Chapter - 11

World : International Trade

Amongst economic activities, trade comes under 'Tertiary activities'. Trade can be divided at two levels - International and National. International trade is exchange of goods and services across borders between different nations. The nations needs to trade in order to get those things which they themselves (the country) can`t produce or which they can buy at lower prices from other places.

International or foreign trade is that trade which take place between two or more than two countries. In contrast, internal or inter-regional trade is done between the people living in a country or between regions. In this way, international trade crosses the political limits of a country whereas, it does not happened in the case of inter-regional (internal) trade. According to Modern Economists such as Ohlin and Ally Hacksar difference between International tarde and Inter-regional trade is quantitative not qualitative.

History of International Trade

In the ancient times, the transport of goods over long distances was risky, that is why the trade was confined to the local markets. At that time, people spent the major part of their resources on the basic necessities, food and clothes. Only the rich people purchased jewellery and expensive clothes and as a result, the trade started for luxury items.

The ancient silk route is an initial example of long distance trade, which connected Rome with China through a 6000 km long route. The traders transported precious metals, textile, spices and many expensive good and the silk made in China through India, Persia (Iran) and middle Asian countries to Rome.

After the disintegration of the Roman Empire, during the 12^{th} and 13^{th} century, there was a growth in European Commerce. With the development of sea warships, the trade increased between Europe and Asia.

The European colonialism started from 15^{th} century and with the trade of foreign goods, a new form of trade emerged, which was known as the 'Slave Trade'.

The Portuguese, Dutch, Spanish and the Britishers caught the natives of Africa and transported them to the newly discovered America as indentured labour. In the second half of the 19^{th} century, the regions producing primary goods were no longer important and the industrial nations became the customers of each other. During the first and second world wars, for the first time, the nations imposed trade tax and numerous restrictions. After the world war, institutions such as (GATT) General Agreement on Tariffs and Trade (which later on became World Trade Organization) assisted in reducing the tariff.

Basis of International Trade

1. Diverrsity in National Resources :

The national resources of the world are unevenly distributed due to differences in physical structures such as- geology, terrain, soil and climate.

(i) The physical structure determines the availability of mineral resources. Spatial variations determine diversity of crops and animals. The agricultural possibilities are more in the lower lands. The mountains attract the tourists and encourage tourism.

(ii) The mineral resources are unevenly distributed in the entire world. The availability of the mineral resources provides the basis for industrial development.

(iii) Climate affects the plants surviving in a particular area and the kinds of plant species. It also determines the diversity of the different products. e.g. The wool production is possible only in the cold areas, banana, rubber and coffee can grow only in the tropical region.

2. Population Factors :

In different countries, the size, distribution and diversity of the population affects the kind and quantity of the good that are traded.

(i) Cultural Factors : Different forms of art and handicraft have developed in various cultures, which are praised in the world. e.g. The superior quality porcelain (utensils of China clay) and brocade (Kismkhab- embroidered cloth) of China, the carpets of Iran are famous. The leather work of North Africa and Indonesia`s boutique (printed) cloth is precious handicraft.

(ii) Size of Population : Internal trade is more in the densely populated countries. The external trade is of less quantity because the majority part of the agricultural and industrial products is consumed at the local markets. The living standard of the population determines the demand for quality imported goods because with low living standard, only a few people can afford expensive imported goods.

(iii) Stages of Economic Development : The nature of goods traded changes in different stages of the economic development of a country. In the agricultural based countries, the agricultural products are exchanged for manufactured products. The industrial countries export machinery and manufactured products and import the edibles and other raw materials.

(iv) Limit of foreign Investment : The foreign investment can encourage trade in the developing countries, which lack the necessary capital for mining, oil mining, heavy engineering, wood junk and plantation agriculture. There is a lack of essential capital for the development of such capital intensive industries in the developing countries. The industrial countries make sure the import of edibles and minerals by development of such capital intensive industries in the developing countries and create the market for their final goods. This entire circle results in the progress of the trade between countries.

(v) Transport : In the olden times, the lack of sufficient and proper means of transport restricted the trade to local areas. Only the high value goods such as gems, silk and spices were traded over a long distance. With the expansion of rail, sea and air transport and better means of refrigeration and preservation, the trade has experienced a spatial expansion.

