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International Trade and its Barriers

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Abstract

This paper provides an overview of the barriers to international trade faced by the economy. It also shows the barriers faced by various countries and its solutions. International trade promotes the development of the economy. It raise the standard of living of the economy. It provides growth opportunity of the nations and its new innovations. It helps in the development of various techniques. It also has its various ill effects. It provides economic and social benefits to the economies. The need for international trade arises due to uneven distribution of technology, professional management, resources and growth rate. The aim of every country should be favorable balance of payment. Favorable balance of payment arises due to more exports and less imports. International trade promotes employment opportunities, Transfer of Technology and maintains international relations. It promotes cultural diversity in the economy. It helps in the better utilisation of resources.

Keywords: International Trade, Public, Balance of Payments, Protectionism, Technology, Resources, Finance, Capital, Quotas, Exports, Imports, Economic Policy, Trade Barriers.

Introduction

This paper shows why nations export and import goods. Examine what are the barriers to trade and what are the various steps that have been taken to low barriers to trade. People lifestyles and livelihoods are most affected by exports and imports. Concerns of the people related to these are only specific to their individual life. Economists suggested that foreign trade helps in the development of the economy. This helps in creating the greatest good for the greatest number of people. It gives more opportunity for the advancement in technology. There are some pros and cons related to International trade. This is also trade protection thatis the deliberate attempt to limit imports and promote exports by putting up barriers totrade so that favorable balance of payment can be achieve. This help in the economic growth of nation.

Methodology of Study

The research methodology towards producing this paper is mainly based on the secondary data and own thoughts and ideas towards this campaign. Help has been taken from various research papers, literature reviews, websites, journals government surveys and newspapers. Limitations are bound to be there in a form of non coordination of many ideas towards the ideas of experts and theoretical nature of this paper.

Aim of the Study

1. To know the meaning of International trade and its pros and cons.
2. To know what are the Barriers related to International trade.
3. To understand what is Trade protectionism and what is free trade and its theories.
4. To know what is balance of payments.

Meaning

International trade is when buying and selling of goods takesplace between different countries. Send things to foreign countries are called as Exports and buying things from foreign countries are called as Imports. Every countryis not capable in fulfilling the needs of general public. Due to uneven distribution of natural resources, growth rate, climatic conditions, technology and professional management, the need of international trade arises. Every country has an objective of favorable balance of payments. In other words, more exports and less imports. Under developed countries are at the worse position of balance of payments and their debts level is increasing whereas developed countries can have favorable position. Under developed countries are at the worse position of balance of payments and their debts level is increasing whereas developed countries can have favorable position.

Definition

1. According to Wasserman and Haltman, "International trade consists of transaction between residents of different countries."
2. According to Anatol Marad, "International trade is a trade between nations."

Trade Protectionism

Trade protection is putting up barriers to trade to limit imports and promote exports. Protectionism is still widely practiced, despite the arguments in favour of increasing trade openness and free trade. The main arguments for protection are : Protect sunrise industries, also known as infant industries, such as those involving new technologies. This gives the opportunity to new firms to grow, develop and become globally competitive. Protection of domestic industries involves expansion of domestic firms when they benefit from economies of scale and protected from competition.With the growth of these firm they may invest in human capital and develop new skills and capabilities. After the development of these skills and capabilities, there is less need for trade protection and barriers may be eventually removed. Protect non-renewable resources, including oil, are regarded as a special case where the normal rules of free trade are often abandoned. By protecting agricultural sector, Agricultural Policy is to create food security for Europe.

Free Trade and its theories

Free Trade is the economic policy in which the government do not restrict imports from and exports to, other countries. It is the Trade in Services without trade barriers or taxes.

Theory of Absolute Advantage

Barnat (2005) highlighted certain points from Adam Smith's The Wealth of Nations 1776 that explain what this theory talks about. This theory states that nation should produce those goods which he specializes and can be produce at cheaper cost than that of other nations. Then, these goods should be exchanged with those goods which are produced by other countries at cheap cost.

