

INTERNATIONAL TRADE



Essay Support

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Executive Summary

Trade helps to build relationships with other countries, besides contributing to world economy. Most of the revenue generated in the countries comes from international trade. Therefore Government should focus more on the trade relationships within and outside countries. However, in this report it has been observed that trade is declining in the recent years. The reason is dollar appreciation, ineffective use of resources. Developing countries pay least attention to the agricultural sector, and thus this is one where that needs to be focused on. It is recommended that capitals, large acres of land and human resources must be utilised effectively, so that condition of international trade gets improved. Furthermore, improvements must be made regarding trade of services, so that tourism and transport industry can flourish leading to rise of global economy.



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Trade and Development

Introduction

Trade has a key role in this increasingly interconnected world, where every nation is dependent upon each other. Revenue generated through trade constitutes major part of global economy. International trade is increasing at a significant rate, and has the potential to reduce global poverty. This report focuses on how trade has given rise to new jobs, prices of goods have been found to get reduced. Even variety of good for consumers has also increased. Trade also helps countries to connect with each other through implementing new technologies. However, besides recent developments in international trade, there has been quite a slowdown too. Thus those causes for slowdown of global trade have also been analysed here.

Overview of world economy and trade

As per the data of 2016, world economy was in a fragile state as growth has been found to decrease after the years 2014 and 2015 (unctad.org, 2016). Financial crisis of developed countries are set to continue, with an added threat to the financial performance of developing countries. This is damaging prosperity and stability of both developed and developing countries. Here it can be said that, as per the view of Horner (2016, p.410), trade can boost economic development of a country, and it also create gains for partners involved in trading. As criticised by Cowen (2014, p.45), trade can also be harmful as it damages scope of domestic industries to come into competition.

