13. International Trade (I)

Objectives

At the end of this chapter, students should be able to explain foreign or international trade, list its advantages and disadvantages, mention and explain the barriers and finally list the components of foreign or international trade.

13.1 Introduction

Another name for international trade is foreign trade or external trade. It is the opposite of home trade which we have discussed extensively in Chapter 7. International trade simply means trade between two countries. It is a system whereby one country sells her goods and/or services to another country, while at the same time she buys goods and/or services from another country. Foreign trade gives rise to import and export activities. Import consists of goods and services that enter into the country while export consists of goods and services that go out of the country.

For example Nigeria imports cars, television sets, and so on while she exports cocoa, crude oil, etc.

13.2 Advantages and Disadvantages of International Trade

13.2.1 Advantages

There is no way of demonstrating the advantages of international trade other than by focusing attention on the financial, economic, and industrial interdependence and interrelationship of the two universally acknowledged categories of countries: the developed countries and the developing countries. Examples of the former are Germany, France, Great Britain and USA, while examples of the latter are some countries in Asia, Africa, and Latin America. For a detailed examination, therefore, let us first consider the advantages to the developing countries, Nigeria for instance:

(a) ***Advantages of International Trade to Developing Countries***

(i) **A ready market for natural resources:** Most of the natural resources of the developing countries depend on foreign trade as a major source of raising revenue for their producer countries.

(ii) **Supplementing home food supply:** To feed their peoples most developing countries depend to some extent or importation of certain food items from overseas countries. For instance, Nigeria depends on importation of rice to feed her people each year since the 1970s up till date.

(iii) **Sources of manufactured goods:** Massive and regular importation of necessities of life ranging from clothing materials to luxury goods such as motor cars is an evidence of the dependence of most developing countries on foreign trade for their existence as well as their living.

(iv) **Supply of raw materials and spare parts:** Most industries of the developing countries depend to a large extent on overseas countries for the supply of their raw materials and part-finished goods. For instance, Leyland Motors Nigeria Limited (manufacturers of vehicles), and Volkswagen Nigeria Limited, are examples of leading industries in Nigeria, that depend almost wholly on imported completely knocked down (ckd) components and spare parts for their operations.

(v) **Centres of commerce:** Most populous developing countries have become, in modern times, centres of commercial and industrial activities due to international trade. For instance, Nigeria, like

Brazil, has become the focus of industrial locations and commercial engagements for multinational companies for reasons of population and market potentials.

(vi) **International political influence:** Nigeria, in recent times and since her oil boom, has become prominent in international politics. The oil boom itself owes so much to international trade. Nigeria has been able to forge a foreign policy that makes her the spokesman for Africa on burning issues. In international comity of nations like the UNO (United Nations Organization) and OAU (now African Union), the name Nigeria has become well known.

(vii) **Development of regional economic and political co-operation:** The irony of the negative effects of international trade is that it has led to positive thinking and efforts on some parcels of the developing world to move towards economic and political co-operations. The Economic Community of West African States was established among other things, to liberalize among member states, the practice and procedure of foreign trade. The Latin American States have their economic grouping, both for economic and political advantages. The OAU, in her Lagos economic deliberations of 1981, agreed to go into regional economic blocs for economic and financial development of Africa as a continent.

(b) ***Advantages of International Trade to Developed Countries***

(i) **Constant sources of food importation:** Without foreign trade most developed countries would be unable to feed their peoples. Before World War II, Britain relied to a large extent on imported items to feed the inhabitants. At over 55 million in population, many of the favourite dishes of the British, (like tea, coffee, and cereals) are not really products of British farmers, but imported food items from developing countries.

(ii) **Supply of industrial raw materials:** A lot of industries of developed countries depend on raw materials from the developing countries. Examples of such materials are, West African cocoa, cotton, gold, diamond, and crude petroleum.

(iii) **International services as sources of revenue:** Most of the developed countries earn their revenues as service centres to international trade. For instance, London is renowned since ages as the world capital for finance and shipping. For years, it has served in addition as an entrepôt for most goods meant for European countries like France and Germany.