Theory of Comparative Advantage

In the theory of Adam Smith, Theory of Absolute Avantage, it was observed that as trade started increasing between the nations, it becomes more complex and Theory of Absolute Advantage is not an answer of all the problems. In 1817,a famous Economist David Ricardo postulated theory of Comparative advantage. As per this theory, if the country is able to produce two or more products at a comparatively lower cost. Another country who is producing no product, specialization trade could still exist between the countries and it benefits the trade of both the countries, based on the Comparative Costs. For example, A farmer who could produce either Bajra or rice on his 1 hectare of farmland. Bajra gives his $100 per hectare and Rice gives his $150 hectare. It turns out that this farmer is able to yield better and more efficiently than other farmers in his area in both Bajra and rice. We see that even though the farmer has absolute advantage in both the crops , should he produce the crops? The answer is in negative as for every hectare of Bajra produced in his farmland, he would be giving up $50 ($150-$100) in income. The productivity of his farmland will be highest if he specialize in doing what it does relatively better. There could be other factors but this is what the crux of the theory of comparative advantage is. In another example, American hardware Companies send their products to Japan since it is much more cost effective due to low waged labour in Japan. This acts as a Comparative advantage for both countries.

Barriers to International Trade

Tariffs, quotas and non tariff barriers are the most common barriers to trade.

Tariff Barriers

Tariff are tax eslevied on goods entering a country from another country. Tariff revenues are paid to the government of the country. They allow the goods to enter its nation. This revenue is used to finance government service. Tariffs provide revenue to the government. Tariffs also provide economic returns to the domestic industry that face competition from imported products. Sumner et al further suggest that in 1948, In many developed countries, average tariff on manufactured goods increased by 30 percent. Under General Agreement on Tariff Trade (GATT), the economies discussed for the reduction of tariff on manufactured goods.Imports bans if tariffs set are very high and cause block in international trade.

Quota System

According to Henderson (2009), there is a lot more bureaucracy involved in quota system. In this system, the government is not the source from where the revenue is generated. According to Coughlin et al (2009), in quota system the prices rises in the home market and this enables consumers to reduce consumption and domestic producers to increase production. This system also states that the owner of import licenses get revenue gain from this quota.

Non- Tariff Barriers (NTB)

Non- Tariff Barriers can be classified into regulatory barriers, exchange control and subsidies. Coughlin et al (2009) suggested that subsidizing domestic producers in one way to restrict terms under which foreigners can compete in the home market. Exchange Control means restricting access to foreign money to buy foreign goods. For example, Karugia et al (2009) suggested that In East Africa, at the time of Maize and Beef main type of non tariff barriers were faced. Customs documentation and administrative procedures, transiting procedures and immigration, quality inspection are all cumbersome and expensive. These barriers lead to huge welfare loss and reduce the possible benefits of trade preferences due to business activities increases. Karugia et al suggest that in East African nations, trade among beef and maize was found to be very low.

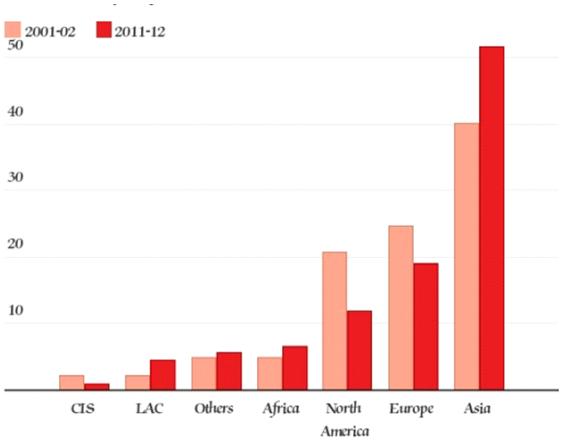
Tariff- Rate Quota

Sumner et al (2002) also discussed Tariff-Rate Quota (TRQ). It is the combination of the ideas of tariff and quota. TRQ is benefit for both countries-the government, the importing as well as the exporting. TRQ helps in the establishment of trade practice between countries in a healthy manner as it not only keeps a check on the quantity of products being imported but also implements low tariff prices.

