

CHAPTER 8

International Trade

2MARKS

Question 1.

Define trade.

Answer:

Trade means voluntary exchange of goods and services where for both the parties trade is mutually beneficial.

Question 2.

What are the two levels at which trade can be conducted?

Answer:

National and International are two levels at which trade can be conducted.

Question 3.

Why do countries trade with each other?

Answer:

Countries need to trade to obtain commodities that they cannot produce themselves, or they can get elsewhere at lower price.

Question 4.

What is meant by barter system?

Answer:

Barter system is practiced in primitive society where direct exchange of goods take place.

Question 5.

Which two countries were connected by the silk route?

Answer:

Italy and China were connected by the silk route.

Question 6.
Define Slave Trade.

Answer:

15th .century onwards, the Europeans used to capture African natives and forcefully transport them to the newly discovered Americas for their labour in the plantations as slaves. So, slave trade was a lucrative business.

Question 7.
What is considered as volume of trade?

Answer:

The total value of goods and services traded makes up the volume of trade.

Question 8.
What is balance of trade?

Answer:

Balance of Trade records the value of the goods and services imported as well as exported by the country to the other countries.

Question 9.
What is dumping?

Answer:

Dumping is the practise of selling a commodity in two countries at a price that differs for reasons not related to cost.

Question 10.
When was WTO formed? Where are its headquarters?

Answer:

In 1948, General Agreement for Tariffs and Trade was formed. In 1994, it was decided to set up a permanent institution to look after free and fair trade among nations, and thus GATT was transferred to World Trade Organisation from 1-January-1995. Its headquarters are located in Geneva, Switzerland.

Question 11 .

Where are the headquarters of following located:

- (a) ASEAN
- (b) EU
- (c) LAIA
- (d) OPEC
- (e) CIS

Answer:

- (a) Jakarta
- (b) Brussels, Belgium
- (c) Montevideo, Uruguay
- (d) Vienna, Austria
- (e) Minsk, Belarus

Question 12.

What is hinterland?

Answer:

Hinterland is the area served by the port – area of influence.

Question 13.

Kolkata port is located on which river?

Answer:

Kolkata port is located on the river Hoogly.

Question 14.

Name the packet stations across the English Channel?

Answer:

Dover in UK and Calais in France are packet stations across the English channel.

Question 15.

What was the initial form of trade in primitive societies?

Answer:

The initial form of trade in primitive societies was the barter system, where direct exchange of goods took place. For example, person producing wheat will exchange it for rice, clothes and other goods he needs from their respective producers.

Question 16.**How did the word salary come into use?****Answer:**

The word 'salary' comes from the Latin word 'Salarium' which means payment by salt. As in those times producing salt from sea water was unknown and could only be made from rock salt which was rare and expensive. That is why it became a mode of payment.

Question 17.**Why was Silk Route important in ancient times?****Answer:**

The Silk Route was connecting Rome to China. It was along the 6,000 km route. The traders transported Chinese silk, Roman wool and precious metals and many other high value commodities from intermediate points in India, Persia and Central Asia.

Question 18.**When and how did slave trade begin?****Answer:**

Slave trade began in the fifteenth century. The Portuguese, Dutch, Spaniards, and British captured African natives and forcefully transported them to the newly discovered Americas for their labour in the plantations. Slave trade was a lucrative business for more than two hundred years. Later on, it was banned.

Question 19.**What are important aspects of international trade?****Answer:**

International trade has three important aspects:

- Volume of trade
- Sectoral composition of trade
- Direction of trade.

Question 20.**How do we evaluate the importance of a port?****Answer:**

The importance of a port is judged by the size of cargo and the number of ships handled. The quantity of cargo handled by a port is an indicator of the level of development of its hinterland.

Question 21.**What is the main objective of WTO?****Answer:**

The main objective of WTO is to promote international trade. It is the only international organisation dealing with the global rules of trade among nations. 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.

Question 22.**Write a brief note on NAFTA.****Answer:**

NAFTA stands for North American Free Trade Association. It was formed in 1994. Its member countries are USA, Canada and Mexico. It deals in agro products, minerals, chemicals, wood, paper, transport vehicles, optical instruments.

Question 23.**Write a brief note on OPEC.****Answer:**

OPEC stands for Organisation of Petroleum Exporting Countries. It was formed in 1949. It deals in crude petroleum. Its aim is to coordinate and unify petroleum policies.

Question 24.**Write a brief note on EU.****Answer:**

EU stands for European Union. It was formed in 1992. It has a single market with a single currency. Its headquarters is in Brussels,

Belgium. Its member nations are Austria, Belgium, Denmark, France, Finland, Ireland, Italy, Netherlands, Luxemburg, Portugal, Spain and Sweden.

5MARKS

Question 1.

Why does international trade exist?