(iv) **As savings centres:** Most capitals of Western Europe, for instance, have become centres for bank deposits savings account for most nationals and governments of developing countries. The result is that London, New York, and Zurich earn big income from serving as financial capitals for international trade.

(c) ***General Advantages of International Trade***

(i) **Benefits of specialization:** It encourages one country to specialize and thereby utilize and benefit fully from her gifted natural resources.

(ii) **International competition:** It fosters competitive spirits on international scale among nations, and thereby discourages localized monopolies. Even when producers of the same products form organizations like OPEC, (Organisation of Petroleum Exporting Countries) for the maintenance of one ruling price in the world market, among other things, they still have to compete in many other ways like quality, transport and prompt delivery services.

(iii) **International co-operation and world peace:** International or foreign trade may lead to closer political and cultural ties, and may also lead to increased international understanding and cooperation which may result in diplomatic relations and world peace, e.g. Economic Community of West African States (ECOWAS) and the European Economic Community (EEC)

(iv) **Stability in world prices of goods and services:** Sequel to trade among nations, world prices of goods and services tend to be lower and more stable, because foreign trade gives access to goods and services from countries with relative low production cost, e.g. electronic appliances from the

Asian countries China and Japan will not allow prices of those from Europe and America to go too high.

(v) **Interdependence of countries and better standard of living:** Foreign trade brings about interdependence of the countries of the world and a better standard of living among the peoples of one world because of the opportunity it provides for a wider choice of different goods to meet various styles, tastes and wants, e.g. Nigeria can enjoy meat/cattle from Niger while Niger enjoys electricity from Nigeria.

(vi) **Economies of large scale production and lower price:** International trade opens up wide markets for the products of the trading countries which in turn leads to large scale production and enjoyment of economies of scale and reduction in the price of the products. It is cheaper for some countries to import iron and steel than to produce them themselves.

(vii) **Full utilization of world resources:** The world's total output of goods and services may increase through foreign trade as methods of production become more efficient thus giving rise to full utilization of the world resources, e.g. left alone United States of America and Russia can satisfy the iron steel needs of the world while Norway can produce stockfish to feed the world.

(viii) **Enjoyment of other natural endowments:** Countries that engage in foreign or international trade are able to enjoy what they do not produce themselves because of unsuitable natural resources or lack of appropriate technology to bring about production, e.g. not all countries that enjoy petroleum products have the appropriate technology to produce them.

13.2.2 Disadvantages of International Trade

In spite of the overwhelming advantages of foreign trade, there are some inherent disadvantages. It must be remembered that some countries may benefit from the considerable advantages of international trade, while some other countries may suffer as a result. The blessings of one country are the curses or misfortunes of another country.

(i) **Dangers of over specialization:** The principles of international trade encourage international specialization among nations, but this is equally fraught with dangers. Nigeria, for example, depends on the production and sales of her petroleum oil for over 95% of her national revenues. A fall in demand for oil, therefore, creates problems, if not crisis, as in 1981/92 when the petroleum oil glut led to austerity measures by almost all governments of Nigeria (Federal and state). An excessive dependence on an export product could spell national economic embarrassment, if not doom.

(ii) **Isolated depression for an export industry:** An industry that depends mainly on foreign consumption may experience isolated depression, while the whole of foreign trade benefits. For instance, a fall in demand and, therefore, a fall in price, would cause depression in the home oil industry while oil consuming foreign countries and industries might benefit significantly.

(iii) **Dumping grounds:** The practice of international trade allows the use of certain home markets as dumping ground for the surplus products of some overseas industries. Similar home industries suffer excessively as a result.

(iv) **Widening the gap of wealth between nations:** Through international trade, the natural resources of individual countries are turned into great wealth. Such national wealth makes one country richer than the other, and thereby aggravates the economic differentials between nations.

