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## Impact of International Trade Policies and Tariffs on Economic Growth and Trade Balance of Developed and Developing Countries

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**Abstract:** This paper compares the different impacts of international trade policies and tariff systems on the economic performance of the developed and the developing economies in terms of financial/macroeconomic. An analysis of key economic indicators utilizing a balanced panel data set of 50 countries (25 developed and 25 developing) in the years 2004 to 2024 examines how essential instruments of trade policy; tariffs, exchange rates and trade openness affect them. The analysis examines the effect of significant tools of trade policy namely tariffs, exchange rates, and openness to trade on trade. The research utilizes the different panel regression models which consider the major macroeconomic variables which include inflation, employment rate, population growth, and the real interest rate. The empirical evidence shows that the effects of trade policies are very heterogeneous depending on the level of economic development. Trade intensity has been considered in developed economies as a leading factor of economic growth and balance of trade, but other factors such as tariffs and exchange rates have a relatively small influence on the GDP growth and capital account balance in the balance of payments. On the other hand, in third world economies, tariffs and exchange rate volatility have a significant effect on the GDP growth, balance of trade as well as incoming inflows of foreign direct investment. These findings demonstrate the value of macroeconomic stability when it comes to achieving good performance by both groups of nations. The paper shows that the impacts of trade

policy are not homogenous and highly dependent on the situation, and hence, homogenized trade policies might not be the best. The results offer useful suggestions to policy makers in the designs of trade and macroeconomic policies that are favorable to sustainable growth and monetary stability.

**Keywords:** International Trade Policies, Tariff Barriers, Economic Growth, Trade Balance, Developed and Developing Economies

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**1. Introduction:** The policies of international trade and tariff regimes are Bayesian all the way concerning the change of economic directions of nation states. In an increasingly globalised environment, each country is constantly tweaking its environments traded to maintain the stability of its domestic economy in a way which remains competitive on the global stage. The use of trade policy instruments, including tariffs, exchange rates, and trade levels of trade transparency, provide a lever to the main macroeconomic and financial variables, including the GDP growth, balance of trade, national income and foreign direct investment (FDI). To determine the success of trade policy reforms, in particular in emerging economies, a good understanding of such relationships is essential. In the economic dynamics perspective, the instruments of trade policy not only have immediate impact on production, but are also influenced in capital flows and the behaviour of investments, and more broadly on the economy in the wider perspective. Although tariffs can offer short run protection to the domestic industries, in other instances, they can lead to market distortions, an increase in the cost of inputs and lack ineffective long term efficiency. Exchange-rate fluctuations play a major role in determining the export competitiveness, import demand, external account balance and trade performance as a whole. Likewise, trade openness is a measure of the extent to which a country is integrated into the global economy and, accordingly, is often linked

to higher levels of competition, technology diffusion, and more inflowing of FDI.

At the same time, macroeconomic variables such as inflation, levels of employment, population growth and real interest rates are closely linked with the measures of trade policy, and together determine economic growth, national income and financial stability. Despite the extensive literature on international trade and economic growth, much of the latest research focuses on single country analyses or individual indicators of economic growth or even the trade balance. Limited attention has been paid to a comparative macro level examination of simultaneous influences of tariffs, exchange rate fluctuations and trade openness on a much broader range of economic performance indicators in both developed and developing economies. This gap is of particular importance when considering the differences in the structure of these groups of countries in terms of institutional capacity, financial market development and industrial makeup as this may result in different responses to similar trade policies. These considerations yield the following important questions:

1. How do tariffs affect economic growth, trade balance, national income and foreign direct investment (in developed economies and developing economies)?
2. What is the effect of fluctuations in the exchange rates on these indicators of economic

performances between varied stages of development?

3. What impact does the trade openness have on the economic growth, balance of trade, national income?

Investing in developed and developing economies?

4. What are the effects of macroeconomic factors like inflation, employment rates, and population?

On these outcomes have growth and real interest rates an effect?

The economies of developed countries are characterized by stable financial systems, diversification of industrial backgrounds and

Higher involvement into the global economy and developing ones are likely to possess. Poor capital availability, less institutional frameworks and increased constraints contact with external shocks. Such disparities create more problems regarding whether the similarity in various trade policy tools yield different economic results among what lessons to be learned out of various differences these groups are. In particular, this leads to a final guiding question:

What are the lessons that can be learnt from a comparative analysis of trade policies and tariff structures to make recommendations to policies that would support sustainable economic growth and financial stability in both developed and developing economies?

Against this backdrop, the present study makes a comparative analysis within the impact of international trade policies and tariff structures on the performance of the economy from a financial perspective. Using panel data of 50 countries (25

developed; and 25 developing), and using 2004-2024, the research uses econometric models to measure the effect of key variables related to trade policy, such as tariffs, exchange rates, trade openness, etc., on GDP growth, trade balance, national income, and FDI. In order to take into account wider economic conditions control variables such as inflation, employment rates, population growth and real interest rates are taken into account. By estimating separate regression equations for each dependent variable, the study offers a complete insight into the interacting relationship of trade policies, tariff and macro-economic dynamics on varying levels of development towards an evidence-based policy formulation.

## 2. Literature Review:

### 2.1 Trade Policies, Tariffs and General Economic Perfection

A good body of empirical work highlights the importance of international trade policies and the effects of tariff regimes in smoothing the performance of the national macro. In heterogeneous countries (Epifani, P. 2003). Trade policy tools have an impact on growth, balance of trade, national income, foreign direct investment through changes in production incentives of growth, competitive characteristic and economic security (Nicoletti et al., 2025). The cross-country panel studies indicate that changes in tariffs can be distinguished in terms of their impact on the movements of trade and competitiveness; they are usually higher in developing and emerging economies as compared to similar high economies. Tariffs have the ability to disrupt global supply chains and raise importation costs, reducing quantity of trade, to the disadvantage of economy. Large scale examination of trade

conflict shows a correlation between the escalation in tariffs and fall in the global trade volume and GDP growth especially for those economies which are highly dependent on trade (Polachek, S. W. 1980). Altogether, these results highlight the fact that direct and indirect macroeconomic effect is associated with the presence of trade policies but the increase and extent of these effects is conditional on the conditions of nation stages of development.