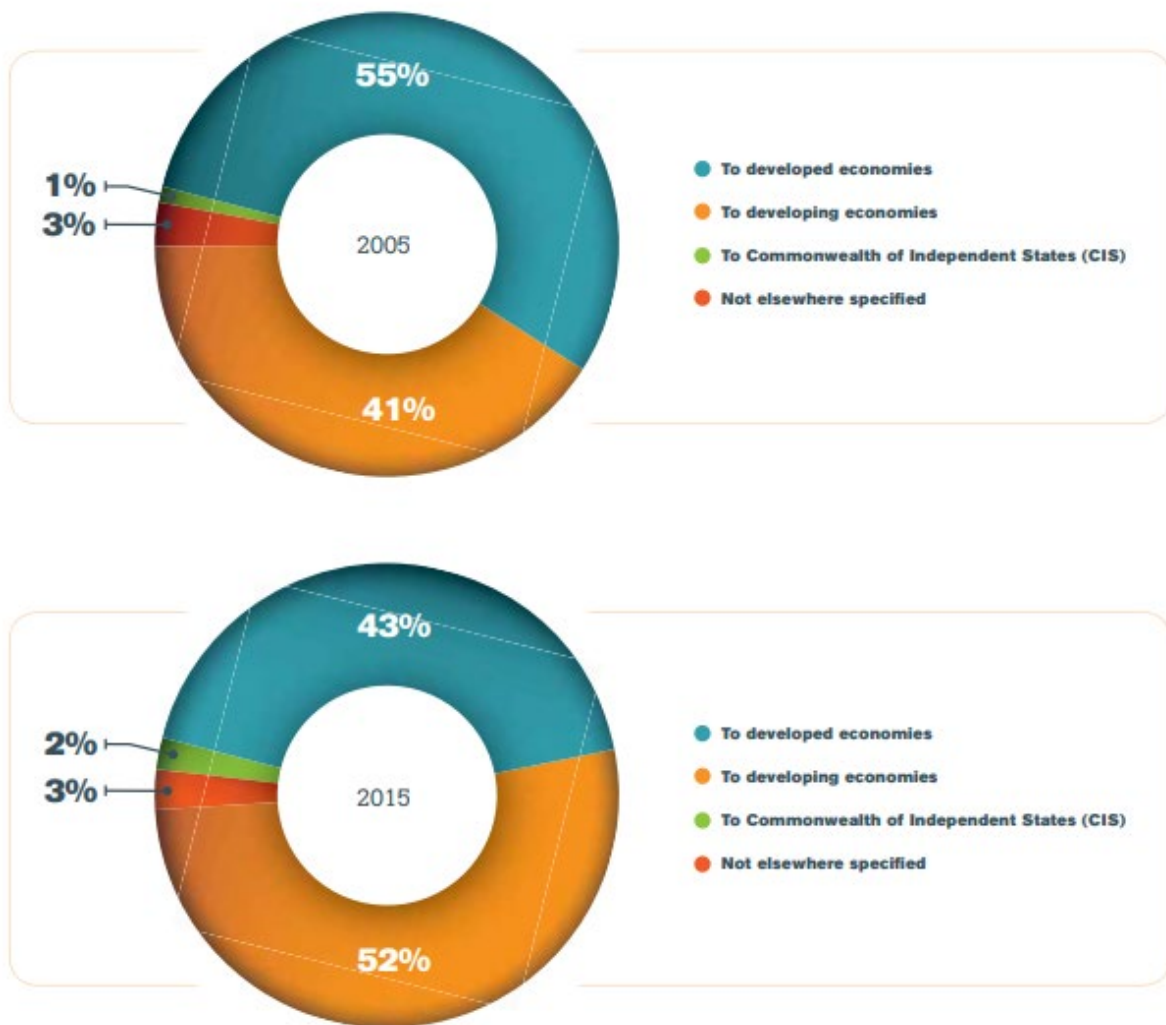


Figure 1: Exports of merchandise in developing economies from the year 2005 and 2015

(Source: wto.org, 2016)

However, it has been argued that trade is intimately connected with poverty alleviation. This is why; countries across the world are focusing more on international trade. Export, thus is a key a key tool that leads to development of countries, leading to integration with global economy. As pointed out by Sievanen *et al.* (2017, p.361), developing countries are not able to develop themselves, because they hardly participate in trade. From the above figure, it can be said that merchandise trade increased from 41% to 52% in developing countries.

However, even these countries have means to develop themselves in international trade. These countries can use their natural resources in carrying out businesses or trade. For instance, a

country rich with rubber, can start a business of rubber, and export them to other developed countries. Furthermore, it has been pointed out by Kjellberg (2017, p.610), educational level in developing countries is quite low compared to developed countries.

Therefore, these people can be employed at different manufacturing companies in developing countries. Furthermore, human resources can be used in the process of trading of commodities. Mostly, developing countries can utilise their large areas of land for industries and agriculture. Through these, final products can be sold to other countries, leading to growth of developing countries. However, very few initiatives are taken to undertake trade as a main means of profit generation.

Recent trends in world economy

In developed countries like US, UK, unemployment have been found to drop, yet there financial crisis are a common scenario in every household. In the year 2016, world economy through trade increased by only 2.4%. Families are struggling with their debt issues, and exporters are distressed with issue of dollar (unctad.org, 2017). No guarantee is assured that economic condition will flourish in the coming years. One of the major reasons behind financial uncertainty is lack of cooperation and support from Government. However, below some data have been provided, that states the condition of world trade in the year 2015.



Figure 2: World trade of merchandise and commercial services from the year 2005 to 2015

(Source: wto.org, 2016)

From the above figure, it can be said that values of merchandise and commercial services in 2015 have doubled up from the year 2005. Yet this rise in 2015 is a decline from the years 2012 to 2014 (wto.org, 2016).

