

# INTERNATIONAL TRADING ENVIRONMENT

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**Abstract:** The growth and pattern of international trade, which accounts for a major part of the international business, are profoundly influenced by the international trading environment. The trading environment affects not only exports and imports but also other factors such as international investment and financial flows. This paper discusses about the role of various international organisations in economic growth. The study demonstrates that increasing participation in the global trade helps the countries to reap the static and dynamic benefits, stimulating rapid international economic growth.

## 1. Introduction

In recent years, international business is growing at a very fast rate. It involves all commercial activities that cross national boundaries. Barriers to cross border trade and investment are eliminating, thereby smoothening the growth of international business. Foreign environment here refers to the environment of the appropriate foreign market. The nature of the elements of the business environment may vary between different markets. The multinational environment refers to those global factors which are important to business. International trade is the exchange of capital, goods and services across international boundaries. In most countries such trade represents a sufficient share of gross domestic product (GDP). International trade between China and foreign countries has witnessed significant improvement. In 1980, the total foreign trade amounted to 38 billion US\$ (Wang and Lee, 2017). In 2015, two years after China launched the Belt and Road Initiative (BRI), the total amount of foreign trade reached 24.59 trillion US\$ (Du and Lu, 2018). Carrying out trade at an international level is a more multiplex process than domestic trade. Factors like the economic factors, government policies, markets, laws, judicial system, currency, foreign exchange rate etc. influence the trade.

## 2. Objectives

1. To understand the concept of international trade.
2. To find out the area of international trade in economic growth of a country.
3. To find out the various integration schemes that play a very crucial role in international trade.
4. To find out the different international trading organisations and their role in economic development of a country.

## 3. Research Methodology

Data and information presented in this research paper are conceptual in nature and collected from secondary data such as authentic websites, journals, research papers, e-contents, articles and newspapers to get depth knowledge of international trade. This paper will review the existing literature on international trading environment. It starts with the description of the introduction of international trading environment. Then the objectives of international trading environment will be reviewed. Further the various strategies and schemes that help in growing international trade. And finally, the paper will define on the different international trading organisations.

## 4. Literature Review

International trade has rich history starting with barter system being replaced by Mercantilism in the 16<sup>th</sup> and 17<sup>th</sup> centuries. The 18<sup>th</sup> century saw the shift towards liberalism. The economic growth showed a steady rise after the industrialization period. Based on production function, Solow (1956)<sup>1</sup> worked on developing an exogenous model of economic growth. He determined the output based on the three major factors of production: capital, labour and knowledge. Though he provided a theory that could have been a game changer, there was some fragility involved. This is because the output growth rate used in the proposed model could not successfully explain everything such as the potential payoffs etc. Amiti (1996)<sup>2</sup> emphasized that the growth of economy is determined by increase in the real per capita income considered for a long period of time. This is the reason Foreign Direct investments have been considered crucial for growth. This is because international trade provides a platform where the market reach of the products becomes wider and thus attracting or influencing more consumers. Kotlewski (2009)<sup>3</sup> explained that how the goods produced in countries without any international trade will be economically viable. He also explained the driving factors that enables an economy to capitalise on the technology. These factors are human capital, governance, research and development, bureaucracy and financial structure.

## 5. Trade Strategies

The trade strategy has very wide scope implications-it has affect not only on the volume and structure of imports and exports but also on the pattern of investment and direction of development, competitive situations, cost element, entrepreneurial and business aspect, consumption patterns, etc.

Basically, there are two main trade strategies:

- 1) Outward oriented trade strategy
- 2) Inward oriented trade strategy

An outward oriented trade strategy is one in which trade and industrial policies do not discriminate between productions for the domestic market and foreign markets. This policy neither discriminates in favour of exports nor is it against for import substitution. It is basically an open policy.

An inward oriented trade strategy is defined as a bias of trade and industrial policies in favour of domestic production as against foreign trade. Import substitution is the essential component of the inward oriented strategy; it is also called import substitution strategy. From the past many developing countries, including India resorted to an inward oriented strategy.

## 6. Integration schemes

There are various integration schemes in international trading environment. Some of them are here:

### 6.1. Trade Blocs

It is intergovernmental deal where barriers to trade are decreased among the participating share. To obtain economic benefits from achieving a more efficient production structure by exploiting economies of scale through spreading fixed cost over larger regional markets, increase economic growth from FDI, play a key role in the formation of trading blocs. To modify member's strength in multilateral trade negotiations or to protest against the slow pace of trade negotiations. At the end to prevent further damage to their trading strength due to further trade division from third countries.

### 6.2. Free Trade Area

A trade area is a grouping of countries to bring about free trade between them. It finishes all restrictions on trade among the members but each member is left free to know its own commercial policy with non-members.

### 6.3. Custom Union

A custom union is a more advanced level of economic integration than the free trade area. It not only removes all restrictions on trade among members but also acquires a uniform commercial policy against the non-members.

### 6.4. Common Market

The common market is step ahead of the customs union. A common market allows free motion of labour and capital within the common market.