### ***2.2 Tariffs and Economic Growth (GDP):***

The nexus between tariffs and the growth of gross domestic product has received a lot of scholarly attention in which empirical data has given asymmetrical results. A vast amount of literature shows that high tariff rates depress economic growth by increasing manufacturing costs, reducing productivity and disrupting global value chains (Criscuolo, C., & Timmis, J. 2017). Macroeconomic simulations and panel regressions used by Fedea (2025) show that ongoing tariff increases lead to substantial losses in GDP growth in both advanced and emerging economies. Studies on trade disputes further support that the application of tariffs by major economies is responsible for producing some adverse effects on the trajectory of economic growth for trading partners in the form of increasing uncertainty and declining export performance (Singh, T. 2010). Conversely, cross-country studies have found that there are short-term gains stemming from protective tariffs in developing economies as they have been able to import substitution and assist domestic industry and industry (Krueger, A. O. 1984). These divergent findings highlight the complex and development-dependent effect of tariffs on national economic growth.

### ***2.3 Tariffs and Trade Balance:***

The tariffs and trade balance is a relationship that has been extensively studied in the literature (Auboin, M., & Ruta, M. 2011). Khoki (2020) shows that trade balances are not only influenced by the tariff levels but also by an array of macro-economic and structural variables. While tariff hikes might initially have negative effects on imports, these are often compensated by falling exports, counter-measures and currency changes (Takagi, S. 1988). Empirical investigations into the effect of bilateral trade disputes, notably the dispute between the United States and China, indicates that tariff policies change trade patterns and volumes significantly but do not necessarily affect trade balances in the long run in a positive manner. Likewise, the Federal Reserve Bank of San Francisco - 2025 indicates that tariff shocks, along with exchange rate shocks, affect trade accounts, and also emphasizes the need to put tariff impacts in a more general macro-economic context (Khan, M. M. S., Montiel, M. P., & Aghevli, B. B. (1991).

### ***2.4 Exchange Rate Dynamics Economic Performance:***

Exchange rate movements have generally been seen as key determinants of trade competitiveness, economic growth and financial stability (McKinnon, R. I., 1988). Empirical studies have indicated that export can be enhanced by devaluation of the exchange rate competitiveness, however, when the exchange rate is excessively volatile it may cause inflation and discourage investment. Quantitative analyses also show the positive correlation between the exchange rate stability and economic growth and foreign direct investment especially in developing economies where the currency fluctuation rate is high (Makki, S. S., & Somwaru, A. 2004). There is also an indication in studies that indicate the interaction

between setting exchange rate policies and tariffs in affecting trade outcomes and stabilizing the trade policy instruments dependence.

### ***2.5 Trade Openness and Economic Development:***

The openness to trade has been generally accepted as a major contributor to economic growth and productivity. Experience in the developed economies demonstrates that greater openness enhances efficiency and productivity through access to bigger markets and improved technology. Comparable investigations in developing economies also finds that trade openness have a positive impact on GDP growth and export performance though to different degrees (Edwards, S. 1993). Nonetheless, some research raises the concern that, without an adequate level of institutional capacity and macro-economic stability, the rise in openness will expose developing economies to external shocks and volatility in growth consequences . (Prasad, E. S., Rogoff, K., Wei, S. J., & Kose, M. A. 2007). Also, the benefits of trade openness seem to be conditionally universal.

### **2.6 Trade Policies and Foreign Direct Investment:**

Foreign direct investment is an important channel through which trade policies influence the outcome of national economies (Makki, S. S., & Somwaru, A. 2004). Empirical studies show consistently a positive relationship between liberal trade regime and stable macro-economic environment on the one hand and higher FDI inflows on the other hand. Quantitative evidence implies that trade openness has statistically significant positive impact on FDI while high tariffs depress foreign investments by increasing uncertainty and by limiting the process of market integration. (Liargovas, P. G., & Skandalis, K. S.

2012) Analysis of regional trade integration agencies show that trade policies may not be as central in shaping investment patterns and economic stability as compared to other factors (Grimwade, N. 2020).

### ***2.7 Contribution of Macroeconomic Factors:***

Macroeconomic variables such as inflation rates, levels of employment, population growth, and real interest rates play substantive roles in the dynamics of the economy and are needed in reducing the consequences of trade policies. According to empirical evidence, moderate levels of inflation may boost growth, whereas inflation at very high levels will impede growth and lower investment (Paul, S., Kearney, C., & Chowdhury, K., 1997). Employment rates have a positive correlation with GDP growth and national income reflecting labour market efficiency. Population growth has conflicting effects on productivity and capital accumulation, and real interest rates affect investment decision and capital flows (Griffin, K. 1978). These studies add to the value of considering macroeconomic control variables in empirical trade models.

### ***2.8 Comparative Evidence: Developed Vs Developing Economies:***

Comparative scholarship is increasingly showing that the impact of trade policies is different for developed and developing economies. The emerging economies are particularly vulnerable to tariff shocks, factors which have been associated with export-centric growth structures and low policy buffers. Further studies on trade arrangements and use of retaliatory tariffs indicate that developing economies bear greater proportional costs in GDP losses in response to external trade shocks than the developed

economies, where industrial diversification and stable financial arrangements are more resilience in dealing with external shocks. These observations support the claims that the outcomes of the trade policy are asymmetrical at different stages of the economy's development.