Growth of world merchandise trade, 2005-2015

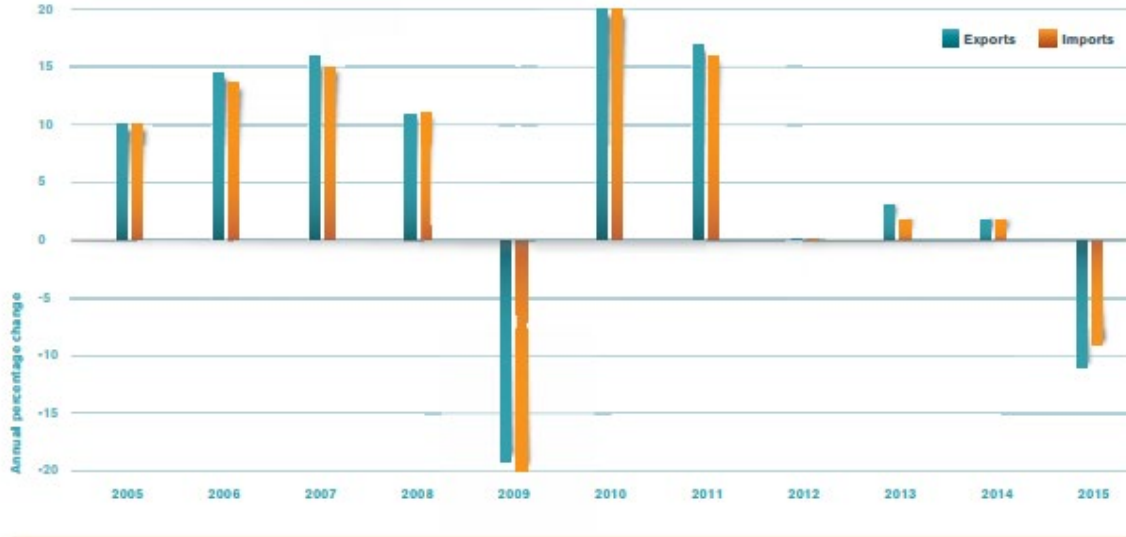
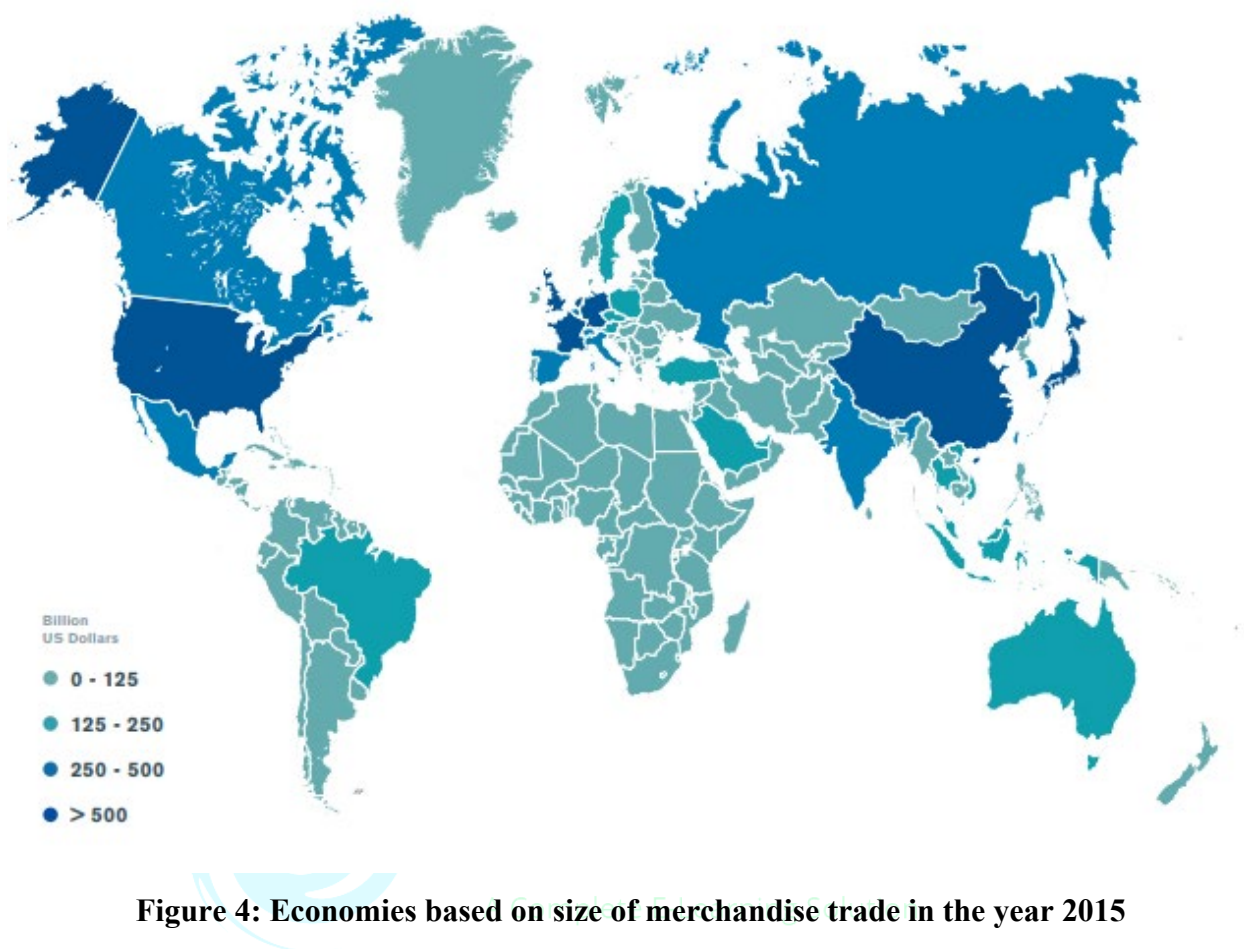


Figure 3: Trade growth of world merchandise from 2005 to 2015

(Source: wto.org, 2016)

From the above figure, it can be observed that around 45% prices of world energy dropped in the year 2015 (wto.org, 2016). This decline had a major impact on value of global merchandise trade in the year 2015.



