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Perspective on International Trade

Yamini

Research Scholar, Singhania University, Rajasthan, India

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INTRODUCTION

International trades between countries and across continents have existed for centuries including previous civilizations. Traditionally international trade consisted of traded goods like textile, food items, spices, precious metals, precious stones, and objects of art and various items across the borders. Everybody has heard of the silk route as well as amber road and other famous routes that existed and the ports and settlements that flourished due to the trade, which was carried on through land route as well as sea routes.

We have come a long way since the earlier times and International trade today has taken on new dimension. It was a fact earlier that impact of trade between two countries was not limited to economics alone, but fuelled political, social ambitions too.

Today with the advancement of technology and impact of globalization has made it necessary for all countries to engage necessarily in international trade for their survival.

Various factors including but not limited to industrialization, development of transportation, globalization, technology that enables trade and communication has contributed to change in the format of business organizations as well as trade practices.

Companies and Organizations today are no longer entities with a local identity. Multinational organizations have emerged through the previous century with footprints all over the globe. They have in fact shrunk the earth and changed the way businesses are conducted. Companies no longer limit themselves to local markets. They no longer depend upon local resources. These companies setup manufacturing wherever it is conducive in terms of cheaper resource availability as well as support from local government and in terms of markets, geographical boundaries do not bother them. They are present everywhere.

Technology in terms of communication as well as software technology has changed the way business organizations manage activities be it manufacturing, procurement, finance or sales. Today software applications drive the processes and work at the speed of thought.

In present scenario, no country can afford to remain isolated from and not participate in globalization. While countries do open their economies to global competition, they need to tread very carefully not to upset their domestic economy and protected industries. This balancing act is often managed through individual countries trade and tariff policy, which forms a part of each country's foreign trade policy that governs its approach to international trade and commerce.

Post Second World War, World Trade Organization has been playing major role in facilitating and attempting to streamline the global trade and tariff structures with an aim to move towards free trade. However in reality, free trade may just be a dream as long as there is no parity between developed and developing economies.

Today most of the countries are party to several bi-lateral as well as multi-lateral tariff and trade agreements like GATT — General Agreement on Tariffs and Trade though which they regulate imports and exports to and from specific countries.

In the last few decades we have seen the emergence of services export and imports and it is continually growing. Developing countries are harnessing their intellectual capital to provide software services to the developed countries.

Today's international trade has many more new dimensions like intellectual property, a variety of services, trade related investments, Bilateral and Multilateral Trade Agreements, Establishing terms for trade in services, investments as well as creating climate for dispute settlement.

Managing International trade has multi-dimensional aspects, which need to be considered, by each country. Any political, economic or other events anywhere in on the earth have an impact on each countries international trade. We have seen the impact of recession in one country affecting across the globe. We have also seen impact of financial markets crash in one country having ripple effects all over the world.

HISTORY OF INTERNATIONAL TRADE

Any time you walk into a super market and pick up any stuff like a knife or a toy and chances are that the item has been manufactured in China or assembled in Mexico. Pick up coffee pods and you will see that they have been imported from Africa. When you shop for clothes, it is quite likely that you will see 'Made In China' label.

We all know that international trade has been in vogue for centuries and all civilizations carried on trade with other parts of the world. The need for trading exists due to the variations in availability of resources and comparative advantage. In the present context where technology and innovation in all fields have thrown open borders to globalization, no country can afford to remain isolated and be self-sufficient.

International trade has a rich history starting with barter system being replaced by Mercantilism in the 16th and 17th Centuries. The 18th Century saw the shift towards liberalism. It was in this period that Adam Smith, the father of Economics wrote the famous book 'The Wealth of Nations' in 1776 where in he defined the importance of specialization in production and brought International trade under the said scope. David Ricardo developed the Comparative advantage principle, which stands true even today.

All these economic thoughts and principles have influenced the international trade policies of each country. Though in the last few centuries, countries have entered into several pacts to move towards free trade where the countries do not impose tariffs in terms of import duties and allow trading of goods and services to go on freely.