### **2.9 Research Gap:**

Despite extensive literature providing a link between trade policies and economic performance, large gaps still exist. Primary research has mainly focused on isolated economic indicators, such as growth rates or trade balances, as opposed to analysing different dimensions of the performance, such as national income and foreign direct investment, at the same time. Systematic comparative studies between developed and developing economies are still lacking, especially from a financial perspective. Moreover, a few studies bring together several instruments of trade policies (i.e. tariffs, exchange rates and trade openness) in a unique econometric context, while controlling for the major determinants of macroeconomic performance. Accordingly, the purpose of this research is to fill these gaps by performing a comprehensive comparative analysis in a sample of 25 developed and 25 developing economies in terms of financial and macroeconomic implications of international trade policies and tariffs, using multi equation panel regression models.

## **3. RESEARCH METHODOLOGY**

### **3.1 Research Design:**

The present investigation adopts a quantitative, explanatory and comparative research design in order to study the impact of the international trade policies and the tariff structures on the economic performance of developed and developing

economies. Panel data econometric techniques are used to analyse the relation of trade policy variable with both macroeconomic and financial indicators over a period of time. A comparative framework is utilised, however, to establish the differences in the magnitude and direction of effects between 2 sets of economies.

### **3.2 Sample Selecting and Scope of Study:**

The study is based upon a balanced panel of 50 countries with equal representation of 25 developing economies and 25 developed economies. The countries are ranked on internationally recognised criteria that are promulgated by, among others, the World Bank and the International Monetary Fund (IMF). The period of analysis is the past years 2004-2024, but this is determined by the availability of data and therefore it is possible to capture the long-term tendencies, policy shifts and structural transformation in the international trade and economic performance.

### **3.3 Data Sources:**

Secondary data collected by using internationally recognised and dependable data repositories serve as a starting point to analysis to guarantee consistency and comparability through space and time. The main information sources are the following: World Bank, World Development indicators (WDI), International Monetary Fund (IMF), United World Trade, Nations Conference on Trade and Development (UNCTAD) The databases and statistical offices of the Organisation for and Organization (WTO) Economic Co-Operation and Development (OECD). These sources have consistent contents and similar data regarding the countries which are being examined during the specified time frame

The developed economies that were sampled are United States, United Kingdom, Canada, Germany, France, Italy, Spain, Netherlands, Belgium, Switzerland, Austria, Australia, Norway, Sweden, Finland, Iceland, Ireland, Greece, Japan, South Korea. The following countries are considered to be (Republic of Korea), Singapore, Denmark, New Zealand, Israel, and Hong Kong. The developing economies that were found in the sample India, China, Indonesia, Vietnam, Thailand, Philippines, Bangladesh, Pakistan, Sri Lanka, Nepal, Qatar, Bahrain, Iran, Iraq, Brazil, Mexico, Peru, Cuba, Turkey, Ukraine, Russia, Serbia, United Arab Emirates, and South Africa. These nations were chosen so as to have a balanced representation of developed and developing economic systems in the various regions of the world, which allows a comparative evaluation of the effect of international trade policies and tariff policies on the economy.

### 3.4 Variables and Measurement:

*Dependent Variables:* Measures of economic performance include the following 4 dependent variables:

- Economic Growth - Annual percentage growth in GDP.
- Trade Balance - Net exports as a percentage of GDP.
- National Income Level - Gross National Income (GNI) per capita.
- Foreign Direct Investment (FDI) - Net flows of FDI as a percentage of GDP.

*Independent Variables:* The key indicators of trade policy used in the analysis include the following:

- Tariff rate

- Exchange Rate - Real Effective Exchange Rate (REER).
- Trade Openness - Total Trade (exports + imports) to GDP ratio.

*Control Variables:* In order to isolate the effects of trade policies to economic performance the following macroeconomic controls are included:

- Inflation - Yearly percentage change in the Consumer Price Index (CPI).
- Employment Rate - Percentage of labour force that is employed (or one less the unemployment rate)
- Population Growth - Percentage increase in population per annum
- Real Interest Rate - Nominal interest rate after minus inflation.

### 3.5 Econometric Model Specifications:

Panel regression models are calculated for each of the dependent variables to quantify the impact of trade policies.

#### *General Model:*

$$Y_{it} = \alpha + \beta_1 \text{Tariff}_{it} + \beta_2 \text{Exchange Rate}_{it} + \beta_3 \text{Trade Openness}_{it} + \beta_4 \text{Inflation}_{it} + \beta_5 \text{Employment Rate}_{it} + \beta_6 \text{Population Growth}_{it} + \beta_7 \text{Real Interest Rate}_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

Where:

$Y_{it}$  = Dependent variable (Economic Growth / Trade Balance / National Income / FDI) for country  $i$  at time  $t$

$\alpha$  = Constant term

$\text{Tariff}_{it}$  = Tariff rate

$\text{Exchange Rate}_{it}$  = Exchange rate

Trade Openness<sub>it</sub> = Trade openness

Inflation<sub>it</sub> = Inflation rate

Employment Rate<sub>it</sub> = Employment rate

Population Growth<sub>it</sub> = Population growth

Real Interest Rate<sub>it</sub> = Real interest rate

$\mu_i$  = Country-specific effect

$\lambda_t$  = Time-specific effect

$\varepsilon_{it}$  = Error term

### **Specific Models:**

#### *Economic Models (GDP) Models*

$GDP_{it} = \alpha + \beta_1 \text{Tariff}_{it} + \gamma \text{Controls}_{it} + \varepsilon_{it}$

$GDP_{it} = \alpha + \beta_2 \text{Exchange Rate}_{it} + \gamma \text{Controls}_{it} + \varepsilon_{it}$

$GDP_{it} = \alpha + \beta_3 \text{Trade Openness}_{it} + \gamma \text{Controls}_{it} + \varepsilon_{it}$

#### **Trade Balance Models:**

$TB_{it} = \alpha + \beta_1 \text{Tariff}_{it} + \gamma \text{Controls}_{it} + \varepsilon_{it}$

$TB_{it} = \alpha + \beta_2 \text{Exchange Rate}_{it} + \gamma \text{Controls}_{it} + \varepsilon_{it}$

