CHAPTER 9 TRADE

Objectives

After studying this chapter, students should be able to:

- define trade;
- explain the reasons for trade.
- discuss the types of trade.
- explain the importance of trade.
- discuss the factors affecting trade among nations.
- discuss the different world trade routes.

9.1 Meaning Of Trade

Trade simply means buying and selling of goods, commodities and services. It also means the exchange of goods and services. The process of exchange can be done between two individuals, group of persons in the market place, between one village, region, state or country and another.

Before the era of cash or money as a medium of exchange, trade existed but merely involved the exchange of goods (i.e. one product) or commodity for another. This type of trade is known as trade-by-barter.

This kind of trade implies that only person or groups or regions who have something(s) they could exchange for other goods could engage in the trade. This trade was gradually replaced by the use of money as a medium of exchange (payment) for goods and services.

9.2 Types of Trade

There are two major types of trade, national and international trade (world trade). The national trade is also referred to as domestic or internal trade, while international trade is called external trade. National, domestic or internal trade is usually the trade transaction which takes place within a country, state or locality. For example, in the market places or stores, or between one settlement and another. It can also be performed between different regions and as interstate trade transactions.

International or external trade on the other hand, refers to the trade transaction which involves two or more countries. This trade is also known as world trade. For example, Nigeria engages in trade with either USA, Ghana, Germany and other countries.

Division of Trade

Trade is generally divided into two namely national and international or world trade.

International or world trade is further divided into two groups (a) The import trade and (b) The export trade. Import trade is the trade which involves buying of goods and services from another country into the home country. For example, Nigeria buy goods or services from Ghana or Japan and vice versa.

Export trade on the other hand involves the selling of goods and services produced by a country to another country. For example, Nigeria produce crude oil and sells the product to the United States of America, Ghana or Britain and other countries.

External and internal trades involve bulk commodities usually in high quantity which are transported through the roads by vehicles and trucks or train but mostly through water ways by ship or the air by aeroplanes.

9.3 Reasons for International Trade

A number of factors serve as reasons why nations of the world engage in international or world trade. Some of the factors are discussed below:

1. Natural resources of the world are not evenly distributed. There is therefore, the need for nations to trade with each other, to help produce and supply those essential resources. Right from the period of Nigeria's early contacts with the outside world, her ports have been mainly filled with manufactured goods. Later, especially after independence, importation became very important. This was the period when various types of machines, chemicals, transport and building equipment, and materials began to feature prominently. Nigeria's first exports came from agricultural products; these were cocoa, palm oil, palm kernel, rubber, groundnut and cotton. These were later taken over by the export of petroleum products which the other countries (nations) need for their development and survival. For example, Nigeria is blessed with petroleum resources which some other countries do not have; these products, in large quantities serve the needs of these nations. e.g Nigeria supplies petroleum to Brazil and Brazil produces and supplies Nigeria sugar, vehicles and communication equipment, like in the case of Japan and China.
2. Due to soil types and composition, some crops are more suited to grow in certain climatic conditions. For example, crops such as cocoa, cotton, rice, oil palm, etc. grow well in tropical conditions while other, like wheat, barley, oats, etc., grow well in temperate conditions. This difference in climatic condition and soil type make it necessary for international trade.
3. Because of the differences in technical knowledge acquisition, especially between the developed nations and the developing nations, there is higher technical know-how and expertise in the productions of some specific commodities, e.g, electronics and other mechanized equipment in the developed countries. Japan,

China, Korea and Germany and for example, these commodities which the developing nations need produce.

4. Geographical situation: Some countries are geographically located in such away that enable them to take part in trades between contrasting economies e.g. Singapore handles much of South East Asia's trade.
5. Prices of goods offered: If the prices of goods offered by one of the countries are higher than what other countries may offer, the volume of trade will be increased but if the prices are low, one will expect a low volume of trade.

9. 4 Benefits of Trade

There are many benefits of trade either at the individual or group level or between states, regions and countries of the world.

