Fundamentals of Human Geography

Chapter-9 International Trade

Key Notes:

- Trade means the voluntary exchange of goods and services
- Trade may be conducted at two levels:international and national
- International trade is the exchange of goods and services among countries across national boundaries
- Barter system means direct exchange of goods took place
- For eg ,if you were a potter and were in need of a plumber,you would have to look for a plumber who would be in need of pots and you could exchange your pots for his plumbing service
- The difficulties of barter system were overcome by the introduction of money
- In the olden times, before paper and coin currency came into being, rare objects with very high intrinsic value served as money, like, flintstones, obsidian, cowrie shells, tiger's paws, whale's teeth, dogs teeth, skins, furs, cattle, rice, peppercorns, salt, small tools, copper, silver and gold

HISTORY OF INTERNATIONAL TRADE

- In ancient times, transporting goods over long distances was risky, hence trade was restricted to local markets
- People then spent most of their resources on basic necessities – food and clothes
- The Silk Route is an early example of long distance trade connecting Rome to China – along the 6,000 km route
- The traders transported Chinese silk, Roman wool and precious metals and many other high value commodities from intermediate points in India, Persia and Central Asia
- From 15th century onwards, the European colonialism began and along with trade of exotic commodities, a new form of trade emerged which was called slave trade

- Slave trade was a lucrative business for more than 200 years till it was abolished in Denmark in 1792,Great Britain in 1807 and United States in 1808
- After the Industrial Revolution the demand for raw materials like grains, meat, wool also expanded, but their monetary value declined in relation to the manufactured goods
- In the later half of the 19th century, regions producing primary goods were no more important, and industrial nations became each other's principle customers
- During the World Wars I and II, countries imposed trade taxes and quantitative restrictions for the first time
- During the post-war period, organisations like General Agreement for Tariffs and Trade (which later became the World Trade Organisation), helped in reducing tariff

Why Does International Trade Exist?

- International trade is the result of specialization in production
- It benefits the world economy if different countries practise specialisation and division of labour in the production of commodities or provision of services
- International trade is based on the principle of comparative advantage, complimentarity and transferability of goods and services and in principle, should be mutually beneficial to the trading partners
- In modern times, trade is the basis of the world's economic organisation and is related to the foreign policy of nations

Basis of International Trade

Difference in national resources: The world's national resources are unevenly distributed because of differences in their physical make up i.e. geology, relief soil and climate.

a. **Geological structure:** It determines the mineral resource base and topographical differences ensure diversity of crops and animals raised. Lowlands have greater agricultural potential. Mountains attract tourists and promote tourism.
b. **Mineral resources:** The availability of mineral resources provides the basis for industrial development.
c. **Climate:** It influences the type of flora and fauna that can survive in a given region. It also ensures diversity in the range of various products, e.g. wool production can take

place in cold regions, bananas, rubber and cocoa can grow in tropical regions.

Population factors: The size, distribution and diversity of people between countries affect the type and volume of goods traded.

a. **Cultural factors**: Distinctive forms of art and craft develop in certain cultures which are valued the world over, e.g. China produces the finest porcelains and brocades. Carpets of Iran are famous while North African leather work and Indonesian batik cloth
b. **Size of population**: Densely populated countries have large volume of internal trade but little external trade because most of the agricultural and industrial production is consumed in the local markets. Standard of living of the population determines the demand for better quality imported products because with low standard of living only a few people can afford to buy costly imported goods.

Stage of economic development: At different stages of economic development of countries, the nature of items traded undergo changes. In agriculturally important countries, agro products are exchanged for manufactured goods whereas industrialised nations export machinery and finished products and import food grains and other raw materials.

Extent of foreign investment: Foreign investment can boost trade in developing countries which lack in capital required for the development of mining, oil drilling, heavy engineering, lumbering and plantation agriculture. By developing such capital intensive industries in developing countries, the industrial nations ensure import of food stuffs, minerals and create markets for their finished products. This entire cycle steps up the volume of trade between nations.

Transport: With expansions of rail, ocean and air transport, better means of refrigeration and preservation, trade has experienced spatial expansion.

Important Aspects of International Trade
International trade has three very important aspects. These are volume, sectoral composition and direction of trade

i. **Volume of Trade:**The actual tonnage of goods traded makes up the volume. The total value of goods and services traded is considered to be the volume of trade.
ii. **Composition of Trade**:Trade of primary products was dominant in the beginning of the

last century. Later manufactured goods gained prominence and currently, though the manufacturing sector commands the bulk of the global trade, service sector which includes travel, transportation and other commercial services have been showing an upward trend. Agricultural products, fuels and mining products, fuels, manufactures, iron and steel, chemicals, office and telecom equipment, automotive products, textiles and clothing are major merchandise which are traded over the world.

iii. **Direction of Trade**: Direction of trade means a study of the countries to whom the exports are made and from whom the imports are made.

Historically, the developing countries of the present used to export valuable goods and artefacts, etc., which were exported to European countries. During the 19th century ther was a reversal in the direction of trade.European countries started exporting manufactured goods for exchange of foodstuffs and raw materials from their colonies. Europe and U.S.A. emerged as major trade partners in the world and were leaders in the trade of manufactured goods. During the second half of the 20th century, Europe lost its colonies while India, China and other developing countries started competing with developed countries. The nature of the goods traded has also changed.

