International Trade – Types, Importance, Advantages & Disadvantages

International trade refers to the exchange of goods and services between countries. In simple words, it means the export and import of goods and services. Export means selling goods and services out of the country, while import means goods and services flowing into the country.

International trade supports the world economy, where prices or demand and supply are affected by global events. For instance, the US changing visa policies for software employees will impact the Indian software firms. Or, an increase in the cost of labor in exporting countries like China could mean you pay more for the Chinese goods in the US.

Types of International Trade

There are three types of international trade: Export Trade, Import Trade, and Entrepot Trade. Export and import trade we have already covered above. Entrepot Trade is a combination of export and import trade and is also known as Re-export. It means importing goods from one country and exporting them to another country after adding some value.

For instance, India imports gold from China to make jewelry and exports it to other countries.

What's the need for International Trade?

Countries go for trade internationally when there are not enough resources or capacity to meet the domestic demand. So, by importing the needed goods, a country can use their domestic resources to produce what they are good at. Then, the country can export the surplus to the international market. Primarily, a nation imports goods and services for the following reasons:

Price

If foreign companies can produce or offer goods and services more cheaply, it may be beneficial to go for foreign trade.

Quality

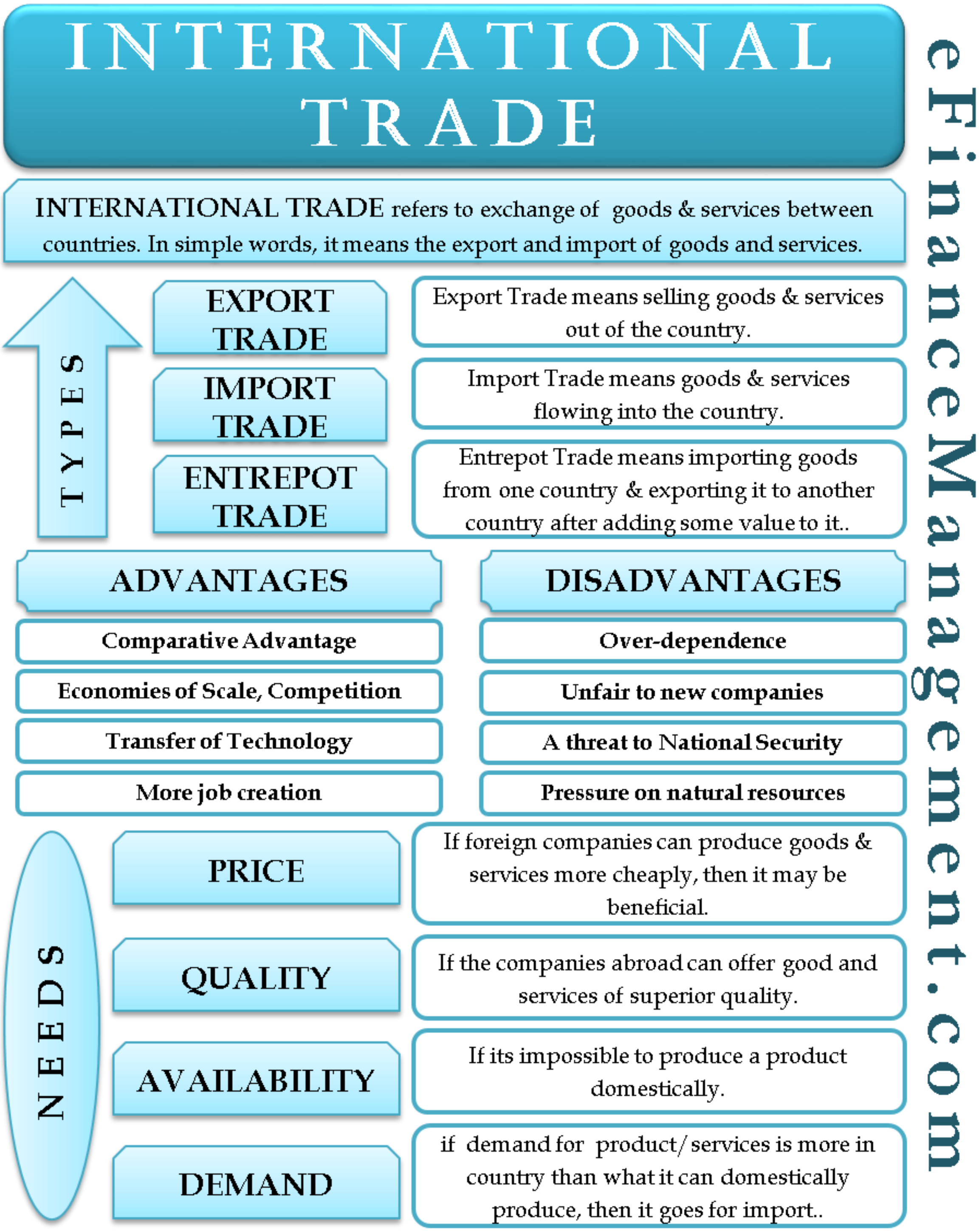
If the companies abroad can offer good and services of superior quality. For instance, Scotch Whiskey from Scotland is considered to be superior. Scotland exports around 37 bottles of Scotch per second.

Availability

Suppose it is impossible to produce that product domestically, like a special variety of fruit or a mineral. For instance, Japan has no natural oil reserves, and thus, it imports all its oil.

Demand

If a demand for a product or service is more in a country than what it can domestically produce, then it goes for import.



Advantages of International Trade

Comparative Advantage

It allows countries to specialize in producing only those goods and services which it is good at and hence provide a comparative advantage.

Economies of Scale

If a country wants to sell its goods in the international market, it will have to produce more than what is needed to meet the domestic demand. So, producing higher volume leads to economies of scale, meaning the cost of producing each item is reduced.

Competition

Selling goods and services in a foreign market also boosts the competition in that market. In a way, it is good for local suppliers and consumers as well. Suppliers will have to ensure that their prices and quality are competitive enough to meet the foreign competition.

Transfer of Technology

International trade often leads to the transfer of technology from a developed nation to a developing nation. Govt. in the developing nation often lay terms for foreign companies that involve developing local manufacturing capacities.

More Job Creation

An increase in international trade also creates job opportunities in both countries. That’s a major reason why big trading nations like the US, Japa, and South Korea have lower unemployment rates.

Disadvantages of International Trade

Over-dependence

Countries or companies involved in foreign trade are vulnerable to global events. An unfavorable event may impact the demand for the product and could even lead to job losses. For instance, the recent US-China trade war adversely affects the Chinese export industry.

Unfair to New Companies

New companies or start-ups that don’t have much resources and experience may find it difficult to compete against the big foreign firms.

Threat to National Security

If a country is over-dependent on the imports for strategic industries, then exporters may force it to decide that may not be in the national interest.

Pressure on Natural Resources

A country only has limited natural resources. But, if it opens its doors to foreign companies, it could drain those natural resources much quicker.

Even though international trade has its own advantage and disadvantages, the advantages far outweigh the disadvantages. Nowadays, international trade has become necessary, but a country must maintain a proper balance between imports and exports to ensure that the economy stays on the growth track.

References:

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