competitiveness is the most relevant factor, as nations that have absolute advantages in a wide range of products are often able to achieve faster growth than their competitors.

As Setterfield and Ratnasiri (2010) noted, U.S. trade deficits are a clear example of the greater relevance of competitiveness and income elasticity in relation to relative price movements, in fact, empirical evidence indicates that exchange rate changes do not result in gains in industrial competitiveness and do not lead to lasting adjustments in the trade balance.

However, for Lama and Fernandez (2012), the post-Keynesian literature uses Kaldor's export-led growth model as a theoretical and empirical basis to explain the relationship between trade, growth and balance of payments constraints, which, from this theoretical framework, applied it to industrialized economies and later adapted it to developing economies, also considering the effects of capital flows. and the core of Thirwall's model lies in its ability to explain differences in long-term growth between countries through an approach that takes into account effective demand. In their own words, "economic growth rates between countries differ because demand growth is different between countries" (Lama and Fernandez, 2012, p. 51), and the main constraint on demand is the balance of payments, so Thirwall's model, simple in its formulation, considers that long-term economic growth depends on the relationship between the income elasticities of imports and exports. assuming the validity of the Marshall-Lerner condition and keeping constant the relative prices of traded goods, thus, in this model, trade has a direct impact on growth, influencing the demand for final goods and, indirectly, through its influence on investment.

Kaldor (1970), elaborated an export-oriented growth model, based on the idea of cumulative causality, considering that exports constitute the primary element of demand, in which Kaldor's model highlights the importance of the external demand growth rate for output growth, as it is a notable aspect of Keynesian models is that the autonomous growth rate of demand is the determining factor of production growth. The model in question points out that policies to stimulate demand have cumulative effects, as an increase in the rate of growth of output results in faster growth in productivity, in the same way, an accelerated growth in productivity leads to a reduction in the growth rate of unit costs and, consequently, to a faster increase in exports.

This is how Kaldor (1970) approaches:

> "This characteristic helps to explain the income disparities between developed and underdeveloped countries, since the cumulative causality mentioned above can work in the opposite way in situations of balance of payments constraint and high sensitivity of demand to income in relation to the sensitivity of exports to income. This is the case in underdeveloped countries, where balance-of-payments constraints create obstacles to economic growth." (KALDOR, 1970).

Certainly, there is a negative cycle in which lower output growth leads to a lower rate of productivity growth, and in turn, a lower rate of productivity growth results in an increase in unit costs, resulting in lower export growth rates, as the model mentioned above is closely related to the two-gap model and also connects with the economic growth model with a balance of payments, which in fact, this model is a specific instance of gap models, since one of the fundamental constraints to growth is the external gap, which is defined by balance of payments constraints.

Lama and Fernandez (2012) understand that Kaldor's model clarifies that economic growth is limited by the balance of payments constraint, from a perspective typically centered on the effect of demand on economic growth (demand-led). It is relevant to highlight the discussion about the export-oriented characteristics of the post-Keynesian/Kaldorian models, because at first glance, the post-Keynesian model of trade and growth may seem only an export-oriented model, however, it is important to emphasize that this characteristic needs to be explained in more detail, in order to avoid confusion with neoclassical outward-oriented growth strategies. In contrast to inward-oriented strategies, it is therefore critical to remember that the income elasticities of imports play a central role in the post-Keynesian approach.

To be sure, simply adopting an export-led growth strategy can also result in constraints on long-term growth if the income elasticity of imports remains constant, as the explanation for

this scenario is relatively straightforward: an export-oriented growth strategy does not necessarily guarantee a stable long-term growth pattern due to the decisive role played by imports. Indeed, if the income elasticity of imports is high, short-term growth can be achieved at the expense of a decline in the balance of trade, as domestic income increases and imports grow at a higher rate than income growth, and the high income elasticities of imports can therefore prevent income from increasing without creating balance-of-payments constraints.

For Jayme Jr. (2001), he understands that in this context, a strategy typically focused on exports may not be successful and, instead, may create a vicious cycle, relating low productivity with limited growth, as it demonstrates that the income elasticity of imports in Brazil, during the period from 1955 to 1998, remained constant, however, this characteristic does not invalidate the need for an alternative theory that takes into account the fundamental role of income elasticity of imports in mitigating trade balance constraints.