Answer:

International trade is based on the principle of comparative advantage, complementarity and transfer ability of goods and services and in principle, should be mutually beneficial to the trading partners. International trade is the result of specialization in production. It benefits the world economy if different countries practise specialization and division of labour in the production of commodities or provision of services. Each kind of specialization can give rise to trade. It is the basis of world's economic organisation and is related to foreign policies of nation. It is essential as no country is self sufficient.

Question 2.

Explain how 'difference in national resources' act as basis of international trade.

Answer:

The world's national resources are unevenly distributed because of differences in their physical make up i.e. geology, relief soil and climate.

- Geological structure: It determines the mineral resource base and topographical differences ensure diversity of crops and animals raised. Lowlands have greater agricultural potential. Mountains attract tourists and promote tourism.
- Mineral resources: They are unevenly distributed the world over. The availability of mineral resources provides the basis for industrial development.
- Climate: It influences the type of flora and fauna that can survive in a given region. It also ensures diversity in the range of various

products, e.g. wool production can take place in cold regions, bananas, rubber and cocoa can grow in tropical regions.

Question 3.

Explain how ‘population factors’ influence the basis of international trade.

Answer:

Population factors: The size, distribution and diversity of people between countries affect the type and volume of goods traded.

- Cultural factors: Distinctive forms of art and craft develop in certain cultures which are valued the world over, 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.
- Size of population: 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. 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.

Question 4.

Write a short note on balance of trade.

Answer:

Balance of trade records the volume of goods and services imported as well as exported by a country to other countries. If the value of imports is more than the value of a country's exports, the country has negative or unfavourable balance of trade. If the value of exports is more than the value of imports, then the country has a positive or favourable 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.

Question 5.

What is trade? What are the types of international trade?

Answer:

Trade means voluntary exchange of goods and services where for both the parties trade is mutually beneficial. International trade may be categorized into two types:

- **Bilateral trade:** Bilateral trade is done by two countries with each other. They enter into agreement to trade specified commodities amongst them. For example, country A may agree to trade some raw material with agreement to purchase some other specified item to country B or vice versa.
- **Multi-lateral trade:** As the term suggests multi-lateral trade is conducted with many trading countries. The same country can trade with a number of other countries. The country may also grant the status of the “Most Favoured Nation” (MFN) on some of the trading partners.

Question 6.

Define Free trade. What are its effects?

Answer:

The act of opening up economies for trading is known as free trade or trade liberalization. This is done by bringing down trade barriers like tariffs. Trade liberalization allows goods and services from everywhere to compete with domestic products and services.

Globalization along with free trade can adversely affect the economies of developing countries by not giving equal playing field by imposing conditions which are unfavorable. With the development of transport and communication systems goods and services can travel faster and farther than ever before. But 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.

Question 7.

What are regional trade blocs? Why were they formed?

Answer:

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. These trading blocs developed as a response to the failure of the global organisations to speed up intra-regional trade. Though, these regional blocs remove trade tariffs within the member nations and encourage free trade, in the future it could get increasingly difficult for free trade to take place between different trading blocs.

Question 8.

What are the advantages of international trade?

Answer:

Undertaking international trade is mutually beneficial to nations if it leads to regional specialization, higher level of production, better standard of living, worldwide availability of goods and services, equalization of prices and wages and diffusion of knowledge and culture.

Question 9.

What are the concerns related with international trade?

Answer:

International trade can prove to be detrimental to nations if it leads to dependence on other countries, uneven levels of development, exploitation, and commercial rivalry leading to wars. Global trade affects many aspects of life; it can impact everything from the environment to health and well-being of the people around the world. As countries compete to trade more, production and the use of natural resources spiral up, resources get used up faster than they can be replenished. As a result, marine life is also depleting fast, forests are being cut down and river basins sold off to private drinking water companies. Multinational corporations trading in oil, gas mining, pharmaceuticals and agri-business keep expanding their operations at all costs creating more pollution – their mode of work does not follow the norms of sustainable development. If organisations are geared only towards profit making, and environmental and health concerns are not addressed, then it could lead to serious implications in the future.

Question 10.

Explain the types of ports on the basis of type of traffic they control.

Answer:

Generally, ports are classified according to the types of traffic which they handle. Types of port according to cargo handled:

- **Industrial Ports:** These ports specialise in bulk cargo-like grain, sugar, ore, oil, chemicals and similar materials.
- **Commercial Ports:** These ports handle general cargo-packaged products and manufactured good. These ports also handle passenger traffic.
- **Comprehensive Ports:** Such ports handle bulk and general cargo in large volumes. Most of the world's great ports are classified as comprehensive ports.

Question 11.

Define ports. Classify them on the basis of location.