The above figure states that the trade of top ten merchandise have constituted around 52% of the world's total trade in the year 2015. Among them, developing countries had contributed 42% share in world merchandise trade (wto.org, 2016). US\$ 16.2 trillion is the total revenue generated due to merchandise export.

In spite of all these, world trade have been found to show slow growth rate in the year 2015. It has been recorded that in 2015, only 2.7% growth have been witnessed, and that of in the year, there was 2.4% growth rate. Even after positive growth in trade, there has been declination of dollar value. This is the reason export of merchandise declined by 14% in 2015, as export prices dropped by 15% (wto.org, 2016). As per the view of Helble (2017, p.63), reasons behind decline of trade in 2015 is the economic slowdown in China. Besides, there was recession in Brazil, and decrease in the prices of oil and other commodities (wto.org, 2016). Furthermore, there was quite

a slowdown of demands for import in the parts of Asia; however, there was quite a demand in United States and European Union. However, in the beginning of the year 2016, value of merchandises started stabilising, because value of dollar started easing out. Even, price of oil started recovering, yet in spite of all these factors, economic condition of 2016 remained subdued.

Growth performance

<i>Region/country</i>	2008	2009	2010	2011	2012	2013	2014	2015	2016*
World	1.5	-2.1	4.1	2.8	2.2	2.2	2.5	2.5	2.3
Developed countries	0.1	-3.6	2.6	1.5	1.1	1.1	1.7	2.0	1.6
<i>of which:</i>									
Japan	-1.0	-5.5	4.7	-0.5	1.7	1.4	0.0	0.5	0.7
United States	-0.3	-2.8	2.5	1.6	2.2	1.7	2.4	2.6	1.6
European Union (EU-28)	0.4	-4.4	2.1	1.8	-0.4	0.3	1.4	2.0	1.8
<i>of which:</i>									
Euro zone	0.5	-4.5	2.1	1.6	-0.9	-0.3	0.9	1.7	1.6
France	0.2	-2.9	2.0	2.1	0.2	0.7	0.2	1.2	1.5
Germany	1.1	-5.6	4.1	3.7	0.4	0.3	1.6	1.7	1.7
Italy	-1.1	-5.5	1.7	0.6	-2.8	-1.8	-0.3	0.8	0.8
United Kingdom	-0.5	-4.2	1.5	2.0	1.2	2.2	2.9	2.3	1.8
EU member States after 2004	3.6	-3.6	2.0	3.1	0.5	1.1	2.7	3.4	2.6
South-East Europe and CIS	5.4	-6.6	4.7	4.6	3.3	2.0	0.9	-2.8	0.0
South-East Europe ^b	5.8	-1.9	1.5	1.7	-0.6	2.4	0.3	2.0	2.8
CIS, incl. Georgia	5.3	-6.8	4.9	4.8	3.5	2.0	0.9	-3.0	-0.2
<i>of which:</i>									
Russian Federation	5.2	-7.8	4.5	4.3	3.5	1.3	0.7	-3.7	-0.3
Developing countries	5.2	2.4	7.8	5.9	4.8	4.6	4.4	3.9	3.8
Africa	5.5	3.2	5.2	1.1	5.6	2.0	3.7	2.9	2.0
North Africa, excl. Sudan	6.3	2.8	4.1	-6.6	10.1	-3.7	1.5	2.9	1.7
Sub-Saharan Africa, excl. South Africa	6.1	5.8	6.7	4.7	4.6	5.2	5.8	3.5	2.8
South Africa	3.2	-1.5	3.0	3.2	2.2	2.2	1.5	1.3	0.3
Latin America and the Caribbean	3.7	-2.1	5.9	4.5	3.0	2.7	1.1	0.2	-0.2
Caribbean	2.6	-0.9	3.1	2.2	2.1	2.9	2.8	3.6	2.5
Central America, excl. Mexico	3.8	-0.7	3.7	5.4	4.8	3.6	3.9	4.1	4.0
Mexico	1.4	-4.7	5.2	3.9	4.0	1.4	2.2	2.5	2.2
South America	5.0	-1.0	6.6	4.8	2.6	3.3	0.3	-1.4	-1.8
<i>of which:</i>									
Brazil	5.1	-0.1	7.5	3.9	1.9	3.0	0.1	-3.8	-3.2
Asia	5.7	3.8	8.8	7.0	5.2	5.5	5.5	5.1	5.1
East Asia	6.9	5.9	9.7	7.8	6.0	6.3	6.2	5.4	5.5
<i>of which:</i>									
China	9.6	9.2	10.6	9.5	7.7	7.7	7.3	6.9	6.7
South-East Asia	4.2	1.6	8.0	4.8	5.8	4.9	4.4	4.4	4.3
South Asia	4.8	4.4	9.1	5.5	3.1	5.0	6.3	6.1	6.8
<i>of which:</i>									
India	6.2	5.0	11.0	6.1	4.9	6.3	7.0	7.2	7.6
West Asia	4.0	-2.0	6.2	7.7	4.1	3.4	3.0	2.9	2.1
Oceania	2.0	0.8	4.1	3.7	2.7	2.2	3.6	4.7	2.9