According to the policy of TRQ, low tariff is charged against fixed quantity of imports and high tariff is charged as the quantity of imports increases. Sumner et al give an example of United States that follows the TRQ policy of various products like peanuts, sugar, beef and other diary products. In these cases, the initial tariff is low but the over quota tariff is very highly priced and sometimes it is unaffordable.

David Cameron want a special relationship with India. According to Export- Import Bank of India (Exim bank) India's total merchandise trade has increased over three-fold from $252 bn in 2006 to $794 in 2012. During this period, both export and import have trebled. The bank was set up for the purpose of facilitating, financing and promoting foreign trade of India.

Exports



Source Exim Bank of India

The trends in exports moving towards southern countries like in Asia and Africa highlights by Exim Bank. Asia is known as a destination of India exports- in 2001-02 Aisa's share were at 40.2% but in rises to 51.6% in 2011-12. Europe share were 24.8% in 2001-02 and were down by 19% in 2011-12. India's key exports were petroleum products which generated $56bn, followed by gems and jewellery with $47bn in 2012. Big exports for India are ready made garments, machinery, pharma products and transport equipments. India's biggest export market was United Arab Emirates (UAE), closely followed by USA in 2012. The Indian Government's Ministry of Commerce and Industry available the latest data covering April- September 2012, shows the US to have slightly overtake the UAE. UK held 2.9% market share of India in April- September 2012 and become the eighth biggest export market for India.

Imports

In 2012, India's biggest import is crude petroleum with $155bn spent on it. Top import items are gold and silver amounted to $62 bn and pearls and precious stones and electronic goods for the country. Top import source for India is Switzerland, Saudi Arabia and China followed by the UAE. India importing a total of $7.7bn and UK came in at 21st place in 2011-12. The UK has dropped a place and has a 1.4% share of the India's import in 2012-13. India's imports and exports by country including the share are shown in the table below.

Country	2012-2013 (Apr- Sep)	%Share (2012-2013 (Apr- Sep)
CHINA	28025.57	11.92
UAE	19622.81	8.35
SAUDI ARABIA	16094.83	6.85
USA	12208.05	5.19
SWITZERLAND	10779.45	4.59
IRAQ	9803.79	4.17
QATAR	8144.45	3.47
KUWAIT	8134.73	3.46
GERMANY	7154.41	3.04
INDONESIA	6944.86	2.95

Top Ten Exporters to India, by total in US$m and share of total

Country	2012-2013 (Apr- Sep)	%Share (2012-2013 (Apr- Sep)
USA	19704.05	13.87
UAE	18601.71	13.09
SINGAPORE	6652.77	4.68
CHINA	6417.32	4.52
HONG KONG	6137.9	4.32
SAUDI ARAB	4636.29	3.26
NETHERLANDS	4458.24	3.14
U K	4112.26	2.89
GERMANY	3491.77	2.46
BRAZIL	3042.64	2.14

Top ten importers from India, by value of trade in US$m and share of total

What is a 'Balance of Payments (BOP)'.

Balance of payments (BOP) is a statement that comprises an economy's transactions with the rest of the world for a specified time period. BOP is classified into three categories : the current account, the capital account and the financial account. The current account includes transactions in investment, income and current transfers, goods and services where as capital accounts deals with transactions in financial instruments. It emcompasses all transactions between country's residents and its non residents including good and services, income, liabilities to the rest of the world , transfers such as gifts , financial claims. International accounts is constituted by an economy's balance of payments transactions and international investment position (IIP)

Balance of Payments Deficit

Balance of payments deficit meanswhen payments made by the country exceed payments received by the country. This is also called as unfavorable balance of payments. It is unfavorable due to more currency is flowing out of the country than is flowing in. Reduction in the supply of money in the nation caused by unequal flow of currency.There is implications for production, unemployment, inflation and other facets of the domestic country.