(v) **Restrictive trade measures:** It is an irony that the effects of international trade lead to measures that limit the gains of international trade. For example, a country that incurs an adverse balance of trade and/or payment would eventually put up measures that may result in restricting the full growth or effect of international trade. Such measures are discussed at the end of this chapter.

(vi) Foreign trade can encourage the importation of some goods considered to be injurious to the body, e.g. tobacco, drugs, alcoholic drinks, spirits, etc.

13.3 Barriers to International Trade

These barriers are in some respects similar to the problems of export trade which we discussed. There are many factors militating against the free flow of international trade. These will be referred to here as international trade barriers; and some of these are:

(a) Natural barriers

These can further be subdivided into (i) transport barriers and (ii) communication barriers

(i) *Transport barriers:* The nations of the world are partitioned by hills and mountains, rivers and oceans, jungles, forests, and large desert lands, some of which are insect and disease-infested. These natural physical features render most lands impassable and some regions impenetrable. There are no trans-continental railway or inter-regional motorways across Africa. Transport systems, even within some countries, are not well developed. The course of national and international trade is adversely affected by lack of good transport systems. The Economic Community of West African States (ECOWAS) has as one of its objectives the construction of good transport systems between member states.

(ii) *Communication barriers:* The postal and the telephone systems are as unreliable as they are defective. It is not only that postal mails are delayed, but they sometimes get lost entirely. The telex service functions so erratically that it is not reliable. In circumstances like these, the effective transmission of information as one of the pivotal conditions of a growing and healthy international trade is obviously lacking.

To a large extent, this problem is fast disappearing because the advent of satellite and the internet have turned the world into a global village.

(b) Social barriers

Some restrictive social taboos, religious dogma, and multiplicity of languages constitute formidable barriers to the growth of international trade. The approach of muslims to trade is conditioned by their religious beliefs. They deal in a particular line of trade, and from only one particular region of the world. The Yoruba businessman, who can speak neither French nor English, nor any other European languages will find it difficult to participate in foreign trade in France or other countries of Western Europe. He may not be able to pay for an interpreter, who may not even be readily available all the time.

(c) Economic barriers

These take many forms:

(i) *Differences in currencies:* Even within the ECOWAS, there are no acceptable currencies to all members. The community agreed to introduce an acceptable international currency among member states in the foreseeable future. Payments in foreign trade demand the use of foreign currencies that are not easy to come by.

(ii) *Differences in weights and measures:* Different countries adopt different units of weights and measures. Some talk of yards and miles, while others use metres and kilos. However, it is hoped that once the adoption of the metric system becomes universal, the prospects for international trade will be brighter.

(d) Financial barriers

These are similar to the economic barriers in some respects and they are:

(i) *Balance of payments problems:* Some countries record favourable balance of trade and payments, while others record trade and payment deficits over long periods. For both categories of countries, some corrective measures are desirable. The country with surpluses, among other measures takes steps to reduce her exports to foreign countries, while the one with deficits may take steps to cut down on her imports from other countries. Whichever way, both measures would combine to reduce the volume of international trade.

(ii) *Insufficiency of international liquidity:* The International Monetary Fund (IMF) has the unique function of supplying the world trade with desired volume of money (international liquidity). This supply must be in measured steps, otherwise inflation on an international scale would occur. And, since an increase in world trade may not necessarily mean an increase in production of goods or services, but a mere rapidity of turnover. The IMF should always be cautious of increasing the volume of international liquidity and to that extent, the world trade would have been injured.

(e) Commercial barriers

Even to an average importer or exporter, the foreign exchange regulations, the payment system and the whole of the foreign trade documentations are complex and full of intricacies. Such difficulties limit the growth of international trade.

(f) Political barriers

Imposition of tariffs and quotas. The imposition of tariffs makes the prices of imported goods exorbitant and this may discourage importers. Another method of restricting or curtailing import is the use of import licence and the imposition of quotas. This will reduce the willingness of importers to import and thus affect international trade.

