CHAPTER-9

INTERNATIONAL TRADE

INTERNATIONAL TRADE

International trade refers to the exchange of goods and services among countries across national boundaries.

Importance:

i. International trade bridges the gap between surplus regions and deficit regions through export and imports.

ii. Countries need to trade to obtain commodities, they cannot produce themselves or they can purchase elsewhere at a lower price.

iii. It helps countries in maintaining the specialization in the production of goods and services.

iv. It increases international cooperation and understanding.

v. In early times it played significant role in the cultural diffusion.

HISTORY OF INTERNATIONAL TRADE

The history of international trade has been outline below:

i. In ancient times, trade was restricted to local markets because transporting goods over long distances was risky. Trading commodities were of basic necessity – food and clothes. Only the rich people bought jewellery, costly dresses and this resulted in trade of luxury items.

ii. During Roman Empire, trade was done through the Silk Route from Rome to China (6,000 km route). The traders transported Chinese silk, Roman wool and precious metals and many other high value commodities.

iii. During 12th and 13th century, European traded goods through ocean ships.

iv. 15th century onwards, a new form of trade emerged which was called **slave trade.** African natives were captured and forcefully transported to the newly discovered America for their labour in the plantations. Slave trade was a profitable business for more than two hundred years till it was abolished.

v. After the Industrial Revolution, the industrialised nations imported primary products as raw materials and exported the value added ~~finished products back to~~ the non-industrialised nations.

vi. In the later half of the 19th century, industrial nations traded finished goods between themselves and became each other's principle customers.

vii. During the postwar period, organisations like the World Trade Organisation helped in promoting international trade.

BASIS OF INTERNATIONAL TRADE

The basis of international trade is:

1. Trade arises because of regional differences in production and productivity.

2. It also arises because of great variations in the location and distribution of natural resourc

   a. For e.g. countries differ in climate, mineral availability and geological structure therefore trade arises between them as no one country can produce everything needed by it.

3. Trade arises because some countries specialize in the production of certain goods and services and they are known by their skills.

   a. For e.g. due to cultural diversity different products are famous such as Carpets of Iran, leather of Africa, Batik cloth of Indonesia.

4. Trade arises when the production of certain goods and services exceeds the local consumption levels and it is in short supply elsewhere.

   a. For e.g. country having large size of population cannot trade goods outside the country due to high local demand.

5. Stage of economic development: In agriculturally important countries, agro products are exchanged for manufactured goods whereas industrialised nations export machinery and finished products and import food grains and other raw materials.

6. Extent of foreign investment: Foreign investment can boost trade in developing countries which lack in capital required for the development of industries and agriculture.

7. Transport: With expansions of rail, ocean and air transport, better means of refrigeration and preservation, trade has expanded.

COMPONENTS OF INTERNATIONAL TRADE

The three components/aspects are:

1. Volume of trade-

    a. Volume of trade means the **total value** of goods and services traded.

    b. Services traded cannot be measured in tonnage. Therefore, the **total value** of goods and services traded is considered to be the volume of trade.

    c. The total volume of world trade has been steadily rising over the past decades.

2. Composition of trade-

    a. Composition of trade refers to the nature/type of goods and services traded.

    b. Trade of primary products was dominant in the beginning of the last century. Later manufactured goods gained prominence and currently, service sector which includes travel, transportation and other commercial services have been showing an upward trend.

    c. Machinery and transport equipments are traded largest in the world.

d. Other merchandise are fuel (petroleum) and mining products, office and telecom equipment, chemicals, automobile parts, agricultural products, iron and steel, clothing and textiles.

3. Direction of trade-

a. Direction of trade refers to the movement of goods and services between countries.
b. In earlier times, high value goods and artefacts were exported from present day developing countries to the European countries.

c. In nineteen century the direction of trade changed. European countries started exporting the manufactured goods and high value goods to the developing countries.

d. Europe and U.S.A. emerged as major trading partners in the world and were leaders in the trade of manufactured goods.

e. Now, the developing countries have also started to export manufactured goods to the developed countries

5 How is the trade of the services different from the trade of primary and secondary goods?

. The trade in the service sector is quite different from trade in the products of primary and manufacturing sectors:

a. The trade in services can be expanded infinitely.

b. It can be consumed by many at a same time.

c. It is weightless.

d. And once produced it can be easily replicated.

e. Thus service trade is capable of generating more profit than producing goods
.

The four types of services are

a. Commercial services

b. Travel services

c. Construction services

d. Labour services.