Important Aspects of International Trade :

(i) Quantity of Trade :

The original weight of the goods traded is called the quantity. While the trading services can`t be measured in weight. That is why, the goods traded and the total value of services is known as quantity of trade.

(ii) Composition of Trade :

In the last century, there had been changes in the goods and kinds of services imported and exported by the countries. In the beginning of the last century, the trade of primary products was predominant. Later on, the manufactured goods gained the importance and presently, the major part of the world trade is under the control of manufacturing field. Services in which, travel, transport and vocational services are included.

(iii) Direction of Trade :

It is known historically, that value based goods and crafts were exported to the European countries from developing countries like India. There was a change in the direction of trade in the 19th century. The European countries started the export of manufactured goods to their colonies in exchange of edibles and raw materials. Europe and U.S.A. emerged as the major trading partners and advanced in the trade of manufactured goods. At that time, Japan was also the third important trading country. In the second half of the 20th century, there were rapid changes in the pattern of world trade. Colonialism ended in Europe, while India, China and other developing countries started competing with the developed countries. Presently, the nature of traded goods has also changed.

(iv) Trade Balance :

Trade Balance documents the goods and quantity of services imported and exported by a country to other countries. If the value of import, is greater than the export, then the trade balance of the country is negative or unfavourable. If the value of export is more in comparison to the import, the trade balance of the country is positive or favourable.

For the economy of a country, there are deeper meanings of trade balance and balance of payments. A positive balance means that the country spends more on the purchased of goods, than it acquires or gains on the selling of its goods. It motivates the ending of financial accumulation in the last form.

Kinds of International Trade

International trade can be classified into two kinds-

(i) Bilateral Trade :

Bilateral trade is done by two countries with each other. They agree to do the trade of decided things. E.g. A country 'A' can agree to pact for the trade of some raw material that a country 'B' will purchase against some other decided material or the situation can be just the opposite.

(ii) Multi-lateral Trade :

As it is clear from the term, multi-lateral trade means that any country can trade with many countries. Any country of the world can accord the status of most favoured nation (MFN) to some trading partner countries.

Advantages / Benefits of International Trade :

Many kinds of economic and socio-cultural benefits are achieved by the international trade. Amongst them, some are static and others are of dynamic kind. Some important advantages of international trade are as follows:-

(i) Increase in Production :

The countries involved in international trade acquire specialization in the production of those goods which they can get ready with a low cost. Each country exports those goods which it produces at lower cost as compared to the other countries. In this way, there is an increase in the production of that good by an increase in the export.

(ii) Increase in National Income :

On acquiring the specialization in the production of any good, more income is received by the exports. This increases the national income of a country. The international trade also increases the growth rate of production level and the economy.

(iii) Issue of Excess :

Before involving in international trade, the resources (land. labour, etc.) which are lying waste, also start getting to be used in trade. In any country, profits can only be made by exporting the produced goods more than the internal needs of the country.

(iv) Skilled Use of Resources :

The countries engaged in international trade acquire specialization in the production of those goods, in whose production they are more skilled. Hence, skilled use of resources is done from the view point of comparative profit.

(v) Advantage of Division of Labour and Specialization :

International trade is an extension of trade outside the borders of country. Hence, it expends the specialization is the production of goods and the areas of the advantages drawn from it. The countries engaged in international trade get all the benefits of regional division of labour and specialization.

(vi) Expansion of Market :

There is an expansion in the limits of the goods and services market of a country by international trade, due to which the supply of goods and services starts in a very big area.

(vii) Production on a large Scale :

Due to the international trade, a country gets the facility of optimum utilization of its natural resources due to the expansion of market area. Due to the increased demand, the production of goods starts on a larger scale for the increase in production.

(viii) Availability of Goods and Services :

Through international trade, the citizens of a country can make use of those goods and services also which are not produced in their own country. such goods and services are imported from other countries. Any country can buy goods from those countries, where its price is lowest.

(ix) Equality in Cost :

Through international trade, equality in the cost of things in established. As a result of this, goods are sent from the areas of low cost to the areas of high cost. In this way, as a result of trading activity, the tendency of equality (similarity) in cost is found.

