

International Trade

International trade is referred to as the exchange or trade of goods and services between different nations. This kind of trade contributes and increases the world economy. The most commonly traded commodities are television sets, clothes, machinery, capital goods, food, and raw material, etc.,

International trade has increased exceptionally that includes services such as foreign transportation, travel and tourism, banking, warehousing, communication, advertising, and distribution and advertising. Other equally important developments are the increase in foreign investments and production of foreign goods and services in an international country. This foreign investments and production will help companies to come closer to their international customers and therefore serve them with goods and services at a very low rate.

All the activities mentioned are a part of international business. It can be concluded by saying that international trade and production are two aspects of international business, growing day by day across the globe.

Foreign trade is exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries.

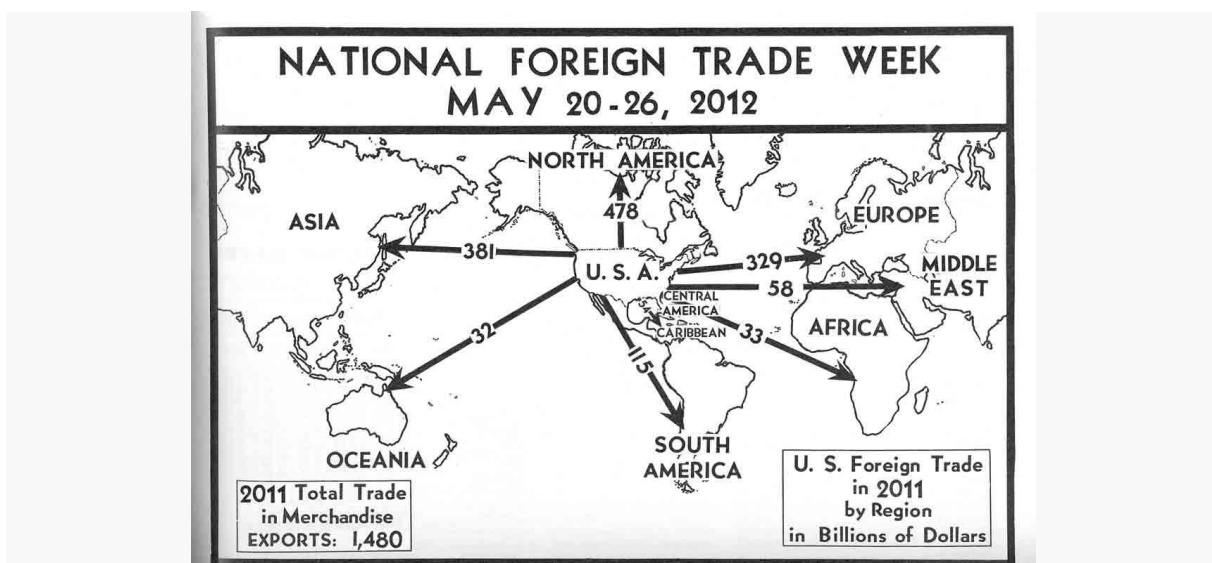


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According to Wasserman and Haltman, “International trade consists of transaction between residents of different countries”.

According to Anatol Marad, “International trade is a trade between nations”.

According to Eugeworth, “International trade means trade between nations”.

Difference between Trade and Commerce

BASIS	TRADE	COMMERCE
Meaning	The possession of goods or services is given from one person to the another in payment of cash or cash equivalents. Trade can be performed between 2 parties or more than 2 parties.	Commerce involves all the activities that aid in promoting the exchange of goods and services from the manufacturer to the last customers. Primarily, the activities are banking, transportation, advertising, warehousing, insurance, etc.,
Scope	Narrow	Broad
Type of Activity	Social	Economic
Association	Between the buyer and seller	Between the manufacturer and customer
Capital requirement	More	Less
Frequency of Transactions	Isolated	Regular

▪ **Classification of International Trade:**

(a) Import Trade:

It refers to purchase of goods from a foreign country. Countries import goods which are not produced by them either because of cost disadvantage or because of physical difficulties or even those goods which are not produced in sufficient quantities so as to meet their requirements.

(b) Export Trade:

It means the sale of goods to a foreign country. In this trade the goods are sent outside the country.