$TB_{it} = \alpha + \beta_3 \text{Trade Openness}_{it} + \gamma \text{Controls}_{it} + \varepsilon_{it}$

#### *National Income Models (GNI)*

$GNI_{it} = \alpha + \beta_1 \text{Tariff}_{it} + \gamma \text{Controls}_{it} + \varepsilon_{it}$

$GNI_{it} = \alpha + \beta_2 \text{Exchange Rate}_{it} + \gamma \text{Controls}_{it} + \varepsilon_{it}$

$GNI_{it} = \alpha + \beta_3 \text{Trade Openness}_{it} + \gamma \text{Controls}_{it} + \varepsilon_{it}$

#### Foreign Direct Investment (FDI) Models

$FDI_{it} = \alpha + \beta_1 \text{Tariff}_{it} + \gamma \text{Controls}_{it} + \varepsilon_{it}$

$FDI_{it} = \alpha + \beta_2 \text{Exchange Rate}_{it} + \gamma \text{Controls}_{it} + \varepsilon_{it}$

$FDI_{it} = \alpha + \beta_3 \text{Trade Openness}_{it} + \gamma \text{Controls}_{it} + \varepsilon_{it}$

#### *Definitions of Terms:*

$i$  = country

$t$  = time period

$\alpha$  = constant term

$\beta_1, \beta_2, \beta_3$  = coefficients of trade policy variables

$\text{Controls}_{it}$  = inflation, employment rate, population growth, real interest rate

$\varepsilon_{it}$  = error term

### **3.6. Estimation Techniques**

To ensure robustness and accuracy, the study employs the following econometric techniques:

- Descriptive Statistics – to summarise the characteristics of the data.
- Correlation Analysis – to examine relationships among variables.
- Panel Regression Models – including Pooled Ordinary Least Squares (OLS)
- Diagnostic Tests – for heteroskedasticity, autocorrelation, and multicollinearity.
- Robust Standard Errors – to correct for potential econometric issues.

Additionally, separate regressions are conducted for developed and developing countries to facilitate comparative analysis.

### **REGRESSION EQUATIONS USED:**

Equation 1: Economic Growth = Tariff + Inflation + Employment Rate + Population Growth + Real Interest Rate

Equation 2: Economic Growth = Exchange Rate + Inflation + Employment Rate + Population Growth + Real Interest Rate

Equation 3: Economic Growth = Trade Openness + Inflation + Employment Rate + Population Growth + Real Interest Rate

Equation 4: Trade Balance = Tariff + Inflation + Employment Rate + Population Growth + Real Interest Rate

Equation 5: Trade Balance = Exchange Rate + Inflation + Employment Rate + Population Growth + Real Interest Rate

Equation 6: Trade Balance = Trade Openness + Inflation + Employment Rate + Population Growth + Real Interest Rate

Equation 7: National Income Level = Tariff + Inflation + Employment Rate + Population Growth + Real Interest Rate

Equation 8: National Income Level = Exchange Rate + Inflation + Employment Rate + Population Growth + Real Interest Rate

Equation 9: National Income Level = Trade Openness + Inflation + Employment Rate + Population Growth + Real Interest Rate

Equation 10: Foreign Direct Investment = Tariff + Inflation + Employment Rate + Population Growth + Real Interest Rate

Equation 11: Foreign Direct Investment = Exchange Rate + Inflation + Employment Rate + Population Growth + Real Interest Rate

Equation 12: Foreign Direct Investment = Trade Openness + Inflation + Employment Rate + Population Growth + Real Interest Rate

### 3.7 Comparative Analysis

The present study outlines the differential effect of international trade policies by separating the entire sample as two strata based on the level of economic development. A separate regression specification is then calibrated for each subsample and estimated coefficients are examined for both magnitude and sign. This methodological organization is conducive to identifying the possible changes in the operative mechanism of the trade policy instruments at the various levels of development and to assessing at the same time the degree of heterogeneity present in policy's effects.

## 4. RESULTS

### 4.1 Descriptive Statistics:

An initial analysis based on the descriptive statistics provides a basic description of the main economic and trade-related variables for both developed and developing economies. In the former group, the average GDP growth rate is about 2.04 percent which is suggestive of a mature economy. Simultaneously, on average trade openness has a value of 106.14 per cent, a sign of the wide integration into the global markets. The tariff rates of these economies are at low rates, averaging 2.01 per cent, and hence conform to the liberal trade regimes and developing economies have a higher average GDP growth of 4.36 per cent along with much higher average tariff rates of 5.06 per cent and indicate an increased reliance on protective trade policies. There are differences in macroeconomic conditions between the two cohorts; inflation and real. In developed economies interest rate is usually relatively stable whereas there is an increase in the case of the developing economies level of volatility of these

variables in emerging economies, indicating an increased volatility level of macroeconomic uncertainty. These discernible and distinct differences at the level of important variables provides assistance to the application of a comparative analytical approach and context for the interpretation of the regression results.

**Table 1: DESCRIPTIVE STATISTICS**

Variable	Mean	Median	S.D.	Min	Max
Economic Growth (GDP)	3.16	2.99	4.36	-28.8	53.4
Trade Balance	7,150,000,000	2,260,000,000	116,000,000	-920,000,000	578,000,000
National Income Level	2.46	2.30	5.02	-29.1	38.6
Foreign Direct Investment	863000000	-869,000,000	44,900,000	-350,000,000	218,000,000
Tariff	3.56	2.02	14.0	0.000	422.
Exchange Rate	1,250	97.3	5,070	0.000	42,000
Trade Openness	86.0	65.4	72.2	0.000	443.
Inflation	4.43	2.67	6.69	-12.3	72.3
Employment Rate	57.4	58.5	11.0	0.000	87.5
Population Growth	0.986	0.818	1.58	-10.9	21.7
Real Interest Rate	3.50	2.63	8.00	-25.8	57.6

Descriptive statistics reveal that there is a significant level of cross-country differences in indicators of economic performance and trade related in the entire sample.

