

TOPIC: BENEFITS AND TYPES OF INTERNATIONAL TRADE

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International trade

International trade is the process of exchange of goods and services between countries. This includes both imports and exports and via any mode of transportation – air and ocean freight. Import and export together fuel economic interactions and growth between countries.

Export: Process of selling goods and services to other countries.

Import: Process of buying goods and services from other countries.

Definition of International Trade

International trade is an exchange involving a good or service conducted between at least two different countries. The exchanges can be imports or exports. An import refers to a good or service brought into the domestic country. An export refers to a good or service sold to a foreign country.

International Trade Happen

International trade allows domestic markets to provide a variety of goods and services to their citizens that they would have otherwise been unavailable or restricted. Some of the key reasons why international trade is practised widely are:

1. Availability of resources

Different countries are rich in different resources. Resources like petrol and even consumables are required across the world, but not every country produces it. These resources could also be land, labour, capital and natural resources including steel, gold and diamonds. For example, Middle East countries have rich oil reserves, and so they are capable of exporting oil to countries that do not have domestic oil fields.

2. Production of goods

Due to the non-availability of a few natural resources, it becomes impossible for a country to produce all types of goods that require such raw materials. The other factors that impact production capabilities are labour, capital and services that are accessible at various rates across the world. This is why international trade is necessary.

3. Cost of production

Countries usually find it profitable to create only those goods and services that can be produced efficiently with minimum effort and expense. For example, India is home to many spices as it holds the benefit of agricultural lands that many international countries do not have. Thus, India is one of the top exporters of spices across the world.

4. Technology

Technology is another factor that creates the demand for importing and exporting goods and services. Many countries face problems due to the limitation of technology and infrastructure. Services such as banking, communication, advertising and transportation use modern-day technology and countries who hold expertise in this sector help other countries through international trade.

Benefits of International Trade

International trade contributes to better business opportunities, higher living standards, thus, leading to improvement in the world economy, while also providing customers with the variety to choose from products across the globe. Some of the advantages of international trade are:

1) Utilization of resources

Through the establishment of international trade, several countries use their locally available resources and raw materials by exporting it to other countries that need them. For instance, countries in the Middle East export oil – which has a high demand in countries like India.

2) More variety for customers

Apart from comparative advantage and relative input costs, one of the key benefits to customers from international trade is a range of products. For instance, Indian ethnic wear is sold in marketplaces across the world, like Gucci from Italy is available in India. This allows customers to choose from a large variety depending on their tastes and preferences.

3) Competitive pricing

As a result of international trade, the global market has become more competitive. This competition encourages countries to produce high quality goods to grow their exports. As more producers market their goods, individuals get the advantage of competitive pricing.

4) Economy growth

As more countries engage in international trade, foreign investment increases. When producers invest money or resources in producing goods outside of their country of origin, it is termed as Foreign Direct Investment (FDI). A country may realize that labor is cheaper in another country and choose to build a manufacturing plant there to produce its goods to cut production costs.

Types of International trade

International trade is broadly categorized under two types:

1. Bilateral trade

Bilateral trade is the exchange of goods between two countries – consider the barter system as an example here, where two countries agree to trade a commodity in return for another commodity. For instance, country X might export machinery to country Y in exchange for oil.

2. Multilateral trade

Multilateral trade is the exchange of goods between more than two countries. One country might enter into trade agreements with multiple countries at a time.

International trade allows countries to expand their markets and access goods and services that otherwise may not have been available domestically. As a result of international trade, the market is more competitive. This ultimately results in more competitive pricing and brings a cheaper product home to the consumer.

Importance of International Trade

International trade has been an important aspect of human civilization for centuries. It allows businesses to grow and economies to develop by providing opportunities for exchanging goods and services with other countries.

International trade is important for businesses, employment growth, the consumer market, and economic development.

International trade between different countries is an important factor in raising living standards, providing employment and enabling consumers to enjoy a greater variety of goods. International trade has occurred since the earliest civilisations began trading, but in recent years international trade has become increasingly important with a larger share of GDP devoted to exports and imports.

- **Business Growth:** International trade provides opportunities for businesses to sell their goods and services in new markets, leading to increased profits and growth for businesses.
- **Employment Growth:** International trade can create new job opportunities in both the exporting and importing countries.
- **Bigger Consumer Market:** International trade opens new markets for businesses to sell goods and services. This can lead to increased sales and revenue.

- **Economic Development:** International trade can help developing countries grow their economies by providing new market opportunities.
- **Global Growth:** International trade allows businesses to tap into new markets and expand their operations, leading to global growth and development.

Barriers to International Trade

There are several possible barriers to international trade. These include:

- **Tariffs:** A tariff is a tax on imported goods, and tariffs can make imported goods more expensive, reducing demand for those goods.
- **Quotas:** A quota limits the quantity of a good that can be imported into a country. Quotas can make it more difficult for businesses to access foreign markets.
- **Non-Tariff Barriers:** Non-tariff barriers are restrictions on trade that are not related to prices or quantities. These can include licensing requirements, inspection requirements, and product standards.
- **Currency Fluctuations:** Currency fluctuations can make it more expensive to trade in foreign currencies, leading to higher prices for imported goods and reduced demand for those goods.