Answer:

Ports are collection and distribution centres for commodities for export and import. Cargoes and travellers pass from one part of the world to other through these ports. Types of port on the basis of location:

- **Inland Ports:** These ports are located away from the sea coast. They are linked to the sea through a river or a canal. Such ports are accessible to flat bottom ships or barges. For example, Manchester is linked with a canal; Memphis is located on the river Mississippi; Rhine has several ports like Mannheim and Duisburg; and Kolkata is located on the river Hoogli, a branch of the river Ganga.
- **Out Ports:** These are deep water ports built away from the actual ports. These serve the parent ports by receiving those ships which are unable to approach them due to their large size. Classic combination, for example, is Athens and its out port is Piraeus in Greece.

Question 12.

What are the facilities that are provided by the ports?

Answer:

The chief gateways of the world of international trade are the harbours and ports. Cargoes and travellers pass from one part of the world to another through these ports. The ports provide facilities of docking, loading, unloading and the storage facilities for cargo. In order to provide these facilities, the port authorities make arrangements for maintaining navigable channels, arranging tugs and barges, and providing labour and managerial services. The importance of a port is judged by the size of cargo and the number of ships handled. The quantity of cargo handled by a port is an indicator of the level of development of its hinterland.

Question 13.

Explain the factors on which the international trade depends.

Give example.

Answer:

The basis of international trade are:

- Trade arises because of regional differences in production and productivity.
- It also arises because of great variations in the location and distribution of natural resources.

For example; countries differ in climate, mineral availability and geological structure. Therefore trade arises between them as no one country can produce everything whatever it requires.

Question 14.

How is the trade of services different from the trade of primary and manufacturing sectors?

Answer:

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

- The trade in services can be expanded infinitely. .

- It can be consumed by many at the same time.
- It is weightless.
- Once produced it can be easily replicated.
- Thus, service trade is capable of generating more profit than producing goods.

Question 15.

Explain how the global trade affects many aspects of life.

Answer:

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

- Due to competition between countries to trade more, production and the use of natural resources has increased.
- Resources are used faster than they can renew themselves. As a result, marine life and forests are depleting fast.
- Multinational corporations trading in oil, gas mining, pharmaceuticals and agri-business are exploiting local resources and creating more pollution.
- Health and well being of people is affected due to pollution and depletion of resources

Question 16.

What are the impacts of negative Jbalance of trade?

Answer:

Negative balance of trade is detrimental for a nation because:

- It results in fall in the value of domestic currency in terms of foreign currency.
- It indicates poor production of a country.
- It increases the pressure of international loans and hence of payment of not only sum but also of international interest. It increases the say of international agencies like IMF in the functioning of economy.
- It creates inflationary pressure in the domestic economy.

7MARKS

Question 1.

Write a note on history of international trade.

Answer:

In ancient times, transporting goods over long distances was risky, hence trade was restricted to local markets. Only the rich people bought jewellery, costly dresses and this resulted in trade of luxury items. The Silk Route is an early example of long distance trade connecting Rome to China – along the 6,000 km route. The traders transported Chinese silk, Roman wool and precious metals and many other high value commodities from intermediate points in India, Persia and Central Asia.

After the disintegration of the Roman Empire, European commerce grew during twelfth and thirteenth centuries with the development of ocean going warships trade between Europe and Asia grew and the Americas were discovered.

Fifteenth century onwards, the Portuguese, Dutch, Spaniards, and British captured African natives and forcefully transported them to the newly discovered Americas for their labour in the plantations, thus slave trade emerged. Slave trade was a lucrative business for more than two hundred years. ‘

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.

The industrialised nations imported primary products as raw materials and exported the value added finished products back to the non-industrialised nations. 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 post war period, organisations like General Agreement for Tariffs and Trade (which later became the World Trade Organisation), helped in reducing tariff.

Question 2.

Give the significance of ‘stage of economic development ‘and ‘extent of foreign investments’ as bases of international trade in detail.

Answer:

Stage of economic development: At different stages of economic development of countries, the nature of items traded undergo changes. 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.

Extent of foreign investment: 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. 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. This entire cycle steps up the volume of trade between nations.

Question 3.

List the functions and criticism of World Trade Organisation (WTO).

Answer:

WTO is the only international organisation dealing with the global rules of trade between nations. 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. The WTO has however been criticized and opposed by those who are worried about the effects of free trade and economic globalization. It is argued that free trade does not make ordinary people’s lives more prosperous. It is actually widening the gulf between rich and poor by making rich countries more rich. This is because the influential nations in the WTO focus on their own commercial interests. Moreover, many developed countries have not fully opened their markets to products from developing countries. It is also argued that issues of health, worker’s rights, child labour and environment are ignored.

Question 4.

What are the types of ports on the basis of specialized functions?