The real GDP growth is 3.16 percent that ranges between -28.8 to 53.4 percent and therefore, shows a marked heterogeneity on the results of growth, both in terms of national boundaries and also in terms of temporal intervals. The average percentage of GDP as a measure of degree of trade openness is 86 percent, but ranges between 0 and 443 percent referring to varying degrees of integration to global trade networks. Average tariff rates are 3.56 percent, the maximum being 422 percent, therefore indicating the coexistence of quite liberal trading regimes, as well as, high protectionist regimes. There is also large

dispersion of external-sector indicators. Likewise, the exchange rate shows great variation with an average of 1,250 and a maximum of 42,000, showing fluctuation in currency value and exchange rate regimes. Macroeconomic indicators are another indicator of the heterogeneity within the sample. Inflation rates range from between -12.3 percent and 72.3 percent, meaning this dataset is both common in deflationary environments as well as high inflationary environments. The actual interest rate ranges from -25.8 percent to 57.6 percent- representing significant differences in economic environment in monetary and financial situations across the countries. Concurrently, the average employment rate is 57.4 percent and the average population growth is 0.986 percent indicating divergences in labour market conditions and population dynamics. Collectively, these statistics highlight cross-country heterogeneity in economic structure, trade policy and macroeconomic stability and thereby provide a strong basis for examining the link with trade policy variables in determining key macroeconomic outcomes.

**4.2. Results of Empirical Models**

	Robust			Non-Robust		
	EG (I)	EG (II)	EG (III)	EG (IV)	EG (V)	EG (VI)
Const	-3.34392 (1.55537)	-4.56254 (2.28271)	-2.80556 (1.51695)	-3.34392 (1.94004)*	-4.56254 (2.01990)**	-2.80556 (1.80659)
Tariff	0.0769997 (0.0747747)			0.0769997 (0.0990896)		
Exchange Rate		0.0334151 (0.0139979)			0.0334151 (0.0127812)**	
Trade Openness			0.00539855 (0.000183613)***			0.00539855 (0.00157435)**
Inflation	0.0637463 (0.188682)	0.0552120 (0.163622)	0.0641606 (0.143495)	0.0637463 (0.106046)	0.0552120 (0.100001)	0.0641606 (0.0974965)
Employment Rate	0.0826036 (0.0287861)	0.0484471 (0.0556220)	0.0668816 (0.0308219)	0.0826036 (0.0335138)*	0.0484471 (0.0332267)	0.0668816 (0.0313600)**
Population Growth	0.721352 (0.305576)	0.684224 (0.291628)	0.614686 (0.304358)	0.721352 (0.257135)**	0.684224 (0.250368)***	0.614686 (0.237287)**

Real Interest Rate	-0.0459450 (0.0115126)*	-0.0781885 (0.00325783)**	-0.0653236 (0.0408282)	-0.0459450 (0.0650425)	-0.0781885 (0.0616801)	-0.0653236 (0.0594862)
R-squared	0.106222	0.108315	0.13126	0.106222	0.108315	0.13126
Adjusted R-squared	0.085628	0.088846	0.112776	0.085628	0.088846	0.112776

Table 2 shows the result of the regression analysis that the exchange rate keeps positive and statistically significant existence of affecting economic growth (coefficient = 0.0334151, p - value = 0,0095), which recommends the existence of an association between an increase in the exchange rate and economic growth, after holding other covariates constant in Column V.

Additionally, shows the regression results the positive and highly significant impact of trade openness on economic growth (the coefficient is equal to 0.00539855 and the p-value is equal to 0.0012), which means that higher integration to the international trade is related to economic growth, keeping constant other factors in Column III whereas in Column VI, the regression analysis proves that the trade openness shows a positive and apiece highly significant impact on economic growth (coefficient = 0.00539855, p-value = 0.0007), which means that more integration into international trade is coupled with higher economic growth when some other covariates are kept fixed.

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**Table 3: Impact of macroeconomic variables on trade balance: Developed Economies**

	Robust			Non-Robust		
	TB (I)	TB (II)	TB (III)	TB (IV)	TB (V)	TB (VI)
const	-17506000000 (11789800000)	-12448300000 (17356700000)	-18849600000 (15139900000)	-17506000000 (11829600000)	-12448300000 (12075900000)	-18849600000 (10451300000)*
Tariff	-52660100 (3989780000)					
Exchange Rate		-611931000 (1390540000)			-611931000 (764117000)	
Trade Openness			400968000 (363372000)			400968000 (91077800)**
Inflation	-11140900000 (6218040000)	-9422640000 (5221190000)	-9684270000 (6772790000)	-11140900000 (6466250000)*	-9422640000 (5978540000)	-9684270000 (5640270000)*
Employment Rate	2953310000 (2488100000)	3119590000 (2221540000)	2513140000 (3599640000)	2953310000 (2043540000)	3119590000 (1986450000)	2513140000 (1814200000)
Population Growth	-3289340000 (2845830000)	-4566540000 (2004890000)	-8910170000 (4781710000)	-3289340000 (15679000000)	-4566540000 (14968200000)	-8910170000 (13727300000)
Real Interest Rate	-1889180000 (3223420000)	-146177000 (2696150000)	-1930900000 (547357000)*	-1889180000 (3966020000)	-146177000 (3687520000)	-1930900000 (3441330000)
R-squared	0.020172	0.01968	0.091383	0.020172	0.01968	0.091383
Adjusted R-squared	-0.002404	-0.001724	0.07205	-0.002404	-0.001724	0.07205

Table 3 shows that the regression analysis reflects that the trade openness shows positive and highly significant effect on the balance of trade (coefficient = 400968000, p < 0.0001) in Column VI. Thus, higher participation in international trade is linked to improvement in balance of trade, even after the other determinants of trade were taken into account.