Balance of Trade

- Balance of trade records the volume of goods and services imported as well as exported by a country to other countries
- If the value of imports is more than the value of a country’s exports, the country has negative or unfavourable balance of trade
- If the value of exports is more than the value of imports, then the country has a positive or favourable balance of trade
- Balance of trade and balance of payments have serious implications for a country’s economy
- A negative balance would mean that the country spends more on buying goods than it can earn by selling its goods. This would ultimately lead to exhaustion of its financial reserves

Types of International Trade

International trade may be categorised into two types:

a. Bilateral trade: Bilateral trade is done by two countries with each other. They enter into agreement to trade specified commodities amongst them
b. Multi-lateral trade: It is an agreements which are made between two or more countries to strengthen economy of member countries by exchanging of goods and services among them.The country may also grant the status of the “Most Favoured Nation” (MFN) on some of the trading partners.

Case for Free Trade or trade liberalisation

- The act of opening up economies for trading is known as free trade or trade liberalisation
- This is done by bringing down trade barriers like tariffs
- Trade liberalisation allows goods and services from everywhere to compete with domestic products and services
- Globalisation along with free trade can adversely affect the economies of developing countries
- Free trade should not only let rich countries enter the markets, but allow the developed countries to keep their own markets protected from foreign products
- The practice of selling a commodity in two countries at a price that differs for reasons not related to costs is called dumping

World Trade Organisation (WTO)

- In 1948, to liberalise the world from high customs tariffs and various other types of restrictions, General Agreement for Tariffs and Trade (GATT) was formed by some countries
- On1st January 1995 GATT was transformed into the World Trade Organisation (WTO)
- In 1994, it was decided by the member countries to set up a permanent institution for looking after the promotion of free and fair trade amongst nation
- WTO is the only international organisation dealing with the global rules of trade between nations
- It sets the rules for the global trading system and resolves disputes between its member nations
- WTO also covers trade in services, such as telecommunication and banking, and others issues such as intellectual rights

- WTO Headquarters are located in Geneva, Switzerland
- 149 countries were members of WTO as on December 2005
- India has been one of the founder member of WTO

Regional Trade Blocs

- Regional Trade Blocs have come up in order to encourage trade between countries with geographical proximity, similarity and complementarities in trading items and to curb restrictions on trade of the developing world
- Today, 120 regional trade blocs generate 52 % of the world trade
- Some major regional training blocs ASEAN(Association of South East Asian Nations) CIS (Commonwealth of Independent States), EU(European Union), LAIA (Latin American Integration Association), NAFTA(North American Free Trade Association), OPEC (Organisation of Petroleum Exporting Countries), SAFTA (South Asian Free Trade Agreement)

Concerns Related to International Trade

- International trade is mutually beneficial to nations if it leads to regional specialisation, higher level of production, better standard of living, worldwide availability of goods and services, equalisation of prices and wages and diffusion of knowledge and culture
- Effects of international trade are c it leads to dependence on other countries, uneven levels of development, exploitation, and commercial rivalry leading to wars

Effects of global trade:

i. it can impact everything from the environment to health and well-being of the people around the world
ii. As countries compete to trade more, production and the use of natural resources spiral up, resources get used up faster than they can be replenished
iii. Multi-national corporations trading in oil, gas mining, pharmaceuticals and agri-business keep expanding their operations at all costs creating more pollution

GATEWAYS OF INTERNATIONAL TRADE

The chief gateways of the world of international trade are the harbours and ports

Ports

- Cargoes and travellers pass from one part of the world to another through these ports
- The ports provide facilities of docking, loading, unloading and the storage facilities for cargo
- In order to provide these facilities, the port authorities make arrangements for maintaining navigable channels, arranging tugs and barges, and providing labour and managerial services
- The importance of a port is judged by the size of cargo and the number of ships handled
- The quantity of cargo handled by a port is an indicator of the level of development of its hinterland

Types of ports
Ports are classified according to the types of traffic which they handle. Types of port according to cargo handled:

i. Industrial Ports: These ports specialise in bulk cargo-like grain, sugar, ore, oil, chemicals and similar materials.
ii. Commercial Ports: These ports handle general cargo-packaged products and manufactured good. These ports also handle passenger traffic.
iii. Comprehensive Ports: Such ports handle bulk and general cargo in large volumes.

Types of port on the basis of location:

i. **Inland Ports:** These ports are located away from the sea coast. They are linked to the sea through a river or a canal. Such ports are accessible to flat bottom ships or barges. For example, Manchester is linked with a canal; Memphis is located on the river Mississippi; Rhine has several ports like Mannheim and Duisburg; and Kolkata is located on the river Hoogli, a branch of the river Ganga.
ii. **Out Ports:** These are deep water ports built away from the actual ports. These serve the parent ports by receiving those ships which are unable to approach them due to their large size. Classic combination, for example, is Athens and its out port Piraeus in Greece.

Types of port on the basis of specialised functions:

i. **Oil Ports:** These ports deals in the processing and shipping of oil. Some of these are tanker ports and some are refinery ports. Maracaibo in Venezuela, Esskhira in Tunisia, Tripoli in Lebanon are tanker ports. Abadan on the Gulf of Persia is a refinery port.
ii. **Ports of Call:** These are the ports which originally developed as calling points on main sea routes where ships used to anchor for refuelling, watering and taking food items. Later on, they developed into commercial ports. Aden, Honolulu and Singapore are good examples.
iii. **Packet Station:** These are also known as ferry ports. These packet stations are exclusively concerned with the transportation of passengers and mail across water bodies covering short distances. These stations occur in pairs located in such a way that they face each other across the water body, e.g. Dover in England and Calais in France across the English Channel.
iv. **Entrepot Ports:** These are collection centres where the goods are brought from different countries for export. Singapore is an entrepot for Asia. Rotterdam for Europe, and Copenhagen for the Baltic region.
v. **Naval Ports:** These are ports which have only strategic importance. These ports serve warships and have repair workshops for them. Kochi and Karwar are examples of such ports in India.