Answer:

Types of port on the basis of specialized functions:

- **Oil Ports:** These ports deal in the processing and shipping of oil. Some of these are tanker ports and some are refinery ports. Maracaibo in Venezuela, Esskhira in Tunisia, Tripoli in Lebanon are tanker ports. Abadan on the Gulf of Persia is a refinery port.
- **Ports of Call:** These are the ports which originally developed as calling points on main sea routes where ships used to anchor for refueling, watering and taking food items. Later on, they developed into commercial ports. Aden, Honolulu and Singapore are good examples.
- **Packet Station:** These are also known as ferry ports. These packet stations are exclusively concerned with the transportation of passengers and mail across water bodies covering short distances. These stations occur in pairs located in such a way that they face each other across the water body, e.g. Dover in England and Calais in France across the English Channel.
- **Entrepot Ports:** These are collection centres where the goods are brought from different countries for export. Singapore is an entrepot for Asia. Rotterdam for Europe, and Copenhagen for the Baltic region.
- **Naval Ports:** These are ports which have only strategic importance. These ports serve warships and have repair workshops for them. Kochi and Karwar are examples of such ports in India.

Question 5.

What factors act as a basis of international trade? Discuss.

Answer:

International trade is the result of specialization in production. These are the following factors which act as a basis of international trade.

(i) **Difference in national resources:** The world's national resources are unevenly distributed because of differences in their physical make up, i.e. geology, relief soil and climate.

- Geological structure: It determines the mineral resource base and topographical differences ensure diversity of crops and animals raised. Mountains attract tourists and promote tourism.
- Mineral resources: They are unevenly distributed in the world. The availability of mineral resources provides the basis for industrial development.
- Climate; Climate influences the type of flora and fauna that can survive in a given region. It also ensures diversity in the range of various products.

(ii) Population factors: The size, distribution and diversity of people between countries affect the type and volume of goods traded.

- Cultural factors: Distinctive forms of art and craft develop in certain cultures which are valued the world over.
- Size of population: Densely populated countries have large volume of internal trade.

(iii) Stage of economic development: At different stages of economic development of countries, the nature of items traded undergoes changes.

(iv) Extent of foreign investment: 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. The industrial nations ensure import of foodstuffs, minerals and create markets for their finished products.

(v) Transport: In olden times, lack of adequate and efficient means of transport restricted trade to local areas. Only high value items, e.g. gems, silk and spices were traded over long distances.

Question 6.

Explain different aspects of international trade.

Answer:

International trade has three important aspects. These are volume, sectoral composition and direction of trade.

- **Volume of Trade:** The actual tonnage of goods traded makes up the volume. However, services traded cannot be measured in tonnage. Therefore, the total value of goods and services traded is considered to be the volume of trade.
- **Composition of Trade:** It refers to the items of which trade consists of. The nature of goods and services imported and exported by countries have undergone changes during the last century. Trade of primary products was dominant in the beginning of the last century. Later manufactured goods gained prominence. Service sector which includes travel, transportation and other commercial services have been showing an upward trend
- **Direction of Trade:** It refers to the countries with which a country has trade relations. Like India's majority of trade was with UK during colonial rule. The developing countries of the present used to export valuable goods and artefacts, etc., which were exported to European countries. During the 19th century there was a reversal in the direction of trade. European countries started exporting manufactured goods for exchange of foodstuffs and raw materials from their colonies. Europe and U.S.A. emerged as major trade partners in the world and were leaders in the trade of manufactured goods. The world trade pattern underwent a sea change during the second half of the twentieth century. Europe lost its colonies while India, China and other developing countries started competing with developed countries.

Question 7.

Distinguish between inland port and out port.

Answer:

Inland Ports,	Out Ports
(i) These ports are located away from the sea coast. They are linked	(i) These are deep water ports built

to the sea through a river or a canal.	away from the actual ports.
(ii) Such ports are accessible to flat bottom ships or barges.	(ii) These serve the parent ports by receiving those ships which are unable to approach them due to their large size.
(iii) For example, Manchester is linked with a canal; Memphis is located on the river Mississippi; Kolkata is located on the river Hoogli.	(iii) Classic combination, for example, is Athens and its out port Piraeus in Greece.

Multiple Choice Questions

Question 1.(i)

Most of the world's great ports are classified as:

- (a) Naval Ports
- (b) Oil Ports
- (c) Comprehensive Ports
- (d) Industrial Ports

Answer:

- (c) Comprehensive Ports

Question 1.(ii)

Which one of the following continents has the maximum flow of global trade?

- (a) Asia
- (b) North America
- (c) Europe
- (d) Africa

Answer:

- (b) North America

Question 1.(iii)

Which one of the following South American nation, is a part of OPEC?

- (a) Brazil
- (b) Chile
- (c) Venezuela
- (d) Peru

Answer:

- (c) Venezuela

Question 1.(iv)

In which of the following trade blocs, is India an associate member?

- (a) SAFTA
- (b) OECD
- (c) ASEAN

(d) OPEC

Answer:

(a) SAFTA