**Table 4: Impact of macroeconomic variables on national income level: Developed Economies**

	Robust			Non-Robust		
	NIL (I)	NIL (II)	NIL (III)	NIL (IV)	NIL (V)	NIL (VI)
const	-3.94416 (4.55995)	-6.86417 (3.21514)	-2.05089 (3.23141)	-3.94416 (2.71165)	-6.86417 (3.06782)**	-2.05089 (2.59282)
Tariff	0.191405 (0.0645751)			0.191405 (0.131982)		
Exchange Rate		0.0371032 (0.0173577)			0.0371032 (0.0190703)*	
Trade Openness			0.00837805 (0.00109160)*			0.00837805 (0.00278903)**
Inflation	0.0224905 (0.0645751)	0.109632 (0.153704)	0.0718859 (0.0692249)	0.0224905 (0.184500)	0.109632 (0.176827)	0.0718859 (0.168428)
Employment Rate	0.118873 (0.0888895)	0.110637 (0.0821757)	0.0845458 (0.0590606)	0.118873 (0.0456076)**	0.110637 (0.0445757)**	0.0845458 (0.0443458)*
Population Growth	0.728349 (0.243396)*	0.572191 (0.258347)	0.307458 (0.193234)	0.728349 (0.349050)**	0.572191 (0.331701)*	0.307458 (0.324085)
Real Interest Rate	-0.844760 (0.197485)*	-0.846709 (0.229230)	-0.835159 (0.208493)*	-0.844760 (0.0957740)**	-0.846709 (0.0954269)**	-0.835159 (0.0911007)***
R-squared	0.370964	0.369789	0.385199	0.370964	0.369789	0.385199
Adjusted R-squared	0.351902	0.351362	0.367634	0.351902	0.351362	0.367634

Table 4 shows the results of the regression analysis show the existence of a positive and significantly influence of the exchange rate on national income (coefficient = 0.0371032, p-value = 0.0533), which implies that an increase in the exchange rate is linked to a small increase in national income (in the presence of other variables) in Column V.

Additionally, it shows the regression results indicate that the level of trade openness has a positive and statistically significant effect on national income (coefficient = 0.00837805, p value = 0.0166) in Column III and Column VI (coefficient = 0.00837805, p-value = 0.0031), i.e., the wider the integration of international trade, the higher the level of national income in the presence of other variables.

**Table 5: Impact of macroeconomic variables on foreign direct investment: Developed Economies**

	Robust			Non-Robust		
	FDI (I)	FDI (II)	FDI (III)	FDI (IV)	FDI (V)	FDI (VI)
const	3560420000 (49646500000)	6637580000 (89167600000)	3037000000 (57963500000)	3560420000 (43039900000)	6637580000 (43610900000)	3037000000 (39236500000)
Tariff	129581000 (5341790000)			129581000 (2198310000)		
Exchange Rate		-579532000 (585782000)			-579532000 (275953000)**	
Trade Openness			-77688400 (45626500)			-77688400 (34192600)**
Inflation	-3051510000 (1432200000)	-2855010000 (718043000)*	-2905340000 (366087000)	-3051510000 (232640000)	-2855010000 (2159090000)	-2905340000 (2117480000)
Employment Rate	-219192000 (945255000)	272353000 (677190000)	2229750 (858542000)	-219192000 (743507000)	272353000 (717384000)	2229750 (681093000)
Population Growth	-7102250000 (5363860000)	-8378970000 (2015410000)*	-6738680000 (4277270000)	-7102250000 (5704560000)	-8378970000 (5405600000)	-6738680000 (5153530000)
Real Interest Rate	-862408000 (739637000)	-197717000 (600957000)	-558032000 (219877000)	-862408000 (1442970000)	-197717000 (1331710000)	-558032000 (1291950000)
R-squared	0.02701	0.045532	0.047255	0.02701	0.045532	0.047255
Adjusted R-squared	0.00459	0.024692	0.026984	0.00459	0.024692	0.026984

Table 5 shows the regression analysis in which the value of the tariff variable is showing a positive coefficient (129581000) in Column I but this relationship does not reach statistical significance (p = 0.9828). As a result, differences in tariff levels would seem not to have any significant impact on foreign direct investment (FDI) when all other covariates are held constant.

Additionally, this table shows that the exchange rate coefficient is negative and statistically significant (-579532000, p=0.0368) in Column V which implies that a positive relationship between exchange rates and FDI holds true where other variables remain constant.

It shows the link between trade openness and FDI has been associated with a negative and statistically significant coefficient (-77688400, p=0.0240), implying that increased trade integration is accompanied by a decrease in FDI when the values of other variables are kept constant in Column VI.

**DEVELOPING COUNTRIES**

**Table 6: Impact of macroeconomic variables on economic growth: Developing Economies**

	Robust			Non-Robust		
	EG (I)	EG (II)	EG (III)	EG (IV)	EG (V)	EG (VI)
const	2.09956 (0.01892)	2.62380 (1.03797)	2.35059 (0.768162)*	2.09956 (0.992227)**	2.62380 (0.994907)***	2.35059 (1.01206)**
Tariff	0.00854276 (0.00470390)			0.00854276 (0.0109651)		
Exchange Rate		0.000108649 (0.0000449677)			0.000108649 (0.0000449677)**	
Trade Openness			-0.00327437 (0.00856167)			-0.00327437 (0.00521451)
Inflation	-0.0230128 (0.0433313)	-0.0251798 (0.0436500)	-0.0257759 (0.0514784)	-0.0230128 (0.0282686)	-0.0251798 (0.0281457)	-0.0257759 (0.0285857)
Employment Rate	0.0313573 (0.0213944)	0.0197168 (0.0140343)	0.0320061 (0.0267543)	0.0313573 (0.0164291)*	0.0197168 (0.0168932)	0.0320061 (0.0166004)*
Population Growth	0.609467 (0.0862057)**	0.638412 (0.0697415)*	0.613884 (0.0856773)**	0.609467 (0.100968)**	0.638412 (0.101066)***	0.613884 (0.101002)**
Real Interest Rate	-0.0651958 (0.0165416)*	-0.0629449 (0.0162458)*	-0.0689834 (0.0262839)**	-0.0651958 (0.0226426)**	-0.0629449 (0.0225514)***	-0.0689834 (0.0234836)*
R-squared	0.105569	0.114136	0.105203	0.105569	0.114136	0.105203
Adjusted R-squared	0.096953	0.105601	0.096583	0.096953	0.105601	0.096583

Table 6 shows the results of this regression analysis show that the exchange rate variable has a positive and statistically significant (0.000108649, p-value = 0.0180) coefficient, which shows that an increase in the exchange rate is associated with high economic growth when other factors are kept constant in Column V.