The 19th century beginning saw the move towards professionalism, which petered down by end of the century. Around 1913, the countries in the west say extensive move towards economic liberty where in quantitative restrictions were done away with and customs duties were reduced across countries. All currencies were freely convertible into Gold, which was the international monetary currency of exchange. Establishing business anywhere and finding employment was easy and one can say that trade was really free between countries around this period.

The First World War changed the entire course of the world trade and countries built walls around themselves with wartime controls. Post world war, as many as five years went into dismantling of the wartime measures and getting back trade to normalcy. But then the economic recession in 1920 changed the balance of world trade again and many countries saw change of fortunes due to fluctuation of their currencies and depreciation creating economic pressures on various Governments to adopt protective mechanisms by adopting to raise customs duties and tariffs.

The need to reduce the pressures of economic conditions and ease international trade between countries gave rise to the World Economic Conference in May 1927 organized by League of Nations where in the most important industrial countries participated and led to drawing up of Multilateral Trade Agreement. This was later followed with General Agreement on Tariffs and Trade (GATT) in 1947.

However once again depression struck in 1930s disrupting the economies in all countries leading to rise in import duties to be able to maintain favorable balance of payments and import quotas or quantity restrictions including import prohibitions and licensing.

Slowly the countries began to grow familiar to the fact that the old school of thoughts were no longer going to be practical and that they had to keep reviewing their international trade policies on continuous basis and this interns lead to all countries agreeing to be guided by the international organizations and trade agreements in terms of international trade.

Today the understanding of international trade and the factors influencing global trade is much better understood. The context of global markets have been guided by the understanding and theories developed by economists based on Natural resources available with various countries which give them the comparative advantage, Economies of Scale of large scale production, technology in terms of e commerce as well as product life cycle changes in tune with advancement of technology as well as the financial market structures.

INTERNATIONAL TRADE INTEGRATION

No doubt international trade has existed spanning civilizations, in the current global economic situation no country can keep away without participating in international trade. Countries are moving cautiously away from capitalistic and protectionist outlook and engaging in trade with other countries.

With the creation of WTO, there have been constant efforts made to unite countries to create more markets, to standardize tariffs and trade laws as well as remove trade barriers in trying to create free markets.

We have seen very many bi lateral and multi-lateral agreements taken place that have harmonized international trade to a large extent. Together with the agreements, several countries have begun to form unions to harmonize and free trade regulations within themselves in a bid to create free markets. One such example is the Economic Union of European Countries. Initially EU was a Customs Union that further developed into Economic Union.

Countries have also formed several other types of unions as well as zones in a bid to give impetus to international trade. We shall discuss a few of them briefly in this article.

CUSTOMS UNION

Customs Union refers to a coming together of member countries to form a union where in they allow free trade amongst the member countries without customs duties and tariffs. However they formulate a common external trade policy to determine common import duties that are levied for imports from a third party country other than the member country.

Customs Union is the first step towards harmonizing and removing trade barriers to facilitate smoother and increased trade flow within the member groups. This would result in increased economic efficiency and improve political relationships amongst the members too paving way for further economic integration.

The Customs Union of Zollverein which was formed out of coming together of German States is another example of Customs Union. Customs Union can also be called Free Trade Zones with common Trade Tariffs and Policies.

FREE MARKETS & ECONOMIC INTEGRATION

Customs Union can also be called Free Trade Zones with common Trade Tariffs and Policies.

Customs Union is the first step towards building Economic integration that leads to formation of common markets and economic unions and federation.

Common markets allow free movement of all resources including labor, capital as well as other resources without tariffs and formalities.

ECONOMIC UNION

Economic Union is a trade bloc, which consists of both free markets and Customs Union pwithin the member community.

Economic Unions involve close co-ordination and integration of economic and fiscal policies of the member countries

Examples: European Union, CARICOM - Single Market and Economy of Caribbean Community.

Monetary Union, Customs and Monetary Union

Creation of Economic Union paves way for creating a Monetary Union and further evolves into a Customs and Monetary Union.