(i) *Full employment:* This would be acclaimed as a national positive stand. In order to promote full employment, the government must protect home industries, thus imposing high customs duties on imported goods of the same family. This, while helping home economy, is adverse to the growth of international trade.

(ii) *Social equality:* This again can be regarded as a positive national economic policy. The policy may take the form of redistribution of income. For instance, heavy import duties may be imposed on luxury goods, which amount to taxes on the very rich. The revenues collected from such sources could be used in providing infrastructural facilities like roads and electricity from which the low-income group would benefit.

(iii) *Political policies:* A country's political stance against an enemy or unfavourable country can affect international trade.

13.4 Types or Components of International Trade

Foreign trade or international trade is made up of exports, imports and entrepôt. Exports and imports consist of visible and invisible items.

(i) **Visible Trade:** These are goods that can be seen with naked eyes. Examples of Nigeria's visible items exports are petroleum, cocoa, groundnut, hides and skins, etc; while visible import items are cars, radio and television sets, etc.

(ii) **Invisible Trade:** These are services that can only be felt and not touched or seen. Examples are services from banking, insurance, shipping, or consultancy services between one country and another, e.g. Nigeria and Britain.

(iii) **A Country's trading position:** This is the relationship of the value of exports to the value of imports for a given country.

(iv) **Favourable balance of trade:** This is when the value of exports of a country is greater than the value of its imports. That same country can be referred to as having a trade surplus (see Table 13.1).

(v) **Unfavourable balance of trade:** This is the trading position of a country whose value of imports exceeds the value of her exports. It could also be regarded as having a trade deficit.

(vi) **Bilateral trade:** This is the attempt by one country to balance her trade with another country, as in the case of Nigeria and Japan.

(vii) **Multilateral trade:** This is the attempt by one country to make good her trade deficits with another country by increasing her exports to many other countries. A situation of multilateral trade tends to increase the volume of trade greatly.

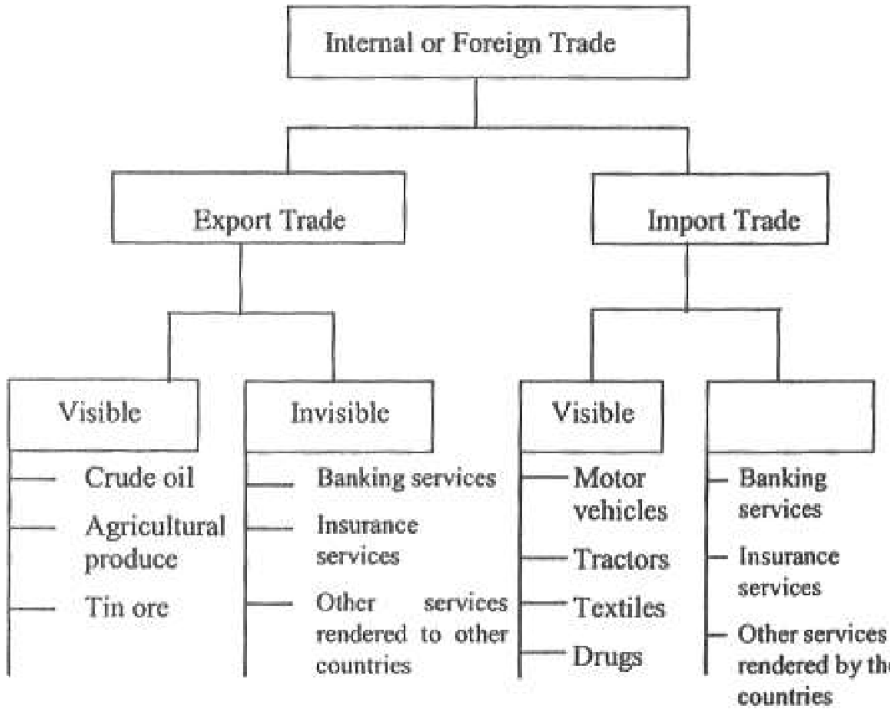

Fig. 13.1: *Components of International Trade*

(viii) **Terms of trade:** Terms of trade is another expression for description of a country's trading position. We can say that terms of trade for Nigeria are favourable, i.e. Nigeria had a trade surplus with the rest of the world while between Nigeria and another, the terms of trade would be described as against Nigeria or unfavourable to Nigeria if she recorded a trade deficit with that country.