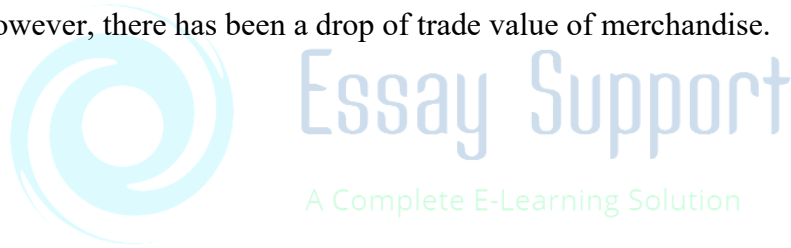
Figure 5: Growth of World output, from the years 2008 to 2016

(Source: unctad.org, 2016)

It is observed that agriculture is one of the sectors that employs majority of people in the world. Another interesting fact known is that most of the household income is spent on food items and its consumption. Therefore, agriculture is one sector that needs to be developed in order to keep trading sustained. As per the view of Thoburn (2016, p.31), small changes in rate of agricultural products, or employment rate in this sector affects socio economic condition of a country. Initiative is thus being taken to increase export of agricultural food products.

International trade

There are many reasons why all the countries are not able to involve in international trade. Issue of access to the markets is one of them that consist of tariffs, quotas, subsidies, and lack of institutional capacity. Furthermore, many countries are confused regarding whether to trade in value or to trade in large volume. It has been observed between the years 2000 and 2010, that there was growth in the value of trade. It resulted from balanced delivery of price as well as quantities. However, there has been a drop of trade value of merchandise.