Under this Union, member countries enjoy common economic union with free markets with no restriction on movement of goods, labor, capital and resources across member countries, common tariffs for external trade, besides combining it with a common monetary currency system.

Examples: Common Monetary and Economic Community of Central Africa.

ECONOMIC INTEGRATION

Economic Union and Monetary Unions finally lead up to Complete Economic Integration as the final stage. In Economic Integration, the member countries operate with single currency and fiscal policy coupled with single economic policy and function as single economy.

To achieve and stabilize single economy, it necessitates the political integration, which brings into being the concept of United Countries with autonomous states governed by federal government. United States of America is the outstanding example of such integration evolving into one Nation.

EXPORT MARKETING CHANNELS

For any Business Organization which is eyeing a foreign market as a part of its Exports strategy, getting its Marketing and Supply chain in place forms a critical part of the initial process which will determine his initial foray into the markets.

While doing business in foreign markets is very lucrative, the initial cost of marketing can be very high until business volumes pick up sufficiently to justify the kind of expenses being incurred. However the expenses are justified keeping view the long term potential of the country and the export market.

Every market in each country is unique and is characterized or influenced by the local ethos, culture and traditional practices. In most cases the exporters would find it more expensive to station themselves or open offices in the foreign countries initially until them are able to add sufficient volumes. They do go through a period of learning curve where in they get to understand the markets, the customer requirement and this helps them fine tune their offerings in the times to come

However exporters would have to take time to travel to the foreign market, be in the market, understand the potentials and be able to choose the right partners.

Once the marketing plan has been finalized and marketing agents identified the next task on hand for the Exporter would be to set up a supply chain model to be able to service the foreign markets. It is essential to have this arrangement in place before the marketing initiatives are kick started, for one cannot have customers waiting for products, especially in case of exports that involve longer lead times. Businesses for long have practiced appointing distributorship as a model of supply chain that has been working well all over the world.

So essentially here we are talking about signing up with two different Export Sales Agreements. In the first instance the Exporters would need to identify and sign up a Sales Agent or Sales Representative Agency and a Country Distributor. In some of the markets you might find a Marketing Agency cum Distributor who is a dominant market player in which case you stand to benefit from having to deal with one agency.

There exists a lot of difference between the two agreements required in the above cases for the roles and responsibilities as well as liabilities are totally different in both cases.

Business Area	Sales & Marketing Agency	Country Distributor
Business Objective	Marketing, Locating Customers, Building & Developing Sales Leads, Negotiate & Close Sales Order.	Buys product Stocks, Manage inventory, Service Customer Order, Execute and affect deliveries, Collect Payment.
Stocks Ownership	Does not Own Stocks. Only Co-ordinates for Customer Delivery directly from Source or through Distributor.	Owns and Maintains STOCKS
Compensation Model	Commission based	Profit Mark up on Product Cost
Pricing Control	Influences pricing with Exporter, but the last call is left to Exporter to close the deal.	Can Take independent call on pricing as the ownership of stocks lies with self.
Credit Risk	With the Seller/Exporter	With Self

Apart from the above two channels, Exporters sometimes use Consignment Sales Agents too. When the Exporter is initially getting a feel of the markets and is looking to tap the customers he would need to hold the stocks at hand so that he is able to offer immediate delivery to the new customer and help bag orders. In such cases the exporter will use a Consignment Agent who will import and hold the consignment on behalf of the exporter. Once the orders are received and the consignment is delivered, the Consignment Agent will receive payment from the customer and in turn repatriate the amount received back to the Exporter after keeping the agreed amount of margin as per his agreement. In such cases the stocks are owned by the Exporter until it is invoiced by the

Consignment Agent to the Customer. The Consignment agent acts as a custodian of goods only and does not carry any other ownership. He provides a legal entity for the Exporter to send goods to in the foreign country and manages the supply chain services as per instructions of the Exporter. The entire responsibility, risk including marketing, pricing, collections and liquidation of stocks lies with the Exporter.