**Table 7: Impact of macroeconomic variables on Trade Balance: Developing Economies**

	Robust			Non-Robust		
	TB (I)	TB (II)	TB (III)	TB (IV)	TB (V)	TB (VI)
const	-4619740000 (32617500000)	-5212920000 (45532300000)	-3976350000 (29717800000)	-4619740000 (14391100000)	-5212920000 (14439000000)**	-3976350000 (14619500000)**
Tariff	-41362400 (78288400)			-41362400 (159036000)		
Exchange Rate		-1398940 (1119920)			-1398940 (664452)**	
Trade Openness			-152034000 (216997000)			-152034000 (75325000)**
Inflation	-955033000 (780801000)	-928089000 (697980000)	-1077210000 (942354000)	-955033000 (410003000)	-928089000 (408476000)**	-1077210000 (412928000)***
Employment Rate	1278400000 (801041000)	1419770000 (1079280000)	1362820000 (1014910000)	1278400000 (238285000)	1419770000 (245170000)***	1362820000 (239797000)***
Population Growth	-4883540000 (5649290000)	-5237760000 (6289980000)	-4796270000 (5795220000)	-4883540000 (1464420000)	-5237760000 (1466760000)***	-4796270000 (1458990000)***
Real Interest Rate	-652819000 (341633000)	-680886000 (352612000)	-834527000 (377541000)	-652819000 (328405000)	-680886000 (327287000)**	-834527000 (339227000)**
R-squared	0.075734	0.083442	0.082813	0.075734	0.083442	0.082813
Adjusted R-squared	0.06683	0.074612	0.073977	0.06683	0.074612	0.073977

Table 7 shows the results of the regression show that the exchange rate has a negative and statistically significant effect on the balance of

trade (coefficient = -1398940, p-value = 0.0357) that suggests the increase in the exchange rate results in the reduction of the balance of trade while keeping other factors constant in Column V.

Additionally, it shows the outcome of the regression result that trade openness has a negative and statistically significant effect on the trading balance (coefficient = -152034000, p-value = 0.0441) leading us to conclude that increased alignment in international trade is linked to a declining trade balance by holding other factors constant in Column VI.

**Table 8: Impact of macroeconomic variables on National Income Level: Developing Economies**

	Robust			Non-Robust		
	NIL (I)	NIL (II)	NIL (III)	NIL (IV)	NIL (V)	NIL (VI)
const	4.50139 (0.712222)*	5.18490 (1.51774)*	4.28385 (1.46887)	4.50139 (1.22777)***	5.18490 (1.23104)***	4.28385 (1.25120)***
Tariff	0.0124359 (0.00559549)			0.0124359 (0.0135681)		
Exchange Rate		0.000137677 (0.00002311)**			0.000137677 (0.00005665)**	
Trade Openness			0.00837805 (0.00761176)			0.00837805 (0.00644664)
Inflation	-0.107196 (0.0342401)*	-0.109965 (0.0260912)*	-0.100887 (0.0268759)*	-0.107196 (0.0349791)**	-0.109965 (0.0348258)*	-0.100887 (0.0353402)*
Employment Rate	-0.00332519 (0.0158211)	-0.0182754 (0.0445757)	-0.00905427 (0.0202136)	-0.00332519 (0.0203291)	-0.0182754 (0.0209027)	-0.00905427 (0.0205229)
Population Growth	0.0334201 (0.306136)	0.0705315 (0.329547)	0.0315693 (0.313198)	0.0334201 (0.124936)	0.0705315 (0.125053)	0.0315693 (0.124867)
Real Interest Rate	-0.138629 (0.0715760)	-0.135755 (0.0746336)	-0.128897 (0.0600577)	-0.138629 (0.0280176)*	-0.135755 (0.0279038)*	-0.128897 (0.0290325)*
R-squared	0.055712	0.064826	0.057001	0.055712	0.064826	0.057001
Adjusted R-squared	0.046615	0.055817	0.047917	0.046615	0.055817	0.047917

Table 8 shows the results of the regression analysis that the exchange rate has a positive and statistically significant effect on national income (b = 0.000137677, p = 0.0270) in Column II along with Column V and thus imply that an increase in the exchange rate is positively correlated with an increase in the national income, holding other variables constant.

**Table 9: Impact of macroeconomic variables on Foreign Direct Investment: Developing Economies**

	Robust			Non-Robust		
	FDI (I)	FDI (II)	FDI (III)	FDI (IV)	FDI (V)	FDI (VI)
const	1927080000 (6800510000)	2055070000 (8364990000)	-1450960000 (7344320000)	1927080000 (5971270000)	2055070000 (6016240000)	-1450960000 (6055940000)
Tariff	2569400 (10152200)			2569400 (65988500)		
Exchange Rate		25040.6 (423781)			25040.6 (276854)	
Trade Openness			74813700 (59631300)			74813700 (31202500)**
Inflation	-6041380 (132497000)	-6549220 (131810000)	54330400 (179156000)	-6041380 (170122000)	-6549220 (170198000)	54330400 (179156000)
Employment Rate	-191960000 (213986000)	-194718000 (255243000)	-231299000 (298239000)	-191960000 (98871000)*	-194718000 (102154000)*	-231299000 (99333100)**
Population Growth	1525380000 (928783000)	1532220000 (1034140000)	1477660000 (1007600000)	1525380000 (607628000)**	1532220000 (611149000)**	1477660000 (604371000)**
Real Interest Rate	-406315000 (211454000)	-405788000 (216822000)	-317136000 (273993000)	-406315000 (136264000)***	-405788000 (136369000)***	-317136000 (140521000)**
R-squared	0.031773	0.031785	0.042377	0.031773	0.031785	0.042377
Adjusted R-squared	0.022445	0.022457	0.033152	0.022445	0.022457	0.033152

Table 9 shows the regression results indicate that trade openness has a positive and statistically significant impact on foreign direct investment (FDI) (coefficient = 74813700, p-value = 0.0169), suggesting that greater integration into international trade is associated with higher FDI inflows, holding other factors constant in Column VI.