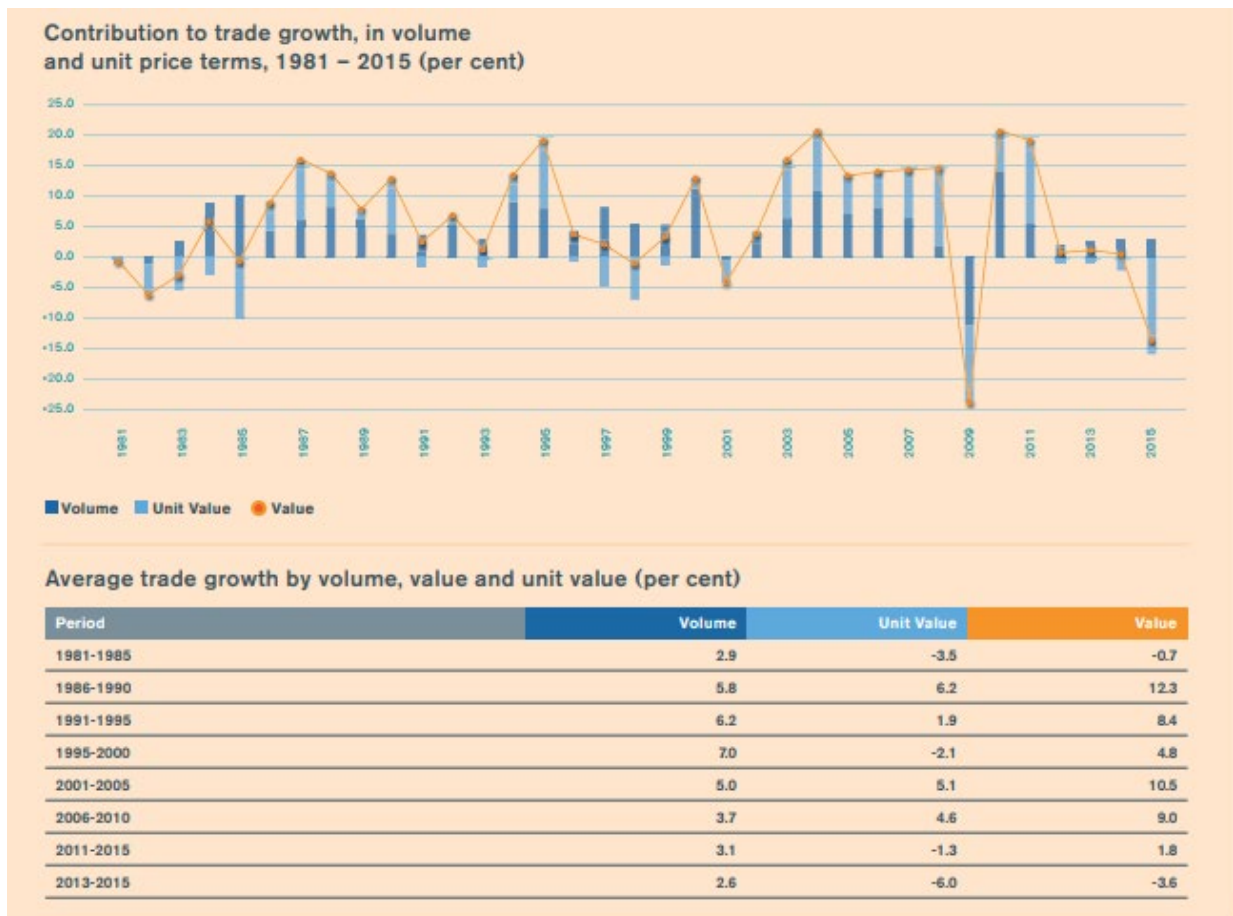


Figure 6: Economic contribution due to trade growth

(Source: wto.org, 2016)

From the above figure, it can be said that all regions got affected due to slowdown of trade in first half of 2015. Imports did not get recovered in the second half of 2015, in countries like Central and South America. On the other hand, countries like North America, Europe and Asia witnessed a partial recovery.

Trade of goods:

International trade in goods slowed down significantly in the year 2015 (unctad.org, 2016). This is due to the poor performance of merchandise trade, that increased only by 1.5 percent. Export of US too has been found to get laid back in 2015. However, export increased in Europe because of the growth of household consumption. Export to China and Japan got subdued as well (unctad.org, 2016).

IMPORT VOLUME, SELECTED COUNTRY GROUPS, JANUARY 2004–APRIL 2016

(Index numbers, 2005 = 100)

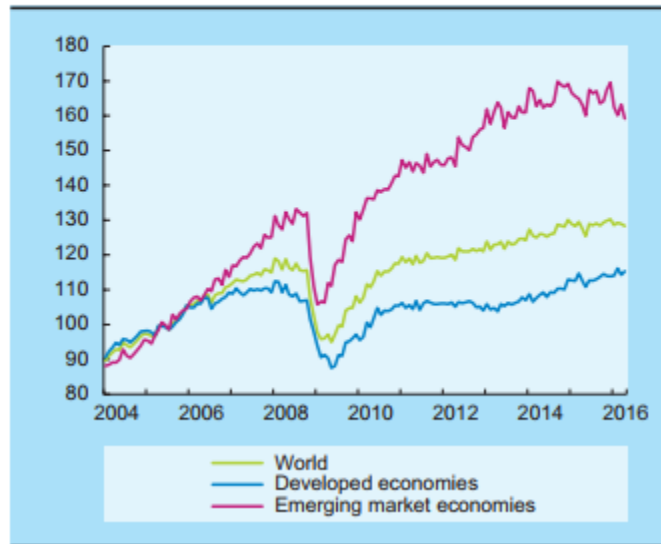


Figure 7: Volume of imported goods

(Source: unctad.org, 2016)

Trade of services

Trade of services also declined in 2015 by rate of 6.1% in terms of US dollars. However, developing countries were not that affected due to decrease of service trade. Just like the goods trade, service trade also declined due to appreciation of dollars (unctad.org, 2016). However, trade in service was still in a better position than that of trade in goods. This was due to services like travelling and transport. As per the data of 2015, service trade accounted for 25% in travel and 20% in transport (unctad.org, 2016).