(x) Cultural Advantage :

The people of various countries come in contact by international trade and become acquainted with the culture, language, religion, tradition, customs, etc. of each other. The business representative commission visit each other`s country. This establishes a mutual co-ordination between them. It is true that international trade is the best propagator of cultural and civilization.

Disadvantages :-

Generally, international trade is considered to be fruitful, but it has some disadvantages also. The major disadvantages are as follows:-

(i) Excessive Exploitation of the natural Resources :

With the objective of earning more and more currency by exporting to foreign countries, generally there is an excessive exploitation of minerals, energy resources, etc. in the developing and undeveloped countries, due to which these resources finish quickly. Due to increased demand of coal, iron, manganese, petroleum, mineral oil, etc. in the industrially developed countries, these materials are exported from the developing countries, as a result their reserves are ending at a rapid pace.

(ii) Isolated Development of the Country :

The foreign trade based on specialization and division of labour, each country does the production of only those goods which it can produce at a lower cost as compared to the other countries. Hence, instead of balanced development in a country, only a few industries develop. Due to one sided development, many resources of the country remain lying waste and hence sometimes face acute economic crises also.

(iii) Foreign Dependence :

Due to international trade, the dependence on other countries increase and the feeling of self-reliance and economic conditions weaken. When the exports and imports get interrupted during any emergency or war-times, adverse economic crisis emerge in the county.

(iv) Adverse Effect of Foreign Competition :

There is a danger to many industries due to the import of comparatively cheap foreign goods. Due to it, many factories get closed in the developing countries and the new industries are unable to establish. In this way, the economy of the country gets dependent on others, it's self-reliance ends. Due to the British trade competetion in the 19^{th} century, numerous small and cottage industries of India were ruined.

(v) Political Slavery :

The resources equipped foreigners (capitalists) and rulers dominateing on the lands of the weaker nations by means of international trade, which endangers the freedom of the country. Due to the present globalisation, new capitalism is expanding.

International Trade Organisations :

1. General Agreement on tariffs and trade (GATT) :

GATT was the first and big international trade agreement which was signed by 96 countries on 30^{th} October, 1947. It was implemented from 1^{st} Jan, 1948. It was a multi-dimensional international treaty which included approximately 80% of the world trade. Having the international working on the pattern of trade liberalization which provided a platform to the different countries of the world to assemble in order to discuss their trade problems and to solve them. The GATT ended on 1^{st} January, 1995 and it was included into the newly formed world trade organization (W.T.O.). GATT was a permanent international organization with its headquarters at Geneva (Switzerland).

2. World Trade Organization (W.T.O.) :

World Trade Origination is an international institution. It was established on 15^{th} April, 1994 and it started working since 1^{st} January, 1995. It has its headquarter at Geneva (Switzerland). It is a new form of the General Agreement on Tariffs and Trade Organization. It is an international working plan on liberalization, globalization and privatization, which has to be followed by all the member nations. There are 164 countries as member of this organization. Since 19^{th} December, 2015. amongst which developed and developing, all kinds of countries included. The majority of the total trade of the world is between these countries. The then director general of GATT, Arthur Dunkel prepared the final preamble of the discussion during Uruguay talks. In September 1991, This 'Dunkel Propsal' was presented in 1992. After discussions, it was accepted on 15^{th} September, 1993. India is also its member nation.

Regional Trade Groups :

The Regional trade groups came into existence is order to increase the trade between the countries with geographical proximity, symmetry and complimentary and to end the restrictions imposed on the trade of developing countries. The development of these trade groups eventually happened as an answer to the failure of global organization in providing pace to the regional trade. These regional groups undoubtedly removed the tariff between member nations and promote free trade but in future, to promote free trade is becoming difficult between the various trade groups. Some major regional trade groups have been listed in Table 11.1.