Some of the reasons include the following

1. Trades help individuals, groups and nations to meet their needs for commodities or goods which are not produced by themselves.
2. It helps in social interactions between the peoples and the nations involved.
3. It helps to generate income development.
4. Transfer of skills and expertise.
5. For the purpose of development in societies at the local and national levels.
6. It creates awareness and growth in industries.
7. It facilitates, state, regional and inter regional, as well as international co-operations among the groups or countries involved. This co-operation is in the area of culture, economy or political interests. For example, Nigeria is a member of ECOWAS and

through trade, ECOWAS member states project the economic interest of each member state through co-operation and assistance.

8. For the purpose of exchange of goods and services not produced by the country where they are needed (comparative advantage), etc.
9. It facilitates the production of new products needed by other people or nations of the world. There are nations which because of the nature of their location or differences in natural endowments, cannot produce certain commodities and products they need. Trade helps these nations to meet the need of these products through export and import transactions. In the process, nations which have products which do not need are also encouraged to produce these products in order to sell to the people who need them.
10. **Improvement in living standards:** Trade helps to improve the standard of living of individuals, groups and nations. This is facilitated by the incomes generated through trades for the provision of other needs and developments. For example, the income from trade in Nigeria is used to build roads, houses, schools and provide the facilities to improve the living standards of the people.
11. **Sources of revenue:** Trade helps nations to generate more revenue and increase budgetary allocation of the nations.
12. Generates personal income: Trade through the exchange of goods or services help individuals or groups to generate personal income.
13. Helps in skill acquisition, development and expertise.
14. Facilitates socialization and liberalization.
15. Encourages initiative and invention of new products and goods in the society and the world at large.

9. 5 Factors which Encourage Trade

There are a number of factors which help to improve trade of any type in the world. These are:

1. Peaceful relationship between groups of people or countries: A good and harmonious relationship between states, regions and countries creates opportunity for trade relationship with one another. This is encouraged through understanding and friendship which exist between them.
2. Good government policies: Trade of any type and level is encouraged where the terms and conditions of transactions are liberal and easy to process. This factor mostly encourages international trade where import and export commodities are involved.
3. Membership of the same organizations: Nations belonging to organizations such as ECOWAS, NATO, COMMONWEALTH or political groups, such as African Union (AU), European Union (EU), etc., encourage trade relations among their member states.
4. Surplus production of products: The production of goods in surplus provides trade opportunity for a county engage in trade relations with others who need the surplus products.
5. Improved standard of living or per capital income of a country: This facilitates demand especially for those products which are not easily produced by them. It also helps in increased demand and production due to the high purchasing power as a result of the improved standards of living the per capital income;
6. Common language and currency: This encourages cordial relationship and brotherliness between these groups. This can facilitate trade relations which encourage increased interactions between the areas concerned.

Factors which Limit Trade:

The following factors can hinder the smooth flow of trade between one area or group and another. These include:

1. Conflicts either between countries, communities or states, in the case of internal trade and between one country and another. When this occurs, it leads to the decision of placing embargos by either of the nations to stop trading with one another. Factors which can cause this are wars, disagreements, breach of agreements.
2. Insufficient production of the goods in demand: Insufficient production of goods or commodities can discourage trade transition. This is because the quantity so produced is usually consumed by the producers. Equally, a state, region or country cannot supply or trade when it does not produce a commodity in adequate quantity to serve both internal and external trade. In some cases, this does not apply because there are products which are not directly consumed locally by the producing country or area. This can be used to encourage trade and market for cocoa, rubber, cottee, cotton. etc. produced in certain areas, as trade with others.
3. Inadequate foreign exchange to pay for the exports. This involves international trade transitions. This situation can discourage or hinder trade relations when the area or region does not possess sufficient funds to exchange for the goods or services required from another area.
4. **High tariffs:** Where import and export duties are high compared with the gains of the trade, trade transaction is affected.
5. **Cultural taboos:** Trade can be affected negatively between countries through beliefs and cultural taboos. For example, religious beliefs can forbid the use of certain items of trade that restrict others from associating with some other specific groups of people.

6. Political instability: Political instability in a country can affect the flow of trade between countries or different regions in the same country in the case of internal trade.
7. Language barrier between buyers and sellers. This creates a problem in understanding of the trade transaction between them.
8. Poor quality or high cost of products and low technology: Low quality of goods produced or the high prices placed on them can affect trade either in a local market or in export of such commodities. Also, how technology and skills can affect trade negatively.
9. Differences in national currencies.
10. Poor transport network can also limit trade.

9.6 World Trade

World trade can be defined as the trade which deals with the exchange of goods and services between nations of the world; it is also referred to as foreign, international or external trade. World trade is different from domestic or home trade. Domestic trade deals with trade within the same area or country. International, external or world trade deals with track between two or more countries. It also deals with import and export processes which are not needed in the case of internal or domestic trade.

World trade, as is it sometimes called, is based on the principle of comparative advantage it is divided into two sectors (a) Multi- lateral trade and (b) Bilateral trade.

1. Multilateral trade is a trade transaction which involves one country and several others. For example, Nigeria has trade transactions with America, Japan, Russia, etc.
2. Bilateral trade is the trade transaction between two countries of the world, for example, Nigeria has trade relationships with Cameroon

and Ghana. This type of trade happens when a particular nation needs a particular commodity to trade in exclusively.

The principle of comparative advantage in world or international trade means the process whereby a country concentrates on the production of those on products which they have the highest capacity to produce. This principle recognizes the fact that certain areas have certain goods and services which they can produce at a low cost; therefore they should concentrate on the production of such goods and services. For example, Nigeria, as an oil producing country, has an advantage over Japan in the production of oil or petroleum and so will supply petroleum to Japan. On the other hand, Japan has an advantage over Nigeria in the production of cars and electronics. In the same manner, Ghana has an advantage over Egypt in the production of cocoa while Egypt has an advantage over Ghana in the production of cotton. Through this principle, countries which have an advantage over others in the production of certain items or goods, tend to produce in excess of local demand. An example is the, case of Zaire a nation that produces timber, more than needs. Also, Zambia produces copper in higher quantities than they need. Nigeria producers more barrels of petroleum than it uses.

Major Transport Routes

International trade is transacted through major transport routes of the world. These are the inland water ways and the sea routes, the overland routes, railways and roads as well as air routes. The inland water ways and sea routes are more important and more frequently used as modes of transportation. This is only carried out by nations which have rivers, seas and oceans. The over land, rail and roads are carried out on land. This is a process where products are transported by land to other countries from countries where they are produced. In all of these medium, one characteristic features is that, the products involved are usually in bulk or large quantity. In addition to the transport routes, international trade in recent times, is also carried out with the help of the use of modern communication systems or such as the telephone and satellite telecommunications.

This type of transaction deals with mere messages or calls using telephones to discuss business between persons, groups, co-operate bodies or nations within or outside the country. Export trade, as earlier stated, deals with those commodities and products which are transported out of the different countries where they are produced and exported to other countries and parts of the world where they are consumed. Import trade by contrast, deals with all commodities and products which are brought in by different countries into the home country for use by the people. The strength of any given country is determined by the volume of both imports and exports in trade it engages in over a period of time.

In international trade, the leading trading regions of the world are the Western Europe and the Anglo-America (Canada, and USA). This is because, these two regions account for over 60% of the world's international trade. Within these two regions, the leading countries are United States of America, the United Kingdom, Germany, France, Canada, Italy and the Netherlands. The reason for this is that, they are both larger exporters as well as importers of commodities and products than other countries of the world.

The world's largest and busiest sea ports and air ports, where international trade is mostly carried out, are the Kennedy Airport in New York, Heathrow Airport in London, Frankfort and Charles de Gaulle Airport in Paris.

World Trade Routes

There are five known trade routes in international trade. These are the major shipping routes or ocean trade routes. They are (1). The NORTH ATLANTIC ROUTE: This route connects the North-West Europe and North-West of North America. It is the busiest and the only route that links the most populous and heavily industrialized parts of the world. Others are (2). The PANAMA CANAL ROUTE: This is mostly referred to as domestic route because it connects the East and West coast of North America.(3). The Cape of Good Hope: This is the oldest route which was extensively used by ships trading between Europe and Austria (4). The south Atlantic route; this is the most important route, between the East and West of south America Europe, South Africa and West Africa (5). Trans-pacific trade route: This is the longest in distance and has increasing significance in view of the rapid economic development of the west e.g. USA, China Australia, Japan, etc.

