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INTERNATIONAL TRADE

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INTRODUCTION

The term International business has emerged from "International marketing". International business involves transactions across the national boundaries. It includes the transfer of goods, services, technology, managerial knowledge and capital to other countries. International business has gained greater visibility and importance in recent years because of the large multinational corporations. International trade is referred to as the exchange or trade of goods and services between different nations. This kind of trade contributes and increases the world economy. The most commonly traded commodities are television sets, clothes, machinery, capital goods, food, and raw material, etc., International trade has increased exceptionally that includes services such as foreign transportation, travel and tourism, banking, warehousing, communication, advertising, and distribution and advertising. Other equally important developments are the increase in foreign investments and production of foreign goods and services in an international country. This foreign investments and production will help companies to come closer to their international customers and therefore serve them with goods and services at a very low rate. All the activities mentioned are a part of international business. It can be concluded by saying that international trade and production are two aspects of international business, growing day by day across the globe.

MEANING AND DEFINITION

Marketing is a human activity directed at satisfying needs and wants through exchange process. Marketing tries to actualize potential exchange for the purpose of satisfying human needs. In the process, it analyses the markets for their potentials in order to assess the needs of the customers.

International trade is a part of total marketing process. It refers to the marketing activities carried on by a marketer in more than one nation.

"Trade carried on across national boundaries" "The Performance of business activities that directs the flow of goods and services to consumers or users in more than one nation" – Hess

& Cater

According to Wasserman and Haltman, "International trade consists of transaction between residents of different countries".

According to Anatol Marad, "International trade is a trade between nations".

According to Eugeworth, "International trade means trade between nations".

Difference between trade and commerce

BASIS	TRADE	COMMERCE
Meaning	The possession of goods or services is given from one person to the another in payment of cash or cash equivalents. Trade can be performed between 2 parties or more than 2 parties.	Commerce involves all the activities that aid in promoting the exchange of goods and services from the manufacturer to the last customers. Primarily, the activities are banking, transportation, advertising, warehousing, insurance, etc.,
Scope	Narrow	Broad
Type of Activity	Social	Economic
Association	Between the buyer and seller	Between the manufacturer and customer
Capital requirement	More	Less

Classification of International Trade:

a) Import Trade: It refers to purchase of goods from a foreign country. Countries import goods which are not produced by them either because of cost disadvantage or because of physical difficulties or even those goods which are not produced in sufficient quantities so as to meet their requirements.

(b) **Export Trade**: It means the sale of goods to a foreign country. In this trade the goods are sent outside the country.

(c) **Entrepot Trade**: When goods are imported from one country and are exported to another country, it is called entrepot trade. Here, the goods are imported not for consumption or sale in the country but for re-exporting to a third country. So importing of foreign goods for export purposes is known as entrepot trade.

Characteristics of International Trade:

Separation of Buyers and Producers: In inland trade producers and buyers are from the same country but in foreign trade they belong to different countries.

Foreign Currency: Foreign trade involves payments in foreign currency. Different foreign currencies are involved while trading with other countries.

Restrictions: Imports and exports involve a number of restrictions but by different countries. Normally, imports face many import duties and restrictions imposed by importing country. Similarly, various rules and regulations are to be followed while sending goods outside the country.

Need for Middlemen: The rules, regulations and procedures involved in foreign trade are so complicated that there is a need to take the help of middle men. They render their services for smooth conduct of trade.

Risk Element: The risk involved in foreign trade is much higher since the goods are taken to long distances and even cross the oceans.

Law of Comparative Cost: A country will specialize in the production of those goods in which it has cost advantage. Such goods are exported to other countries. On the other hand, it will import those goods which have cost disadvantage or it has no specific advantage.

Governmental Control: In every country, government controls the foreign trade. It gives permission for imports and exports may influence the decision about the countries with which trade is to take place.

Reasons of International Trade:

1-Reduced dependence on your local market Your home market may be struggling due to economic pressures, but if you go global, you will have immediate access to a practically unlimited range of customers in areas where there is more money available to spend, and because different cultures have different wants and needs, you can diversify your product range to take advantage of these differences.

2- Increased chances of success Unless you've got your pricing wrong, the higher the volume of products you sell, the more profit you make, and overseas trade is an obvious way to increase sales. In support of this, UK Trade and Investment (UKTI) claim that companies who go global are 12% more likely to survive and excel than those who choose not to export.

3- Increased efficiency Benefit from the economies of scale that the export of your goods can bring – go global and profitably use up any excess capacity in your business, smoothing the load and avoiding the seasonal peaks and troughs that are the bane of the production manager's life.