Table 11.1 : Major Trade Groups

Regional Groups	Head quarter	Member Nations	Origin	Goods	Other Area's of Co-operation
ASEAN	Jakarta Indonesia	Brunei, Indonesia, Malaysia, Singapore, Thailand, Veitnam Myanmar	August 1967	Agro-products, Rubber, Rice, Coconut, Coffee, Minerals, Copper, Coal, nickel and tungsten, energy, petroleum and natural gas and software products.	Speed up the economic growth, cultural development peace and regional stabiltiy
C.I.S.	Minsac, Belarus	Armenia, Azarbaijan, Belarus, Georgia, Kazakhistan, Kyrgystan, Moldova, Russia, Tajikistan, Ukraine, Turkmenistan & Uzbekistan	--	Curde Oil, Natural Gas, Gold, Cotton, Fibre, Aluminium	Economy, security, Co-ordinaton and Co-operation in matters of foreign Policy
E.U. European Union	Brussels, Belgium	Austria, Belgium, Denmark, France, Finland, Ireland, Italy, Netherland, Luxemburg, Portugal, Spain, Sweden & U.K.	E.E.C. March 1957 E.U. February, 1992	Agro products, Minerals, Chemicals, Wood, Papers, Transport, Vehicles, Optical, Instruments, Watches, Handicrafts, archalogical goods	Monopoly with a single currency
Latin American Integration Association	Montevideo Uraguay	Argentina, Bolivia, Brazil, Columbia, Equador, Mexico, Paraguay, Peru, Uruguay, Venezuela	1960	--	--
North American Free Trade Association	--	United States of America	1964	Agro products, Motor Vehicles, Automatic Parts, Computer, Textiles	--
OPEC (Organisation of Petroleum Export Countries)	Vienna	Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, U.A.E. and Venezuela	1949	Unrefined Minral Oil	Co-ordination and integration of mineral oil policies
SAFTA (South Asian Free Trade Agreement)	--	Bangladesh, Maldives, Bhutan, Nepal, India, Pakistan and Sri Lanka	January 2006	--	Reduce the taxes on inter-regional trade

World Trade Organizations and India

The objective of forming the world trade organization is to develop uninterrupted international trade between the various member nations. After the Uruguay proposal (Dunkel), there was a discussion over its positive and negative possibilities for three years in India. Findly, India gave its consent to all Dunkel proposed on 15th December, 1993. There have been significant effects on India due to the working of the world trade organizations.

Data on Foreign Trade

During the first 9 months (April-December 2015) of the financial year 2015-16, the Commerce and Industry Ministry declared the final data of the commodity trade in India on 18th January, 2016. According to these figures, the foreign trade of India is facing a heavy downfall. Due to the downfall in global demand, a negative growth has been recorded in both exports and imports of the country in April-December 2015. Along with the cost of dollar, a negative growth is recorded in the value of rupee. Amongst imports, there is a fall in both the oil imports and non oil imports. Before this in the last financial year 2014-15, there was a negative growth in the value of dollar in the commodity exports and imports of the country. The year 2015-16 will be the continuous second year, when there will be a negative growth in the commodity exports and imports. Due to the downfall in the cost of mineral oil in the international market, a decrease of 41.60 % has been recorded in oil import bill in this duration of nine months, at the same time, the non oil imports have also decreased in this duration. The trade deficit has also decreased in this duration of nine months.

According to these figures of the Ministry of commerce, the commodity exports were (value in dollar-196.60) billion dollars and imports were 295.81 billion dollars in April-December 2015, whereas in the same duration (April-December 2014) in the last year, it was 239.93 billion dollars and 351.61 billion dollars respectively. In this way a fall of 18.06 % in the dollar value of exports and 15.87 % in imports has been recorded. With this, the trade deficit during April-December 2015 has been 99.21 billion dollars. Last year the trade deficit was 111.68 billion dollars in the same duration (April-December 2014). According to these figures, the exports of India have been 12,73,323 crores and the imports have been 19,15,849 crores the first nine months of the 2015-16. In the same duration of the previous financial year the exports and imports of India is terms of rupee value were 14,58,094 corers rupee and 21,36,855 crore rupees respectively. In this way, a fall of 12.67 % in exports and 10.34 % in imports has been recorded during April December 2015. These data of foreign trade have been shown at a glance in the following table: (In dollar Value)

Table 11.2 : Data of Foreign Trade of India At a glance

April- 2014-15		December 2015-16
Exports	239.93	196.60 (-18.06)
Imports	351.61	295.81 (-15.87)
Trade Balance	111.68	99.21
(In Rupee Value) in crores		
Exports	14,58,094	12,73,323 (-12.67)
Imports	21,36,855	19,15,849 (-10.34)
Trade Balance	6,78,761	6,42,526

Note- The figure in the bracket shows the growth percentage in comparison to last year.