TYPES OF INTERNATIONAL TRADE

The two type of international trade are:

1. Bilateral trade-

   a. In this type of trade the exchange of commodities is between two countries.

   b. If the two countries are complementary to each other the bilateral trade will occur.

   c. It occurs when one country exports raw material and energy sources to the other in exchange of manufacturing goods.

2. Multilateral trade-

    a. In this type of trade the commodities are exchanged between many countries.

    b. The countries may not be complementary to each other.

    The direction of trade is diversified which means that each country export a number of goods.

BALANCE OF TRADE

The difference in value of imports and exports is called balance of trade.

It is of two types:

a. If the value of exports exceeds the value of imports, a country is said to have a favorable balance of trade, while

b. If the value of imports exceeds the value of exports it has unfavorable or adverse or negative balance of trade. A negative balance would mean that the country spends more on buying goods than it can earn by selling its goods. This would ultimately lead to exhaustion of its financial reserves.

FREE TRADE

Free trade is the act of opening up economies for trading. This is done by bringing down trade barriers like tariffs. Free trade allows goods and services from everywhere to compete with domestic products and services.

Its effects on developing economies are:

a. It can adversely affect the economies by not giving equal playing field.

b. Foreign products which are cheaper can destroy local production and thus may create unemployment.
c. Imposing conditions which are unfavourable.

d. **Dumped goods** of cheaper prices can harm the domestic producers

REGIONAL TRADING BLOCS

1. Trading blocs is the groups of countries which have formal systems of trading agreements. Most of the international trade has been taking place within these blocs.

OBJECTIVES AND IMPORTACE OF TRADING BLOCS

- Its main objective is to reduce tariffs and quotas on imports between the member countries.
- It regulates the trade within the bloc and with other trading blocs of the world.
- To encourage free trade between member countries.
- It helps in increasing economic relations among member's countries.

MEMBERSHIP OF TRADING BLOCS DEPEND ON

- Geographical distance of the member countries.
- Historical and cultural relationships.
- Geo-political reasons such as controlling trade in a particular commodity and retaining the power.
- Similarities and complementarities in trading items.

GLOBAL TRADE AFFECTS MANY ASPECTS OF LIFE.

Global trade affects the environment, health and well-being of the people.

i. Due to competition between countries to trade more, production and the use of natural resources has increased.

ii. Resources are used faster than they can renew themselves. As a result, marine life and forests are depleting fast.

iii. Multinational corporations trading in oil, gas mining, pharmaceuticals and agri-business are exploiting local resources and creating more pollution.

iv. Health and well being of people is affected due to pollution and depletion of resources.

SEA PORTS?

Sea port is a place on sea coast where cargo is received from other countries as imports and sent out as exports. Port has facilities for loading and unloading cargo.
Sea ports and harbours are the important gateways of international trade.

i. It acts as a point of exit and entry for a country.

ii. Cargoes and travellers pass from one part of the world to another through these ports.

iii. These ports provide facilities of docking, loading, unloading and the storage facilities for cargo.

iv. The quantity of cargo handled by a port is an indicator of the level of development.

TYPES OF PORTS

(i) **Industrial Ports**: These ports specialise in bulk cargo-like grain, sugar, ore, oil, chemicals and similar materials.

(ii) **Commercial Ports**: These ports handle general cargo-packaged products and manufactured good. These ports also handle passenger traffic.

(iii) **Comprehensive Ports**: Such ports handle bulk and general cargo in large volumes.

Types of ports classified on the basis of their **location**.

(i) Inland port: these ports are located away from the sea coast. They are linked with the sea by river or a canal. Such ports are suitable for only flat bottom ships. Kolkata is located on river Hugli, Manchester.

(ii) Out ports: these are deep water ports built away from the actual port. These act as a parent port. They receive ships which are large in size and thus are unable to dock at the actual port. Athens and Piraeus in Greece.

TYPES OF PORTON THE BASIS OF THE SPECIALIZED TASKS:

(i) Oil ports: these ports deals in processing and shipping of oil. Some of these are tanker ports and some refinery ports. E.g. Tripoli.

(ii) Naval ports: these ports are of strategic importance. They serve only warships. E.g. Kochi.

(iii) Entrepot ports: these ports act as a collection centres. Imported goods are collected and shipped to different countries as exports. E.g. Singapore.

(iv) Packet stations: they are also known as ferry ports. They are concerned with passengers and mail across water bodies covering short distances. They occur in pairs across water body. E.g. Dover and Calais.

(v) Ports of call: these ports provide facilities such as refueling, watering, taking food items to ships on route to other countries. E.g. Aden