



- International trade refers to the exchange of goods and services among countries across national boundaries.
- GATT (General Agreement for Tariffs and Trade) was transformed into the World Trade Organisation from 1<sup>st</sup> January 1995.
- WTO Headquarters are located in Geneva, Switzerland.
- Regional Trade Blocs have come up in order to encourage trade between countries with geographical proximity, similarity and complementarities in trading items and to curb restrictions on trade of the developing world.
- Today, 120 regional trade blocs generate 52 per cent of the world trade.
- The practice of selling a commodity in two countries at a price that differs for reasons not related to costs is called dumping.

### HISTORY OF INTERNATIONAL TRADE

Q.1 Describe the changes that have occurred in international trade since ancient times to present century.

Ans. The history of international trade has been outline below:

- In ancient times, trade was restricted to local markets because of long distances risks. 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.
- 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.
- During 12<sup>th</sup> and 13<sup>th</sup> century, European traded goods through ocean ships.
- 15<sup>th</sup> 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.
- After the Industrial Revolution, the demand for raw materials like grains, meat, wool also expanded, but their monetary value declined in relation to the manufactured goods.
- In the later half of the nineteenth century, regions producing primary goods were no more important, and industrial nations became each other's principle customers.
- During the World Wars I and II, countries imposed trade taxes and quantitative restrictions for the first time.
- During the postwar period, organisations like the World Trade Organisation, helped in reducing taxes.

### BASIS OF INTERNATIONAL TRADE

Q.2 Why does the international trade exists? */OR/* Explain the factors on which the international trade depends. */OR/* Describe the five basis of international trade.

Ans. The basis of international trade is:

- Difference in national resources:** The world's national resources are unevenly distributed because of differences in their physical make up. .
  - Geological structure:**
    - Geology determines the mineral resource base and topographical (relief) differences ensure diversity of crops and animals raised.

- ii. E.g. Lowlands have greater agricultural potential, Mountains attract tourists and promote tourism.
- b. **Mineral resources:**
  - i. They are unevenly distributed the world over.
  - ii. The availability of mineral resources provides the basis for industrial development.
- c. **Climate:**
  - i. It influences the type of flora and fauna that can survive in a given region.
  - ii. It also ensures diversity in the range of various products,
  - iii. e.g. wool production can take place in cold regions, bananas, rubber and cocoa can grow in tropical regions.
- 2. **Population factors:** The size, distribution and diversity of people between countries affect the type and volume of goods traded.
  - a. **Cultural factors:**
    - i. Distinctive forms of art and craft develop in certain cultures which are valued the world over,
    - ii. e.g. China produces the finest porcelains and brocades. Carpets of Iran are famous while North African leather work and Indonesian batik cloth are prized handicrafts.
  - b. **Size of population:**
    - i. Densely populated countries have large volume of internal trade but little external trade because most of the agricultural and industrial production is consumed in the local markets.
    - ii. Standard of living of the population determines the demand for better quality imported products because with low standard of living only a few people can afford to buy costly imported goods.
- 3. **Stage of economic development:**
  - a. In agriculturally important countries, agro products are exchanged for manufactured goods
  - b. Whereas industrialised nations export machinery and finished products and import food grains and other raw materials.
- 4. **Extent of foreign investment:**
  - a. Foreign investment can boost trade in developing countries which lack in capital required for the development of mining, oil drilling, heavy engineering, lumbering and plantation agriculture.
  - b. By developing such capital intensive industries in developing countries, the industrial nations ensure import of food stuffs, minerals and create markets for their finished products.
- 5. **Transport:**
  - a. With expansions of rail, ocean and air transport, better means of refrigeration and preservation, trade has experienced spatial expansion.

### **TYPES OF INTERNATIONAL TRADE**

Q.3 What are the two Types of international trade? Explain characteristics of each.

Ans. The two type of international trade are:

1. Bilateral trade-
  - a. the exchange of commodities is between two countries.
  - b. If the two countries are complementary to each other the bilateral trade will occur. It occurs when one country exports raw material and energy sources to the other in exchange of manufacturing goods.
2. Multilateral trade-
  - a. 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.

Q.4 What is balance of trade? Explain its two types.

Ans. 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.

Q.5 What is free trade?

Ans. 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.

Q.6 What are the concerns of free trade?

Ans.

1. Globalisation along with free trade can adversely affect the economies of developing countries by not giving equal playing field by imposing conditions which are unfavourable.
2. Free trade should not only let rich countries enter the markets, but allow the developed countries to keep their own markets protected from foreign products.
3. Countries also need to be cautious about dumped goods; as along with free trade dumped goods of cheaper prices can harm the domestic producers.

Q.8 What are the objectives of WTO?

Ans. It sets the rules for the global trading system and resolves disputes between its member nations. WTO also covers trade in services, such as telecommunication and banking, and others issues such as intellectual rights.

Q.9 Why WTO is criticized by those who are worried about free trade and globalisation?

Ans.

1. It is argued that free trade does not make ordinary people's lives more prosperous.
2. It is actually widening the gulf between rich and poor by making rich countries richer.
3. This is because the influential nations in the WTO focus on their own commercial interests.
4. Moreover, many developed countries have not fully opened their markets to products from developing countries.
5. It is also argued that issues of health, worker's rights, child labour and environment are ignored.

Q.10 How international trade can be mutually beneficial to nations?

Ans. It can be mutually beneficial to nations if it leads to regional specialisation, higher level of production, better standard of living, worldwide availability of goods and services, equalisation of prices and wages and diffusion of knowledge and culture.

Q.11 How international trade can be detrimental to nations?

Ans.

- i. It leads to more and more dependence on other countries,
- ii. It creates uneven levels of development between countries and regions,
- iii. It leads to exploitation and commercial rivalry between nations and which in turn leads to wars.

- iv. It affects the environment, health and well-being of people. Due to competition between countries to trade more, production and the use of natural resources has increased.
- v. Resources are used faster than they can renew themselves. As a result, marine life and forests are depleting fast.
- vi. Multinational corporations trading in oil, gas mining, pharmaceuticals and agri-business are exploiting local resources and creating more pollution.
- vii. Profits making international companies are causing environmental and health concerns.

Q.12 Why sea ports and harbours are also known as 'Gateways of International Trade'?

Ans. Sea ports and harbours are the important gateways of international trade.

- i. The chief gateways of the world of international trade are the harbours and ports.
- 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 of its hinterland.

### **TYPES OF PORTS**

Q.13 What are the different types of ports? Give examples of each port.

Ans. Types of port according to cargo handled:

- (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. Rhine has several ports like Mannheim and Duisburg; 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 ports classified on 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 is entrepot for Asia.
- (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 in England and Calais in France.
- (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