During April-December 2015, a fall of 15.84 % has been recorded in the dollar value in the total imports of the country. The oil imports have recorded a fall of 41.60 % in the total value, and the fall in non oil imports has been 3.11 %. The oil imports of the country in April-December 2014 were 116.56 billion dollars, and they were 68.07 billion dollars in April-December 2015. The non oil imports in the same duration have been reduced from 235.05 billion dollars to 227.24 billion dollars.

IMPORTANT POINTS

1. **International Trade :** Is done crossing the political limits of two or more countries. Internal (inter-regional) trade is done between people and regions of the same country.
2. **Basis of International trade :** (i) Diversity in national resources (ii) Population factors (iii) Cultural factors (iv) Size of population (v) Stages of economic development (vi) Limit of foreign investment (vii) Transport
3. **Important aspects of International Trade** : (i) Result of trade (ii) Composition of trade (iii) Directions of trade (iv) Trade Balance
4. **Kinds of International trade :** (i) Bilateral trade (ii) Multi lateral trade.
5. **Advantage of International Trade :** Growth in productions, growth in national income, issue of excess, skilled use of resources, division of labour and specialization, expansion of the market, production on a larger-scale, availability of goods and services, similarity in prices, cultural advantages.
6. **Disadvantages** : Excessive exploitation of the natural resources, isolated development of the countries, foreign dependence, unfavorable effect of foreign competition, political slavery.
7. **International Trade Organizations** :

   GATT : It is the first and large trade agreement of the world. It was established in 1947 and implemented in 1948. Later on, it was ended in January 1995 and been made World Trade Organization (WTO).

8. **GATT :** It was a permanent international organization which had its headquarter at Geneva.

9. **World Trade Organization (WTO) :** It is an international trade instituition. It was established in 1994 and started working on January 1, 1995. This organization is an international work plan of liberalization, globalization and privatization. There are 164 member nations in the organization till 19th December 2015.

10. **Regional Trade Groups** : In it, the tariff is removed on members and groups and free trade is promoted. Such as ASEAN, OPEC, EU, CIS, SAFTA, NAFTA, etc.

11. **World Trade Organization and India** : After the Dunkel Proposal, India gave its consent in 1993. In the foreign trade of India in 2015-16, the exports were of 196.10 billion dollar and imports were 295.81 billion dollars.

EXERCISE

Multiple Choice Type Questions

1. The important aspect of international trade is -

   (A) Population Factors

   (B) Foreign Investment

   (C) Quantity of trade (D) Transport

2. The GATT trade agreement was implemented in-

   (A) 1948 (B) 1995 (C) 1950 (D) 1945

3. The World Trade Organization has its headquarter at-

   (A) Japan (B) France

   (C) U.S.A (D) Geneva

4. The world Trade Organization was established in-

   (A) 1948 (B) 1947

   (C) 1994 (D) 1996

5. Which is a group of International Oil Producing Nations-

   (A) ASEAN (B) OPEC

   (C) SAFTA (D) EU

6. ASEAN has its headquarter at-

   (A) Jakarta (B) Singapore

   (C) Malaysia (D) Vietnam

Very Short Answer Type Questions -

7. Define International Trade.
8. What is GATT ?
9. When was the World Trade Organization established ?
10. Where is the head quarter of WTO?
11. Name any two member countries of ASEAN.

Short Answer Type Questions

12. Write a short note on the history of international trade.
13. Write a note on GATT or W.T.O.
14. Throw light on the advantages of international trade.
15. Explain foreign trade.
16. While explaining the regional trade groups, throw light on any one trade group.

Essay Type Questions

17. Describe the advantages and disadvantages while explaining international trade.
18. Describe the role of India in International trade organization.
19. Describe the important aspects of international trade while explaining its importance.
20. Describe the regional trade groups or organizations.