(c) Entrepot Trade:

When goods are imported from one country and are exported to another country, it is called entrepot trade. Here, the goods are imported not for consumption or sale in the country but

for re- exporting to a third country. So importing of foreign goods for export purposes is known as entrepot trade.

▪ **Characteristics of International Trade:**

(i) Separation of Buyers and Producers:

In inland trade producers and buyers are from the same country but in foreign trade they belong to different countries.

(ii) Foreign Currency:

Foreign trade involves payments in foreign currency. Different foreign currencies are involved while trading with other countries.

(iii) Restrictions:

Imports and exports involve a number of restrictions but by different countries. Normally, imports face many import duties and restrictions imposed by importing country. Similarly, various rules and regulations are to be followed while sending goods outside the country.

(iv) Need for Middlemen:

The rules, regulations and procedures involved in foreign trade are so complicated that there is a need to take the help of middle men. They render their services for smooth conduct of trade.

(v) Risk Element:

The risk involved in foreign trade is much higher since the goods are taken to long distances and even cross the oceans.

(vi) Law of Comparative Cost:

A country will specialise in the production of those goods in which it has cost advantage. Such goods are exported to other countries. On the other hand, it will import those goods which have cost disadvantage or it has no specific advantage.

(vii) Governmental Control:

In every country, government controls the foreign trade. It gives permission for imports and exports may influence the decision about the countries with which trade is to take place.

▪ **Need for International Trade:**

In today's world, economic life has become more complex and diversified. No country can live in isolation and claim to be self-sufficient. Even countries with different ideologies, culture, and political, social and economic structure have trade relations with each other. Thus, trade relations of U.S.A. with U.S.S.R. and China with Japan are examples. The aim of international trade is to increase production and to raise the standard of living of the people. International trade helps citizens of one nation to consume and enjoy the possession of goods produced in some other nation.

▪ **Reasons of International Trade:**

1- Reduced dependence on your local market

Your home market may be struggling due to economic pressures, but if you go global, you will have immediate access to a practically unlimited range of customers in areas where there is more money available to spend, and because different cultures have different wants and needs, you can diversify your product range to take advantage of these differences.

2- Increased chances of success

Unless you've got your pricing wrong, the higher the volume of products you sell, the more profit you make, and overseas trade is an obvious way to increase sales. In support of this, UK Trade and Investment (UKTI) claim that companies who go global are 12% more likely to survive and excel than those who choose not to export.

3- Increased efficiency

Benefit from the economies of scale that the export of your goods can bring – go global and profitably use up any excess capacity in your business, smoothing the load and avoiding the seasonal peaks and troughs that are the bane of the production manager's life.

4- Increased productivity

Statistics from UK Trade and Investment (UKTI) state that companies involved in overseas trade can improve their productivity by 34% – imagine that, over a third more with no increase in plant.

5- Economic advantage

Take advantage of currency fluctuations – export when the value of the pound sterling is low against other currencies, and reap the very real benefits. Words of warning though; watch out for import tariffs in the country you are exporting to, and keep an eye on the value of sterling. You don't want to be caught out by any sudden upsurge in the value of the pound, or you could lose all the profit you have worked so hard to gain.

6- Innovation

Because you are exporting to a wider range of customers, you will also gain a wider range of feedback about your products, and this can lead to real benefits. In fact, UKTI statistics show that businesses believe that exporting leads to innovation – increases in break-through product development to solve problems and meet the needs of the wider customer base. 53% of businesses they spoke to said that a new product or service has evolved because of their overseas trade.

7- Growth

The holy grail for any business, and something that has been lacking for a long time in our manufacturing industries – more overseas trade = increased growth opportunities, to benefit both your business and our economy as a whole.

8. Uneven Distribution of Natural Resources:

Natural resources of the world are not evenly divided among the nations of the world. Different countries of the world have different amount of natural resources and they differ with each other in regard to climate, minerals and other factors.

Some countries can produce more of sugar like Cuba, some can produce more of cotton like Egypt, while there are some others which can produce more of wheat like Argentina. But all these countries need sugar, cotton and wheat. So they have to depend upon one another for the exchange of their surpluses with the goods that are in short supply in their country and hence the need for international trade is natural.