### 6.5. Economic Union

A still more advanced level of integration is the economic union. It achieves some degree of harmonisation of national economic policies, through a common central bank, unified monetary and fiscal policy, etc. Example: the EU

## 7. Trading Organisations

Various trading organisations are there in international trading environment:

### 7.1. SAARC (South Asian Association for Regional Cooperation)

The SAARC involving seven countries, namely, India, Bangladesh, Pakistan, Nepal, Bhutan, Sri Lanka and Maldives, was formally established in December 1985. The main cause for the establishment of SAARC was difficulties facing the regions. The Secretariat is established in Kathmandu, Nepal. The basic aim of SAARC is social and economic growth by best utilisation of their manpower and material resources. According to the Article I of the charter of the SAARC, the objectives of the Association are as follows:

1. To encourage the welfare of the society of South Asia and to upgrade their style of life.
2. To go faster economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in a systematic manner.
3. To contribute mutual understanding and admiration of each other's problems.
4. To promote alliance and mutual assistance in social, cultural, technical and scientific fields.
5. To help with national boundaries and regional organisations.

Article II of the charter lays down the following principles:

1. Political independence, non-disturbance in the internal affairs of other states and mutual benefit.
2. Such benefit shall not be a option for bilateral cooperation.

### 7.2. NAFTA (North American Free Trade Agreement)

NAFTA is a very important organisation for providing free trade areas to all developing and developed countries. It was signed between the United States and Canada in 1988. Basically, it includes Canada, Mexico and the United States.

The agreement came into force on January 1, 1994. NAFTA covers the following areas:

1. Services-it facilitates for trade in services.
2. Investment –prepares investment rules for minority interests, portfolio investment, real property.
3. Intellectual property-these are the legal rights governing the use of creations of the human mind. It provides legal protection to the owner. trade secrets, trademarks, copyrights and patents.

### 7.3. SOUTH-SOUTH COOPERATION

South-South Cooperation simply means sharing expertise between the governments of two countries. This cooperation simply provides help and support for developing nations. It provides technical and economical information for the development. It is a wide concept covering a large area of the world trade.

The UNDP (The United Nations Development Program) which actively promote South-South Cooperation defines the term as “a means of promoting effective development by learning and sharing best practices and technology between developing countries. It is systematically inspired system which motivates the developing countries for their growth.

Mainly there are three objectives of South-South Cooperation:

1. Overall development of the world trade.
2. To make countries economically efficient.
3. To make countries independent.

Functional areas of Cooperation:

- a) Finance
- b) Trade
- c) Industry and business
- d) Services
- e) Science and technology
- f) Environment
- g) Food security
- h) Transport and other infrastructural development
- i) Communication and information
- j) People to people contacts.

### 7.4. SAPTA (SAARC preferential Trading Arrangement)

Bangladesh, Pakistan, India, Nepal, Sri Lanka, Bhutan and Maldives signed the Agreement on April 2, 1993 during the Seventh SAARC Summit in Dhaka. It actually becomes effective from 7<sup>th</sup> December 1995.

The basic principles of SAPTA are as follows:

1. Special treatment to less developed countries.
2. Incorporation of different type of products-raw, semi-processed and processed.
3. Overall mutual benefitted.
4. Increase in preferential trade agreement in different areas.

SAARC countries benefitted the following causes:

- a) It is beneficial because it can reduce the cost of transport due to geographically distribute.
- b) It helps in increases the capital efficiency among
- c) It also solves the political problems among members.

Thus, the main aim of SAPTA is provide trade concessions so that the member's countries got benefitted.

### 7.5. INDO-LANKA FREE TRADE AGREEMENT

The agreement signed by India and Sri Lanka on December 28, 1998 is called bilateral free trade agreement. Under it many numbers of goods and services will be free from duty charge. The main purpose of this agreement was established a healthy and economic relationship between the nations which ultimately reduces the trade barriers. But most affected fear for this agreement would very unfavourably impact the farmers of India because many crops would come. India which is free from duty from Sri Lanka depressing their home prices.

The Chinese government initiated the BRI (Belt and Road Initiative) in 2013 to revive the historic Silk Road. China uses multilateral cooperation mechanisms to promote the BRI, such as lower or non- barriers Liu et al. (2020b)<sup>4</sup> and Foo et al. (2020)<sup>5</sup> and jointly improve technology transparency (Qi et al., 2019)<sup>6</sup>. Trade exchanges create opportunities for sound development and long-term trade cooperation of countries along the route.

As India is a very large market as compare to Sri Lanka that's why Sri Lanka get more benefits than India. In tariff recent times it has been a very important growth in the Indo- Sri Lankan trade.

## 8. CONCLUSION

Past and current studies indicate that, India is one of the fastest growing and most attractive economies in the world and has emerged as a desirable destination for Foreign Investment. Since 1991 India has been operating under strict policies which restricted the economy from an international trade, this drives more protectionism than open market trade. Indian government since 1991 introduced economic reforms measures to stimulate the economy. These reforms measures in fiscal, reduction on the level of tariffs based on a large number of imports, exchange rate, the use of exchange rate as the instrument for export promotion and trade policies<sup>7</sup>. Thus international trading environment includes all important factors such as trade barriers, trade strategy, trade agreements, trading blocs, multi trade negotiations. Many times, it affected the supply and demand. Business has been outstandingly

affected through the multiplication of geographical economic combination schemes also known as regional integration arrangements (RIA).

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