India's current account deficit in 2016 Q2 at 0.6% of GDP

According to RBI, BOP was at a surplus of $8.5 billion as compared with a deficit of $900 million a year ago. Reserve Bank of India showed current account deficit (CAD) of $3.4 billion, or 0.6% GDP in the July-September quarter 2016. The CAD in the second quarter was higher than the first quarter (April-June) CAD of 0.1% of GDP but lower than the same quarter (July-Sept) a year ago at 1.7% of GDP. The contraction on a year-on-year (y-o-y) basis was primarily on account of a lower trade deficit ($25.6billion) brought about by a larger decline in merchandise relative to exports.

Pros of International Trade

1. **Transfer to Technology**-Due to International Trade, there is improvement in methods, technology advancement, machinery for inventions and innovation.
2. **Employment Opportunities**- International Trade promotes Employment opportunities. In other words, due to increase in exports, more production will be there and this leads to requirement of more human power.
3. **International Relations**- Internatinational trade helps in the development of friendly relations with other countries which generates employment opportunities and better educational facilities such as scholarships and many more.
4. **Economic Development**- Economic development leads to favorable balance of payment. Due to increase in exports both the productionand per capital income increases which leads in economic prosperity.
5. **Better utilisation of Resources**- The objective of the producer is to reduce cost ofproduction by optimum utilisation of resources. There is no misuse of production factors.
6. **Cultural Diversity**- International trade brings cultural divetsityin the country. Due to export and import of goods and services, there is change in the preference of customers.
7. **Economies of Larges Scale**- The economies of transport, production, management, advertisement and finance are available to the producers.
8. **Monopoly**- International trade eliminates monopoly in the country. Goods and services can be important and surplus can be exported. So, the seller cannot create monopoly in the market.
9. **Price Stability**-International trade brings price stability of the product in the economy. The surplus goods are exported and at the time of shortage the goods can be imported to maintain the price level
10. **World Peace**- International trading builds friendly relations with each other in order to increase the exports.

Cons of International Trade

Unemployment

When producer finds that importing goods are cheaper and they can generate more profits instead of producing it in the local market, they prefer to import which creates unemployment in the local market.

Economic and Military War

Every country wanted to be superior in export and economic sound position, which causes economic rivals. They want to destabilize other rivals by wars, terrorism etc. Exporting atomic weapons (aircrafts, tanks, missals and semi atomic guns etc) is another example of international trade.

Colonialism

Large Corporations and Mega

Projects become colonies of other nations. When the economy is controlled by corporate tycoons, they become powerful and destabilize the countries politically and economically.

Excessive use of Natural Resources

Due to international trade, countries want to export more with aim of more profit earning. They produce goods in bulk quantity which involve in Excessive utilisation of Natural resources.

Local Industry Suffers

Due to imports, the goods are ready to use and available at cheap prices and local industry cannot compete the price or quantity.For example, Products made by China.

Shortage in the Local Market

Exporting goods involves more profits. This leads to hike in prices and shortage of goods in the local market.

Conclusion

Trade must fulfill the theory of comparative advantage. It should benefitting both nations engaged in trading activities. It has both positive and negative effect on the economy. Positive effect can be economically and socially. Negative effects for example, as Elwell (2005) suggests, as it helps in benefitting the economic condition of relatively efficient activities but also it hampers the relatively less competent activities. Impressing barriers help in preventing nations from economic gain. Tariffs, quotas and non-tariff barriers result in gain of the importing sector and loss in exporting sector suggested by Elwell. It also leads to downfall of the economy as there is increase in prices and reduction of goods available to the consumer. Domestic industry must protect, improve and sell their products. The profits foreign goods bring to both economies. Economies should work towards addressing the barriers they face today for its beneficial. Trade contributes largely to the economy of the country either it can be export or import. U.S. Government and U.S. Trade Representatives work together to fight the barriers for the security of the country's economy. Other economies should also address their respective barriers. The aim of the developed countrues is to remove all trade barriers. Also trying giving up on protectionist measures like. The EU and The U.S pledged to do for the economic benefits of either country. Encouraging trade between nations shall benefit the global economy.

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