9. Division of Labour and Specialisation:

Due to uneven distribution of natural resources, some countries are more suitably placed to produce some goods more economically than other countries. But they are geographically at a disadvantageous position to produce other goods. They specialise in the production of such goods in which they have some natural advantage in the form of availability of raw material, labour, technical know-how, climatic conditions, etc. and get other goods in exchange for these goods from other countries.

10. Differences in Economic Growth Rate:

There are many differences in the economic growth rate of different countries. Some countries are developed some are developing, while there are some other countries which are under-developed: these under-developed and developing countries have to depend upon developed ones for financial help, which ultimately encourages international trade.

▪ Advantages and Disadvantages of International Trade

➤ Advantages of International Trade:

(i) Optimal use of natural resources:

International trade helps each country to make optimum use of its natural resources. Each country can concentrate on production of those goods for which its resources are best suited. Wastage of resources is avoided.

(ii) Availability of all types of goods:

It enables a country to obtain goods which it cannot produce or which it is not producing due to higher costs, by importing from other countries at lower costs.

(iii) Specialisation:

Foreign trade leads to specialisation and encourages production of different goods in different countries. Goods can be produced at a comparatively low cost due to advantages of division of labour.

(iv) Advantages of large-scale production:

Due to international trade, goods are produced not only for home consumption but for export to other countries also. Nations of the world can dispose of goods which they have in surplus in the international markets. This leads to production at large scale and the advantages of large scale production can be obtained by all the countries of the world.

(v) Stability in prices:

International trade ironed out wild fluctuations in prices. It equalizes the prices of goods throughout the world (ignoring cost of transportation, etc.)

(vi) Exchange of technical know-how and establishment of new industries:

Underdeveloped countries can establish and develop new industries with the machinery, equipment and technical know-how imported from developed countries. This helps in the development of these countries and the economy of the world at large.

(vii) Increase in efficiency:

Due to international competition, the producers in a country attempt to produce better quality goods and at the minimum possible cost. This increases the efficiency and benefits to the consumers all over the world.

(viii) Development of the means of transport and communication:

International trade requires the best means of transport and communication. For the advantages of international trade, development in the means of transport and communication is also made possible.

(ix) International co-operation and understanding:

The people of different countries come in contact with each other. Commercial intercourse amongst nations of the world encourages exchange of ideas and culture. It creates co-operation, understanding, cordial relations amongst various nations.

(x) Ability to face natural calamities:

Natural calamities such as drought, floods, famine, earthquake etc., affect the production of a country adversely. Deficiency in the supply of goods at the time of such natural calamities can be met by imports from other countries.

(xi) Other advantages:

International trade helps in many other ways such as benefits to consumers, international peace and better standard of living.

➤ **Disadvantages of International Trade:**

Though foreign trade has many advantages, its dangers or disadvantages should not be ignored.

(i) Impediment in the Development of Home Industries:

International trade has an adverse effect on the development of home industries. It poses a threat to the survival of infant industries at home. Due to foreign competition and unrestricted imports, the upcoming industries in the country may collapse.

(ii) Economic Dependence:

The underdeveloped countries have to depend upon the developed ones for their economic development. Such reliance often leads to economic exploitation. For instance, most of the underdeveloped countries in Africa and Asia have been exploited by European countries.

(iii) Political Dependence:

International trade often encourages subjugation and slavery. It impairs economic independence which endangers political dependence. For example, the Britishers came to India as traders and ultimately ruled over India for a very long time.

(iv) Mis-utilisation of Natural Resources:

Excessive exports may exhaust the natural resources of a country in a shorter span of time than it would have been otherwise. This will cause economic downfall of the country in the long run.

(v) Import of Harmful Goods:

Import of spurious drugs, luxury articles, etc. adversely affects the economy and well-being of the people.

(vi) Storage of Goods:

Sometimes the essential commodities required in a country and in short supply are also exported to earn foreign exchange. This results in shortage of these goods at home and causes inflation. For example, India has been exporting sugar to earn foreign trade exchange; hence the exalting prices of sugar in the country.

(vii) Danger to International Peace:

International trade gives an opportunity to foreign agents to settle down in the country which ultimately endangers its internal peace.

(viii) World Wars:

International trade breeds rivalries amongst nations due to competition in the foreign markets. This may eventually lead to wars and disturb world peace.

(ix) Hardships in times of War: