INTERNATIONAL TRADE BENEFITS AND DISADVANTAGES, AND PROBLEMS

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ABSTRACT

The undertaking of this study the international trade, analysis of advantages and disadvantages of international trade. The advancement of information technology in terms of communication has changed the business environment and trade industry. Numerous benefits can be obtained by participating in the international trade industry and the WTO extends their policies and implementation of the agreement to fairly accommodate all participating countries , benefits and difficulties of international trade . The economic, political, and social significance of international trade has been theorized in the Industrial Age. The rise in the international trade is essential for the growth of globalization. The restrictions to international trade would limit the nations to the services and goods produced within its territories, and they would lose out on the valuable revenue from the global trade. In this article author try to give an idea about international trade , role of advancement of technology in trade.

Keywords: International trade, problems, benefits.

Introduction

In the seventeenth and eighteenth centuries a school of thought often referred to mercantilism emerged in Britain and the continent that was explicitly economic in its foundations. While not hostile to commercial activity generally or to international trade in principle, mercantilists argued for close government regulation of international trade for two principal reasons:(1) to maintain a favorable balance of trade ,which argued for aggressive export but restrictive import policies (although how foreigners were to pay for imports without the ability to export was never adequately explained) and (2)To promote the manufacturing of raw materials at home, rather than importing manufactured goods ,which would displace domestic production and employments.

Hence arguments for exports taxes on exported raw materials and import duties on imported manufactured or luxury goods. The fundamental reason for international trade is to sell something that we don't need and to buy something we do need. Trade creates jobs, attracts investments, attracts new technology and materials, and offers a wider choice in products and services. The benefits of international trade have been the major drivers of growth for the last half of the 20th century. Nations with strong international trade have become prosperous and have the power to control the world economy. The global trade can become one of the major contributors to the reduction of poverty.

David Ricardo, a classical economist, in his principle of comparative advantage explained how trade can benefit all parties such as individuals, companies, and countries involved in it, as long as goods are produced with different relative costs. The net benefits from such activity are called gains from trade. This is one of the most important concepts in international trade.

Adam Smith, another classical economist, with the use of principle of absolute advantage demonstrated that a country could benefit from trade, if it has the least absolute cost of production of goods, i.e. per unit input yields a higher volume of output.

Definition

International trade has flourished over the years due to the many benefits it has offered to different countries across the globe. International trade is the exchange of services, goods, and capital among various countries and regions, without much hindrance. The international trade accounts for a good part of a country's gross domestic product. It is also one of important sources of revenue for a developing country.

And also International trade is the exchange of capital, goods, and services across international borders or territories, which could involve the activities of the government and individual. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries. It is the presupposition of international trade that a sufficient level of geopolitical peace and stability are prevailing in order to allow for the peaceful exchange of trade and commerce to take place between nations.

There are different forms of trade and the advancement in technology has also changed the economic trend among various industries. In such a way that international trade, most especially in terms of supply and demand is directly related to the events happening all over the world .

There are some factors that come into play, they include: the level of technological advancement, liberalization of trade and capital markets ,accessibility to information, capital internationalization and the international labor division; these factors set the ground for trade , if all these factors were standardized the world over, then benefits from international trade would be fair across the board but this is not the reality of our world and this factors in turn determine the extent to which a country benefits.

The major benefits felt from international trade are, promotion of information exchange which has led to better cultural understanding of different people, it can be attributed to raising the living standards of some people, it has promoted democracy, raised purchasing power of some nations; there is the general feeling of more united world and countries no longer operate in isolation.

Some more Benefits of international trade are summarize as:

International trade has reduced inequalities and facilitated growth in economy of different countries. Studies revealed that majority of the countries of the European Economic Community, manifested very little tendency towards convergence in income during the period 1870 through World War II. Due to international trade, a new trend has been observed. Countries, all over the world are making all efforts to adhere to monetary policies, which have zero inflation, thereby reducing restrictions in trade worldwide.

After conducting research on international trade, it was found out that if a particular nation reduces its tariffs, it is enough to boost long term growth of the other economies as well. However, if there is unanimous reductions in tariffs, the growth is even faster. Benefits of International Trade

can be reaped further, if there is a considerable decrease in barriers to trade in agriculture and manufactured goods.

Some important benefits of International Trade

- Enhances the domestic competitiveness
- Takes advantage of international trade technology
- Increase sales and profits
- Extend sales potential of the existing products
- Maintain cost competitiveness in your domestic market
- Enhance potential for expansion of your business
- Gains a global market share
- Reduce dependence on existing markets
- Stabilize seasonal market fluctuations

Advantages of International Trade

The fundamental reason for international trade is to sell something that we don't need and to buy something we do need. Trade creates jobs, attracts investments, attracts new technology and materials, and offers a wider choice in products and services.

People spend, save, or pay taxes with the money they earn in their jobs. The government uses taxes to provide services, which creates more jobs. When people save, the capital markets lend money to others, who will spend it on consumer goods, or open or expand a business, therefore creating new jobs. When people spend money, it creates demand, which creates new jobs.

1.Meeting our needs

Trade is always balanced if it is fair. If 2 people trade baseball cards and one gives another 6 cards, they should get 6 back. Many businesses can create a surplus inventory of goods and services. Canadian farms produce more food than Canadians can eat, Canadian manufacturers make more products than Canadians use, and Canadian service providers can provide service to other countries. Canadians cannot produce fruits like bananas and oranges, and some products we cannot make. These products are imported. Both trading partners get something they need by trading something they don't need.

2. Job Creation

Unlike the battering that used to go on between trading partners, now businesses receive money from selling their products or services to foreign businesses. When foreign businesses buy Canadian products it creates jobs for Canadians. Exports are very important to Canadians they create one out of three Canadian jobs. 40 percent of what Canadians produce is exported. 1 billion exports means 6000 jobs for Canadians. When trade is balanced businesses remain profitable and may grow.

3. Attracting Investment

Investment follows trade. Many foreign companies will invest in an office, factory, or distribution warehouse to simplify their trade and reduce cost. This investment also creates more jobs. It also attracts international investors.

4. New Technology & Materials

New technology promotes competitiveness and profitability. If a business could create a machine that works better, faster, or cheaper (or all three), then the business will have produced a more competitive product for national and international markets. The biotechnology industry in Canada is second only to the U.S.

5. Diverse Products and Services

A century ago, Oranges were considered a rare treat; parents put them in stockings for children. Now, we can buy oranges by the crate at local grocery stores thanks to better preservation and trading technologies. Foreign trade turns the world into a giant market, delivering food, fashions, etc. New services such as banking, travel, and consultation are also available now. Business competition is no longer on a city scale; instead, businesses compete against worldwide businesses. The result is better quality goods, lower prices, and functional design.

When a country places undue reliance on foreign trade, there is a likelihood of the following disadvantages:

Though foreign trade has many advantages, its dangers or disadvantages should not be ignored.

(i) Impediment in the Development of Home Industries:

International trade has an adverse effect on the development of home industries. It poses a threat to the survival of infant industries at home. Due to foreign competition and unrestricted imports, the upcoming industries in the country may collapse.

(ii) Economic Dependence:

The underdeveloped countries have to depend upon the developed ones for their economic development. Such reliance often leads to economic exploitation. For instance, most of the underdeveloped countries in Africa and Asia have been exploited by European countries.

(iii) Political Dependence:

International trade often encourages subjugation and slavery. It impairs economic independence which endangers political dependence. For example, the Britishers came to India as traders and ultimately ruled over India for a very long time.

(iv) Mis -utilisation of Natural Resources:

Excessive exports may exhaust the natural resources of a country in a shorter span of time than it would have been otherwise. This will cause economic downfall of the country in the long run.

(v) Import of Harmful Goods:

Import of spurious drugs, luxury articles, etc. adversely affects the economy and well-being of the people.

(vi) Storage of Goods:

Sometimes the essential commodities required in a country and in short supply are also exported to earn foreign exchange. This results in shortage of these goods at home and causes inflation. For example, India has been exporting sugar to earn foreign trade exchange; hence the exalting prices of sugar in the country.

(vii) Danger to International Peace:

International trade gives an opportunity to foreign agents to settle down in the country which ultimately endangers its internal peace.

(viii) World Wars:

International trade breeds rivalries amongst nations due to competition in the foreign markets. This may eventually lead to wars and disturb world peace.

(ix) Hardships in times of War:

International trade promotes lopsided development of a country as only those goods which have comparative cost advantage are produced in a country. During wars or when good relations do not prevail between nations, many hardships may follow.

Some more disadvantages of international trade are as:

Exhaustion of Resources:

When a country has larger and continuous exports, her essential raw materials and minerals may get exhausted, unless new resources are tapped or developed (e.g., the near-exhausting oil resources of the oil-producing countries).

Blow to Infant Industry:

Foreign competition may adversely affect new and developing infant industries at home.

Dumping:

Dumping tactics resorted to by advanced countries may harm the development of poor countries.

Diversification of Savings:

A high propensity to import may cause reduction in the domestic savings of a country. This may adversely affect her rate of capital formation and the process of growth.

Declining Domestic Employment:

Under foreign trade, when a country tends to specialize in a few products, job opportunities available to people are curtailed.

Over Interdependence:

Foreign trade discourages self-sufficiency and self-reliance in an economy. When countries tend to be interdependent, their economic independence is jeopardized . For instance, for these reasons, there is no free trade in the world. Each country puts some restrictions on its foreign trade under its commercial and political policies.

Trade is characterized by the following special problems or difficulties.

1. Distance:

Due to long distance between different countries, it is difficult to establish quick and close trade contacts between traders. Buyers and sellers rarely meet one another and personal contact is rarely possible.

There is a great time lag between placement of order and receipt of goods from foreign countries. Distance creates higher costs of transportation and greater risks.

2. Different languages:

Different languages are spoken and written in different countries. Price lists and catalogues are prepared in foreign languages. Advertisements and correspondence also are to be done in foreign languages. A trader wishing to buy or sell goods abroad must know the foreign language or employ somebody who knows that language.

3. Difficulty in transportation and communication:

Dispatch and receipt of goods takes a longer time and involves considerable expenses. During the war and natural calamities, transportation of goods becomes even more difficult. Similarly, the costs of sending or receiving information are very high.

4. Risk in transit:

Foreign trade involves much greater risk than home trade. Goods have to be transported over long distances and they are exposed to perils of the sea. Many of these risks can be covered through marine insurance but increases the cost of goods.

5. Lack of information about foreign businessmen:

In the absence of direct and close relationship between buyers and sellers, special steps are necessary to verify the creditworthiness of foreign buyers. It is difficult to obtain reliable information concerning the financial position and business standing of the foreign traders. Therefore, credit risk is high.

6. Import and export restrictions:

Every country charges customs duties on imports to protect its home industries. Similarly, tariff rates are put on exports of raw materials. Importers and exporters have to face tariff restrictions. They are required to fulfill several customs formalities and rules. Foreign trade policy, procedures, rules and regulations differ from country to country and keep on changing from time to time.

7. Documentation:

Both exporters and importers have to prepare several documents which involve expenditure of time and money.

8. Study of foreign markets:

Every foreign market has its own characteristics. It has requirements, customs, weights and measures, marketing methods, etc., of its own. An extensive study of foreign markets is essential for success in foreign trade. It is very difficult to collect accurate and up to date information about foreign markets.

9. Problems in payments:

Every country has its own currency and the rate at which one currency can be exchanged for another (called exchange rate) keeps on fluctuating change in exchange rate create additional risk. Remittance of money for payments in foreign trade involves much time and expense. Due to wide time gap between dispatch of goods and receipt of payment, there is greater risk of bad debts.

10. Frequent market changes:

It is difficult to anticipate changes in demand and supply conditions abroad. Prices in international markets may change frequently. Such changes are due to entry of new competitors, changes in buyers' preferences, changes in import duties and freight rates, fluctuations in exchange rates, etc.

11. Investment for longer period:

There is longer time gap between supply of goods and receipt of payment. Therefore, the exporter's capital remains locked up over a longer period.

12. Intense competition:

Traders who want to sell goods abroad have to face severe competition from different countries. Considerable market research is necessary to ensure suitability of product in foreign markets. Heavy expenditure on advertising and sales promotion may be necessary.

CONCLUSION

To conclude this article it is evident that there are many advantages and problems with international trade and both are approximately equal so for whole world countries. But its depends on the different countries how make their benefits more from international trade .Nowadays advancement of technology could overcome so many international trade problems so countries by exchange their technology information can take more benefits and overcome many problems which related to international trade .therefore the increasing international trade relations is essential for growth *of* globalization.

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