International tourism have been found to develop by 4.4% in the year 2015, as it was recorded that there was 4.6% increase in international arrivals (unctad.org, 2016). Some of the leading countries that profited due to service trade include China, United Kingdom, and United States and so on. These countries mainly benefitted from their international trade in tourism. On the other hand, there has been a rise of 2.1% in 2015, in terms of international transport (unctad.org, 2016). However, there have been both ups and downs in international trade in the last few years.

Difficulties faced by different countries while carrying out international trade can be explained through the following theories.

New Trade theory

International trade can be defined by a collection of economic models that focuses on the increase of returns to sales. This collection of economic models can however be termed as New trade theory or NTT that focuses on impact of increase of returns to scale, besides benefit gained from international trade. As per the view of Gantz (2017, p.74), NTT is related to relationship between size of firms and structure of markets. Therefore, before undertaking any trade, countries must focus on their market size and structure.



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Ohlin model

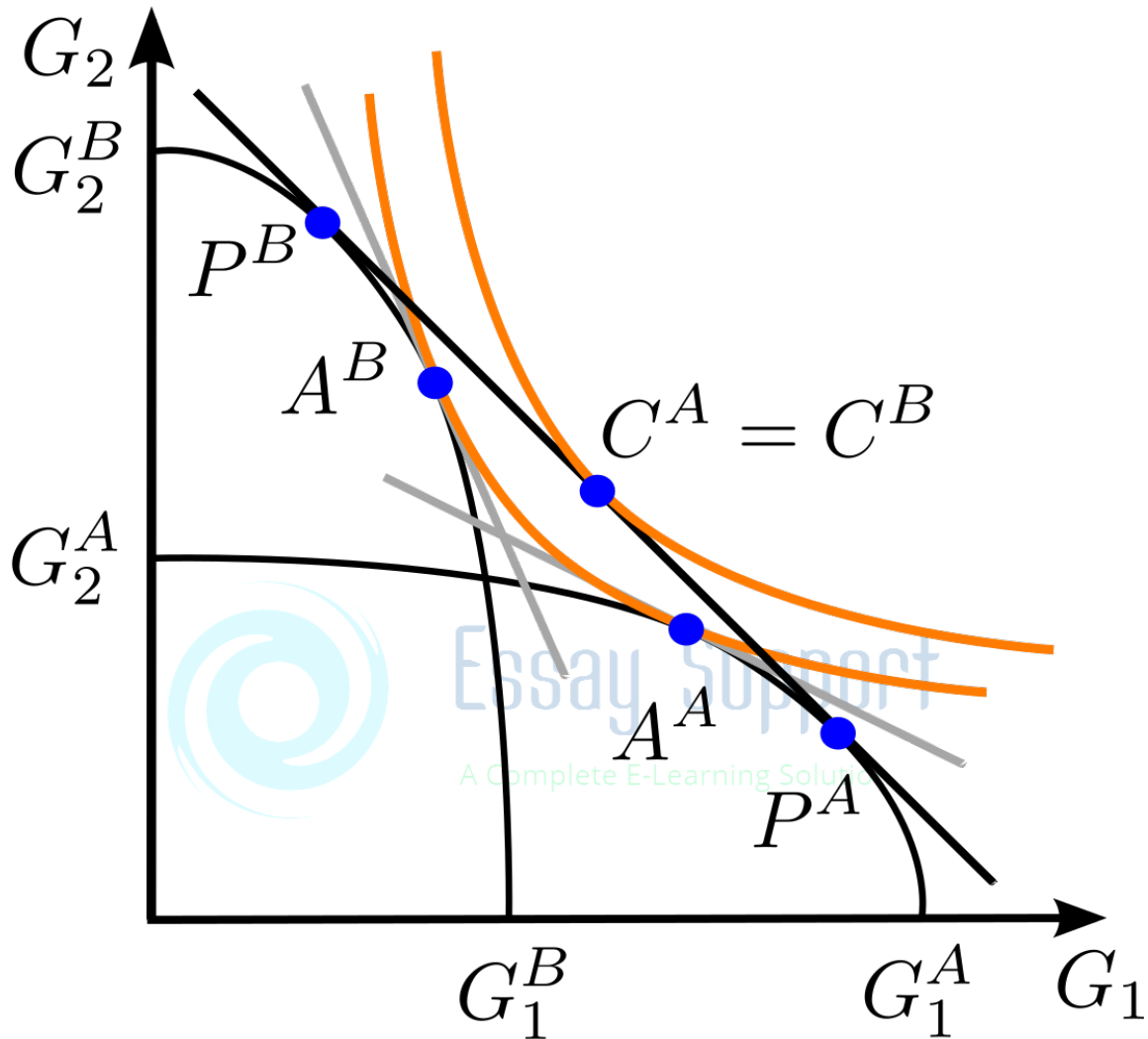


Figure 2: Heckscher - Ohlin Model

(Source: Jault and Garcia, 2014, p.36)

As per this model, a country trades only those goods and services that are efficient and produced in large numbers. Here the model takes two countries arbitrarily, that deals with two different commodities and two factors.