(ix) **Payment position:** This comprises all payments made by a country against all her receipts of payments from other countries. Like the trading position of a country, the payment position of a country could be favourable or adverse. It is favourable if all receipts exceed payments, and it is adverse if payments exceed receipts for the accounting period.

Summary

- International trade is foreign or external trade between one country and a host of other countries.

Advantages and Disadvantages of International Trade

- Barriers include, languages, currencies, weights and measures, etc.
- Some of the advantages of international trade include raising the standard of living of people, fostering of international friendship and development of international specialization.
- Whereas some of the disadvantages are dangers of specialization, over dependence on other nations for a country's essential needs and possible dumping.
- The barriers to international trade include social and religious differences, communication, financial and differences in currencies and political ideologies (such as between Nigeria and South Africa on the question of apartheid).

Revision Questions

A. *Essay Questions*

1. Explain briefly with examples the branches of international trade.
2. Give some reasons why a currency would rise in value, and some reasons why currency could fall in value.
3. In what product would you say that Nigeria has absolute advantage over Sierra Leone in international trade? Explain your reasons briefly.
4. (a) What is counter trade? *(2 marks)*

   (b) Explain six advantages of counter trade to a country engaged in it. *(18 marks)*

   (WASCCE 1999)
5. (a) State four factors which have contributed to the growth of commerce in West Africa. *(8 marks)*

   (b) Explain four methods by which an exporter can obtain payments for his good *(12 marks)*

   (WASSCE 2001)

B. *Objective Questions*

1. The difference between a country's exports and imports is called
   A. terms of trade
   B. foreign exchange
   C. balance of trade
   D. balance of payment

   (WASSCCE 2000)
2. Re-exporting goods which have been imported is known as
   A. visible trade
   B. counter trade
   C. invisible trade
   D. entrepôt trade

   (WASSCE 2000)
3. Which is a component of foreign or international trade?
   A. counter trade
   B. invisible trade
   C. entrepôt trade
   D. export trade
4. Which of the following best describes visible trade?
   A. cars, tv sets, bank charges
   B. motor vehicles, insurance services and drugs
   C. radio sets, grinding machines and tractors
   D. X-ray equipment, shipping services and video machines
5. A collective term for shipping and banking services which Nigeria renders to foreign countries or nationals is
   A. international trade
   B. foreign trade
   C. export trade
   D. import trade

6. Which of the following is an invisible item of trade?
   A. Petroleum product
   B. Processed rice
   C. Banking services
   D. Processed milk

(WASSCE 2001)

7. An obstacle of international trade is
   A. cost of finance
   B. quantity and quality of labour
   C. availability of local market
   D. trade imbalance between countries

(UME JAMB 2003)

8. Bilateral trade is the trade
   A. among various countries
   B. between two countries
   C. among commonwealth countries
   D. among ECOWAS member states

(WASSCE 1999)

9. In international trade one of the barriers is
   A. foreign borrowing
   B. foreign lending
   C. differences in language
   D. debt relief
10. Unfavourable balance of trade for a country means that her
   A. visible exports exceed visible import
   B. counter trade is successful
   C. invisible import exceeds invisible export
   D. debts are increasing
   E. foreign exchange rate is high

Project

1. Stating some imaginary figures (trade and payments) between Chad and Nigeria; and Nigeria and Western Germany, illustrate the following situations:
   (i) Chad's adverse balance of trade to Nigeria;
   (ii) Nigeria's deteriorating balance of payments to Western Germany.

In each case, bring in not fewer than five trade payment items.

2. Discuss with your teacher and classmates and write out what you would make of Nigeria's trading position to the rest of the world as at today. Are you happy with the situation? Give your reasons.