**5. DISCUSSION**

The empirical evidence found here suggests substantial heterogeneity between the developed and developing economies in which channels for macroeconomic and trade related variables determine economic outcome. In developed countries, most of the variables of trade policy, such as tariffs and exchange rates, have statistically insignificant impacts on economic growth and trade balance, national income and foreign direct investment. This observation

suggests that in the context of advanced countries, there is less reliance on trade policy intervention and more on structural considerations such as technological development or institutional stability. On the opposite side of the coin, developing economies show stronger and statistically significant trade variable and macroeconomic indicator relationships. Tariffs and exchange rates and the level of openness to trade often have discernible influence on economic growth, on the balance of trade and on foreign direct investment, suggesting a more pronounced role for external sector dynamics in influencing performance in an economy. Furthermore, regular positive relationships between population growth and economic growth are found in developing countries, showing the contribution of the expanding labour market and domestic demand to economic activity.

The proximity of robust and non-robust regression results also provides another point for the importance of estimation methodology in the interpretation of empirical relationships. In several cases, variables that were found to be significant in non-robust models are not significant when robust standard errors are used. This pattern is especially pronounced in the developed world where the observed effect of tariffs, exchange rates and other macroeconomic variables is diminished in strong estimations which would seem to suggest that previous results may have been distorted by heteroskedasticity. On the other hand, the importance of population growth, unemployment, exchange rates, and real interest rates remains relevant even when using robust estimation methods, which suggests a relatively stable impact on economic performance. All in all, these results have shed considerable light on the idea that developing countries are highly sensitive

to changes in trade and macroeconomic policy and robust estimation approaches are essential for valid empirical analyses.

## 6. CONCLUSION

The present study has focused on analysing the comparative impacts on the economic performance of various factors, especially in terms of international trade policies and tariffs with regards to the financial perspective through the contrasting cases, which have been identified as the developed and developing countries. Panel data, both from 25 developed and 25 developing countries, have been used for the years between 2004 and 2024 and various econometric models to study the impact of tariffs, exchange rates, and trade openness on various economic variables. The models took account of inflation rate, employment rate, population growth and real interest rates. The empirical evidence shows that the impacts of trade policies are not uniform and symmetric with respect to levels of economic development. In advanced economies statistically significant trade policy effects are normally not found for tariffs and exchange rates in regulating economic growth and foreign direct investment. Tariffs and the exchange rate do not play as significant a role in governing economic performance and foreign direct investment as other macroeconomic and financial issues such as the real interest rate and demographics. On the contrary, trade openness is shown to be an important factor affecting both economic growth and the balance of trade, highlighting the importance of integration, market efficiency, and institutional quality for developed nations. For developing nations, tariffs and other factors associated with trade policy have greater weight. Tariffs are shown to have a significant positive effect on both economic growth and trade balance,

suggesting that tariffs can play a temporary supportive role. The dynamics of exchange rates are also found to be an important factor in determining the economic results of developing economies, which influence the economic growth, the balance of trade, and foreign direct investments. While economic growth arises due to the openness of trade, the contribution is modest because of the impediments that exist within the economy. The findings reveal the importance of macroeconomic stability in in-group determination irrespective of the group. There are also significant influences of inflation and real interest rates on the country's GDP and FDI flows, particularly in developing nations. Population growth and employment rate can influence economic growth; however, the extent of influence varies among models and groups of countries. All these results indicate that trade policies should not be considered in isolation but should also take into account the larger economic and financial factors. In a comparative perspective, the paper concludes that in developed countries, the stability of the economy and monetary policy, together with trade openness, matters much than developing countries which depend heavily on the use of trade instruments and exchange rate policies. This disparity shows the importance of context-specific trade policies, instead of trade policies that fit everyone. This can be achieved through adopting a multi-dimensional approach that takes into consideration a range of performance measures simultaneously and through using the three key trade policies within one econometric model. This work attempts to address some of the limitations that were identified in earlier studies due to the fact that they have only been limited to one measure, one country, or one instrument of policy. Consequences of the policy are enormous. With regard to developed nations, a

policy aimed at promoting financial stability and facilitating international trade appears to work better than the imposition of tariffs. In the case of developing countries, a combination of strategies involving tariff policies, stability of exchange market participants, and macroeconomic policies would be needed not only to sustain economic growth but also to enhance foreign investment. Generally, the research indicates that international trade policies should be complemented by sound macroeconomic policies. However, apart from the contributions made, there are some limitations inherent within this research work; the limitation being the fact that only limited data was considered, there exists a possible endogenous relationship between policy decision on trade and economic performance, and the use of institutional and political factors was not included. Future studies could build upon this study by further refining the analysis conducted, employing dynamic panel data estimation technique and measures of institution quality and trade, providing more insights into the connection between trade policies and economic performance. Overall, this research provides ample empirical proof that the impact of international trade policies and tariffs is not uniform for both advanced and developing countries. Through illuminating the relationship between tools of trade policy and macroeconomic variables, this research not only enriches our understanding of global trade dynamics but also offers useful guidance for policymakers who aim to formulate relevant trade and finance policies in today's interconnected world.

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