HO model = 2 x 2 x 2 model.

In the above equation, the HO signifies and explains equilibrium between 2 countries, 2 commodities and two factors. These factors can be anything, life skilled labourers and unskilled ones. As per the view of Veltmeyer (2015, p.118), HO model explains that a country normally

export those products that country produce in abundance, whereas they import those that the country is not efficient in producing.

Assumptions of this model:

From here, it is assumed that this difference in production is due to difference in factors. A country might have large number of skilled people and another country might have unskilled people. Again a country, might produce two kinds of products, among them one good require skilled labour and other needs unskilled labours.

Again, it can be assumed while doing international trade those two countries must have similar kinds of technologies. Furthermore, a country A, must export those products that other country B wants to import. There should also be free trade within these two countries, besides, zero transportation cost and tariffs.

Recent developments

The condition of world trade and global economy remain subdued in present condition. As observed by Chaney (2014, p.3601), GDP growth was quite modest in the year 2016 in United States and European countries. However, prices of commodities have been found to get decreased in 2014 (unctad.org, 2016). The reason behind relatively low price of commodities is the consistent oversupply of goods. It has been found that rate of supply is more than number of demands for commodities. If this remains to continue, the economic condition will get affected.

International capital flows:

Capital flow is another reason, for which international trade is affected. As per the view of Neary (2016, p.670), transport of capitals determine how a business will sustain in the market. If a country lacks a raw materials required for its business, they will import it from other countries. However, barriers in the capital transportation will lead to the loss of the business. However, if capital is not transported effectively among countries, they will not be able to develop their business, and economy.

Slowdown of global trade:

Besides, dollar rate, capital flow, there is another reason why international trade is facing such crisis. Governments are not showing concern towards the development of developing countries. As per the view of Edmond *et al.* (2015, p.3184), due to strict laws and regulations, countries find it hard to develop trade relationship with other countries. Therefore, Government should be light towards the trade policies so that countries get a friendly ambience to trade with. Yet the regulations should ensure safety to both countries. Furthermore, they must focus on disseminating information to young people, so that they get interested in developing the sectors of agriculture. Developing countries thus must produce goods that their country grows in abundance. Furthermore, developing countries should focus more on using their resources, so that their lands, human resources can be used effectively. Human resources can be used for employment in agricultural fields and manufacturing industries. This will not only improve the economic condition, but will also lead to the reduction of poverty.

Recommendations

First and foremost, Government should put emphasis on international trade in order to enhance economic condition of the world. Support should be provided for agricultural development, in order to generate revenue. Furthermore, investment should be made on tools and equipments that will ensure quality agricultural products. Initiatives should be taken by Government to educate and inform students and young people regarding benefits of agriculture. They can undertake research, and can learn strategies to management risks related to agriculture. Besides, people should be encouraged to get employed in agricultural sector.

Besides, policies related to trade must be made easy yet strong enough to enable trading. Government and authorities must keep cost of trading as low as possible. Since, it has been pointed out that developing countries face problems while carrying out their export to other countries. They therefore should be given technical and financial help by Government. Developing countries also find it difficult to market their products. Therefore initiative must be taken to build a brand of their products. Once developing countries are enhanced in terms of trade, world economy will improve.

Conclusion

Most of the revenue generated by the world comes from international trade. Trade not only strengthens the relationship between countries, but improves global economy. Yet from the report, it has been observed that rate of global trade is decreasing at a significant rate. This is because, Government are too strict regarding tariffs, legal systems in one nation. Furthermore, developing countries are taking no initiative to enhance its economic condition. Though, it has been observed in the year 2015 that service trade was in a better condition with that of the trade in goods. Yet, trade is facing significant challenges in terms of dollar, and lack of attention to developing countries. Therefore, it is recommended that Government take initiative to encourage developing countries so that they engage in international trade. They must use their large acres of land, human resources for development of business and trade. People must be employed in trading sector, so that economic condition of the country gets improved. Besides, it will also solve the problem of unemployment and poverty.



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