INTERNATIONAL TRADE

International trade is the exchange of capital, goods, and services across international borders or territories because there is a need or want of goods or services.

Or

In simple words, it means the export and import of goods and services. Export means selling goods and services out of the country, while import means goods and services flowing into the country.

Key features:

- International trade is the exchange of goods and services between countries.
- Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries, or which would be more expensive domestically.
- The importance of international trade was recognized early on by political economists like Adam Smith and David Ricardo.
- Still, some argue that international trade actually can be bad for smaller nations, putting them at a greater disadvantage on the world stage.

TYPES OF INTERNATIONAL TRADE

There are three types of international trade: Export Trade, Import Trade and Entrepot Trade. Export and import trade we have already covered above. Entrepot Trade is a combination of export and import trade and is also known as Re-export. It means importing goods from one country and exporting it to another country after adding some value to it.
For instance, India imports gold from China makes jewelry from it and then exports it to other countries.

WHAT'S THE NEED FOR AN INTERNATIONAL TRADE?

Countries go for trade internationally, when there are not enough resources or capacity to meet the domestic demand. So, by importing the needed goods, a country can use their domestic resources to produce what they are good at. Then, the country can export the surplus in the international market. Primarily, a nation imports goods and services for the following reasons:

PRICE

If foreign companies can produce or offer goods and services more cheaply, then it may be beneficial to go for foreign trade.

QUALITY

If the companies abroad can offer good and services of superior quality. For instance, Scotch Whiskey from Scotland is considered to be superior. Scotland exports around 37 bottles of Scotch per second.

AVAILABILITY

If it is impossible to produce that product domestically, like a special variety of fruit or a mineral. For instance, Japan has no natural reserves of oil, and thus, it imports all its oil.

DEMAND

If a demand for a product or services is more in a country than what it can domestically produce, then it goes for import.

ADVANTAGES OF INTERNATIONAL TRADE

COMPARATIVE ADVANTAGE

It allows countries to specialize in producing only those goods and services, which it is good at.

ECONOMIES OF SCALE

If a country wants to sell its goods in the international market, it will have to produce more than what is needed to meet the domestic demand. So, producing higher volume leads to economies of scale, meaning the cost of producing each item is reduced.

COMPETITION

Selling goods and services in the foreign market also boosts the competition in that market. In a way, it is good for local suppliers and consumers as well. Suppliers will have to ensure that their prices and quality is competitive enough to meet the foreign competition.

TRANSFER OF TECHNOLOGY

International trade often leads to the transfer of technology from a developed nation to the developing nation. Govt. in the developing nation often lay terms for foreign companies that involve developing local manufacturing capacities.

MORE JOB CREATION

Increase in international trade also creates job opportunities in both countries. That's a major reason why big trading nations like the US, Japa, and South Korea have lower unemployment rates.

DISADVANTAGES OF INTERNATIONAL TRADE

OVER-DEPENDENCE

Countries or companies involved in the foreign trade are vulnerable to global events. An unfavorable event may impact the demand of the product, and could even lead to job losses. For instance, the recent US-China trade war is adversely affecting the Chinese export industry.

UNFAIR TO NEW COMPANIES

New companies or start-ups who don't have much resources and experience may find it difficult to compete against the big foreign firms.

A THREAT TO NATIONAL SECURITY

If a country is over dependant on the imports for strategic industries, then exporters may force it to take a decision that may not be in the national interest.

PRESSURE ON NATURAL RESOURCES

A country only has limited natural resources. But, if it opens its doors to the foreign companies, it could drain those natural resources much quicker.