4- Increased productivity Statistics from UK Trade and Investment (UKTI) state that companies involved in overseas trade can improve their productivity by 34% – imagine that, over a third more with no increase in plant.

5- Economic advantage Take advantage of currency fluctuations – export when the value of the pound sterling is low against other currencies, and reap the very real benefits. Words of warning though; watch out for import tariffs in the country you are exporting to, and keep an eye on the value of sterling. You don't want to be caught out by any sudden upsurge in the value of the pound, or you could lose all the profit you have worked so hard to gain.

6- Innovation Because you are exporting to a wider range of customers, you will also gain a wider range of feedback about your products, and this can lead to real benefits. In fact, UKTI statistics show that businesses believe that exporting leads to innovation – increases in breakthrough product development to solve problems and meet the needs of the wider customer base. 53% of businesses they spoke to said that a new product or service has evolved because of their overseas trade.

7- Growth The holy grail for any business, and something that has been lacking for a long time in our manufacturing industries – more overseas trade = increased growth opportunities, to benefit both your business and our economy as a whole.

Advantages of International Trade:

Optimal use of natural resources: International trade helps each country to make optimum use of its natural resources. Each country can concentrate on production of those goods for which its resources are best suited. Wastage of resources is avoided.

Availability of all types of goods: It enables a country to obtain goods which it cannot produce or which it is not producing due to higher costs, by importing from other countries at lower costs.

Specialization: Foreign trade leads to specialization and encourages production of different goods in different countries. Goods can be produced at a comparatively low cost due to advantages of division of labour.

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Advantages of large-scale production: Due to international trade, goods are produced not only for home consumption but for export to other countries also. Nations of the world can dispose of goods which they have in surplus in the international markets. This leads to production at large scale and the advantages of large scale production can be obtained by all the countries of the world.

Stability in prices: International trade irons out wild fluctuations in prices. It equalizes the prices of goods throughout the world (ignoring cost of transportation, etc.)

Exchange of technical know-how and establishment of new industries: Underdeveloped countries can establish and develop new industries with the machinery, equipment and technical know-how imported from developed countries. This helps in the development of these countries and the economy of the world at large.

Increase in efficiency: Due to international competition, the producers in a country attempt to produce better quality goods and at the minimum possible cost. This increases the efficiency and benefits to the consumers all over the world.

Development of the means of transport and communication: International trade requires the best means of transport and communication. For the advantages of international trade, development in the means of transport and communication is also made possible.

Disadvantages of International Trade:
Though foreign trade has many advantages, its dangers or disadvantages should not be ignored.

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.

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.

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.

Mis-utilization 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.

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

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.

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

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.

Table 1: DIFFERENCE BETWEEN DOMESTIC AND INTERNATIONAL TRADE

Basis	**Domestic Trade**	**International Trade**
Nationality of Buyers and Sellers	Under this person of one nation work in their respective domestic market.	Under this person from different nations works in the international market.
Nationality of Other Stakeholders	Stakeholders like suppliers, producers, employees, Middleman, etc. are of the same nation.	Stakeholders like suppliers, producers, employees, Middleman, etc., are of different nations
Mobility of Factors of Production	Factors of production like capital and labour are mobile across one nation.	Factors of production like capital and labour are mobile across the different nation.

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Heterogeneous Customers	Usually, customers are homogeneous in the domestic market	Customers are not homogeneous in the international market due to a different religion, caste, language, etc.
Risks	Under this one nation is subject to the political risk of its respective nation.	This may be a barrier to international trade as different nations have different political risks.
Policies	These are subject to different policies and regulations, laws of a single nation.	These are subject to different policies and regulations, laws of multiple nations.
Currency	Only one currency is involved.	There is involvement of more than one currency.

SCOPE OF INTERNATIONAL BUSINESS

1. **Exports and Imports** - It includes merchandise (tangible or having physical existence) of Goods. Export merchandise means sending goods to other nations. Import merchandise means receiving goods from other nations. It does include the trade of services.
2. **Service Trade** - It is also known as invisible trade. It includes the trade of services (intangible or no physical existence). There is both export and import of services. Services like tourism, hotel, transportation, training, research etc.,
3. **Licensing & Franchising** - Under this permission is given to the organization of other countries. To sell the product of a particular company. Under its trademark, patents in return of some fees. Example– Pepsi and Coca Cola are produced and sold through different 2 sellers abroad. Franchising is similar to licensing but associated with services. Example Dominos, burger king, etc.,
4. **Foreign Investment** - It includes the investment of available funds in foreign companies to get returns. It can be of 2 types :(1) Direct investment means investing funds in plant and machinery for marketing and production, also known as a foreign direct investment (FDI). Sometimes these investments are done jointly known as joint ventures. (2) Portfolio investment means one company invests in another company by way of investing in its securities and earn income in the form of interest and dividends.
5. **Consultancy services** – The exporting company offers consultancy service by undertaking Turnkey projects in foreign countries. For this purpose it sends its consultants and experts to foreign countries who guide and direct the manufacturing activities of the spot.
6. **Exchange of Technical and Managerial Knowhow** – The Technicians and Managerial personnel of the exporting company guide and train the technicians and the manager of the importing company.

METHODS OF ENTERING FOREIGN MARKET

a. **Exporting**: Exporting is the direct sale of goods and / or services in another country. It is possibly the best-known method of entering a foreign market, as well as the lowest risk. It may also be cost-effective as you will not need to invest in production facilities in your chosen country – all goods are still produced in your home country then sent to foreign countries for sale. However, rising transportation costs are likely to increase the cost of exporting in the near future. The majority of costs involved with exporting come from marketing expenses. Usually, you will need the involvement of four parties: your business, an importer, a transport provider and the government of the country of which you wish to export to.

b. **Licensing:** Licensing allows another company in your target country to use your property. The property in question is normally intangible – for example, trademarks, production techniques or patents. The licensee will pay a fee in order to be allowed the right to use the property. Licensing requires very little investment and can provide a high return on investment. The licensee will also take care of any manufacturing and marketing costs in the foreign market.

c. **Franchising**: Franchising is somewhat similar to licensing in that intellectual property rights are sold to a franchisee. However, the rules for how the franchisee carries out business are usually very strict – for example, any processes must be followed, or specific components must be used in manufacturing.

d. **Joint venture**: A joint venture consists of two companies establishing a jointly-owned business. One of the owners will be a local business (local to the foreign market). The two companies would then provide the new business with a management team and share control of the joint venture. There are several benefits to this type of venture. It allows you the benefit of local knowledge of a foreign market and allows you to share costs. However, there are some issues – there can be problems with deciding who invests what and how to split profits.

e. **Foreign direct investment:** Foreign direct investment (FDI) is when you directly invest in facilities in a foreign market. It requires a lot of capital to cover costs such as premises, technology and staff. FDI can be done either by establishing a new venture or acquiring an existing company.

f. **Wholly owned subsidiary**: A wholly owned subsidiary (WOS) is somewhat similar to foreign direct investment in that money goes into a foreign company but instead of money being invested into another company, with a WOS the foreign business is bought outright. It is then up to the owners whether it continues to run as before or they take more control of the WOS.

g. **Piggybacking**: Piggybacking involves two non-competing companies working together to cross-sell the other's products or services in their home country. Although it is a low-risk method involving little capital, some companies may not be comfortable with this method as it involves a high degree of trust as well as allowing the partner company to take a large degree of control over how your product is marketed abroad.

IMPORTANCE OF EXPORT BUSINESS IN INDIA

1. Meeting imports of industrial needs – Imports of capital equipment, raw materials of critical nature, technical know-how for building the industrial base in the country for rapid industrialization and developing the necessary infrastructure.

2. Debt Servicing – India has been receiving external aid over the years for its industrial development resulting in the need for debt servicing. Therefore, it is essential to concentrate on export earnings to cover both imports and debt servicing.

3. Fast Economic Growth – The countries that would like it grow economically should create exportable surpluses i.e., surpluses after meeting domestic demands.

4. Optimum Use of Natural Resources – Foreign exchange can be utilized in establishing industrial unit based on different natural resources availability in the country by making the necessary imports of plant and machinery for the purpose.

5. Meeting Competitions – To improve the exports, the government announces several concessions and incentives. By utilizing these concessions domestic producers concentrates his mind towards the improvement of quality of goods produced and reduces the cost of production so as to face the acute competitive situation in the foreign markets by making intensive use of latest technology.

6. Increasing Employment Opportunities – The problem of employment and underemployment can be solved to some extent by increasing the level of export.

7. Increasing National Income – A country's national income increases to a sizable extent through organized export marketing.

Increasing the standard of Living in the following ways -

a. Import of necessary items.

b. Purchasing power increases.

c. Widespread industrialization.

9. Develops International Collaboration – To settle international issues some countries from group or a common platform to discuss various issues concerning their international trade and take decision. OPEC & EEC are such groups.

10. Develops Cultural Relations – Local representatives and other related persons come into contact with foreign representatives and know their habits and customs.

11. Brings Political Peace – Various countries with different political ideologies import or export their product, which enhances the chances of peace. **References**

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