Trade Between Nigeria and the Outside World

Nigeria's trade with the outside world is principally through export and import activities. The overall activities she engages in is called international trade.

The composition of Nigeria's trade always shows an "unfavourable" balance between her import and export. This shows that Nigeria imports more goods into the country than she exports to other countries. For example, the major exports form Nigeria comes from, petroleum even though, there are other export items such as cocoa, palm oil, groundnut and cotton. These later export items are not often compared with the export from petroleum. In the case of imports, Nigeria mostly imports consumable items and manufactured items like cars, computers, electronics, Jewelries, drinks, and textile materials. Some of the major trading partners include Britain, Japan, United States of America China, Russia, etc., and some other African countries like Ghana, Benin republic and South Africa

Summary

Trade simply means the buying and selling of commodities or products by either individuals, groups or countries. Trade is divided into two types (a) home national or domestic trade and (b) international, world or foreign trade.

International trade is the trade that is carried out between two or more countries of the world. The two types are multilateral and bilateral trades.

The principle of comparative advantage is a process whereby a country concentrates on the production of those commodities which they have the highest advantage.

Factors which encourage trade are; increased international and national co-operation, liberalization in terms and conditions of trade, membership of the same organization, improved standards of living and per capita income, and common language.

Factors which limit volume of trade are strained relationship among societies and countries, insufficient production of goods in demand, low demand of commodities or products.

Cultural barriers or taboos (i) Political instability (ii) Language barriers.

Benefits of World's Trade are (a) encouragement of specialization (b) widening of world the market for would-be investors (c) influences and reinforces education (d) Assisting the developing countries to develop, (e) Encouraging healthy competition among countries of the world.

Revision Questions

Objectives

1. Which of the following is a major trading sea route between Nigeria and Western Europe?
   A. The North Atlantic
   B. The Trans-pacific
   C. The cape
   D. The panama canal.
2. The low level of trade among African countries is due to
   A. the high level of technology in the countries
   B. similarity of products
   C. the high demand for home-made goods or products
   D. liberalization of trade
3. The import of most developing countries consist of mainly
   A. crafts
   B. mineral resources
   C. manufactured goods
   D. agricultural raw materials.
4. Which of the following ports has the best natural harbour in West Africa?
   A. Lagos
   B. Free town
   C. Banjue
   D. Takoradi
5. Which of the following is a major benefit of international trade?
   A. total dependence on other countries for essential goods

B. revenue generation
C. stabilization of prices
D. free movement of people across borders.

6. The busiest and most important ocean route in the world is the
A. Trans-pacific
B. North Atlantic
C. Cape route
D. South Atlantic.

7. The most important trading partner of Anglophone West African countries is
A. Angola
B. Korea
C. France
D. United Kingdom.

8. Trade among West African countries is low mainly because they are
A. generally poor
B. have different currencies
C. produce different goods
D. produce similar goods

9. Nigeria's major trading partners include
A. Britain, USA, Germany and Japan
B. Britain Ghana, Japan and South Africa
C. Belgium, Germany , Japan and Liberia
D. USA, Belgium, the Gambia and Japan.

10. The ocean that connects Europe and America is the
A. Indian Ocean
B. Antartic ocean
C. Atlantic ocean
D. Arctic ocean.

Answers

1. A 2. B 3. B 4. B 5. B 6. B 7. D 8. D 9. A 10. C

Essay

1(a.) Explain what you understand by the term "principle of comparative advantage" and give three examples.

(b.) How does the principle in (i) affect world trade?

2(a.) With example, explain the terms "import and export" commodities.

(b.) Give four examples each of import and export commodities.

3(a.) List and discuss four benefits that could be derived from international trade.

(b.) State four factors limiting international trade.

4(a.) With the aid of a sketch map of the world, discuss three major trade routes in world trade.

(b.) Mention trade partners with Nigeria.

5(a.) What is trade?

(b.) Outline and discuss any three reasons for trade in the world.