The post-Keynesian tradition, therefore, highlights the export-driven growth scenario, taking into account, equally, the relevance of the income elasticity of imports, thus offering the opportunity to establish a link with the structuralist tradition, as the innovation in both approaches (structuralist and post-Keynesian) lies in their focus not only on the role of exports, in the context of their demand characteristics, but also on the importance of a solid structural foundation to avoid high external vulnerability, as this vulnerability can often lead to obstacles in the way of economic growth, manifested through current account deficits and capital balance challenges, resulting from imbalance, but what deserves to be highlighted in the Kaldor model of the Keynesian tradition is the adoption of the classical Keynesian principle of long-run effective demand, Broadly speaking, the Kaldorian model also concludes that the balance of payments is the main limiting factor in ensuring economic growth, so export-led growth approaches have the advantage of alleviating balance of payments constraints by providing the foreign currencies needed to finance critical imports.

However, as mentioned earlier, it is crucial to consider the significant impact of income elasticity of imports on mitigating balance of payments constraints, unlike the neoclassical perspective, models in the post-Keynesian/Kaldorian and structuralist traditions not only highlight the importance of effective demand and balance of payments, but also highlight that government demand management policies play a key role in growth At the same time, balance-of-payments constraints have an adverse impact on economic growth.

3 MATERIALS AND METHODS

This research aims to investigate the impact of foreign trade on economic growth, considering old and new approaches, as well as the role of international trade policy and Keynesian theory The research involved a theoretical analysis, literature review and empirical study based on economic data. The data used in this study were obtained from reliable economic sources through reputable articles from Scielo Brazil and Google Scholar, in which the main datasets included economic indicators, trade data, information on international trade policies, and economic growth indicators. An extensive literature review was conducted to understand and synthesize the theories, models and approaches related to international trade and its impact on economic growth, however the analysis included old models and new approaches, as well as traditional and contemporary theories.

The theoretical analysis involved the search for economic theories and models related to foreign trade and economic growth, in which this included the examination of export-led growth models, Keynesian theories of international trade, and structuralist approaches, as the aim was to understand the underlying mechanisms that connect international trade to economic growth, along with an empirical assessment, under the effects of international trade policy on economic growth, through the analysis of the statistics pointed out by the authors.

4 RESULTS AND DISCUSSION

The present study investigated the impact of foreign trade on economic growth, with a special focus on the influence of economic development. The analysis considered old models and new approaches, as well as the empirical study of the effects of international trade policy on economic growth. A comprehensive analysis of traditional economic theories, represented by old models of export-led growth, and new approaches, which include contemporary theories and empirical analyses, revealed notable differences. Old models, such as Kaldor's export-led growth model, highlight the importance of exports as drivers of economic growth. However, these models often neglect the constraints imposed by balances of payments.

One of the most significant findings of this study is the importance of international trade policies in the context of economic growth. Old models often assume that trade liberalization is enough to boost growth. However, more recent models and empirical analyses highlight that the effectiveness of trade policies is closely linked to each country's institutional environment. The study found that a country's level of economic development plays a key role in the relationship between foreign trade and economic growth. Countries at different stages of development may

experience diverse impacts of international trade policies on their growth.

In summary, this study highlights the need for a holistic approach in analyzing the impact of foreign trade on economic growth. Old models must be complemented by new approaches that consider institutions, economic development, and international trade policies. Understanding these interactions is essential for guiding effective economic policies and promoting sustainable growth. Future research may delve deeper into these aspects to provide even more solid data on the relationship between foreign trade and economic growth.

5 CONCLUSION

Foreign trade plays an undeniable role in shaping global economies, influencing the trajectory of economic growth. This study on Foreign Trade and Economic Growth: An Analysis on the Impact of Development, analyzed the multifaceted interaction between international trade policies, the theoretical models that underpin them, and their impact on economic growth.

The evolution of theoretical models has shown that, while older approaches tend to emphasize trade liberalization as an engine of growth, contemporary approaches recognize the complexity of the scenario, taking into account the constraints imposed by balances of payments and the intrinsic relationship between countries' institutional environment and their ability to capitalize on trade policies. It is evident that foreign trade is not a universal panacea for economic growth, as countries at different stages of development have different responses to global integration, and the benefits of trade can be mitigated by various restrictions, likewise, trade openness, without the appropriate infrastructure and institutions, may not yield the expected fruits of growth.

While foreign trade is a powerful tool for driving economic growth, its success is intrinsically linked to the robustness of national institutions, well-calibrated government policies, and a country's ability to adapt and respond to the challenges of the ever-changing global landscape. A balanced approach, combining open trade policies with sound development strategies, is essential to ensure that the benefits of foreign trade are fully realised.

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