Available online @ www.iaraindia.com
RESEARCH EXPLORER-A Blind Review & Refereed Quarterly International Journal
ISSN: 2250-1940 (P) 2349-1647 (O)
Impact Factor: 3.655(CIF), 2.78(IRJIF), 2.77(NAAS)
Volume XIII, Issue 43
July- 2024
Formally UGC Approved Journal (63185), © Author

# FOREIGN TRADE

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***Abstract***

*Foreign trade, also known as international trade, refers to the exchange of goods, services, and capital between countries or territories. This type of trade enables nations to expand their markets and access goods and services that may not be available domestically.One way that international entities interact economically is through trade, which is an example of economic linkage. Multinational firms, foreign workers, and foreign financial investments are some additional examples of economic ties. Globalization is the term used to describe the expansion of these economic ties.*

*Key words: EXIM, International Trade, Economic Growth and Development*

**Introduction**

International trade or foreign trade is the term used to describe the exchange of goods and services between countries. Trade of this nature strengthens and expands the global economy. The global market is used to buy and sell consumer goods, machinery, food, and raw materials. The commodities that are most frequently traded include food, raw materials, clothing, machinery, television sets, and capital goods.

According to Wasserman and Haltman, "International trade consists of transaction between residents of different countries". Services like foreign transportation, travel and tourism, banking, warehousing, communication, advertising, and distribution and advertising have all seen remarkable increases in international trade. The rise in foreign investments and

the production of goods and services in a global economy are other equally significant developments. By bringing businesses closer to their global clientele, foreign production and investments will enable them to provide goods and services at deeply discounted prices.

International business encompasses all of the aforementioned activities. In summary, global production and trade are two facets of international business that are expanding daily on a global scale. The exchange of money, products, and services across international borders is known as foreign trade. It accounts for a sizeable portion of Gross Domestic Product (GDP) in the majority of nations. Although there has been international trade for a large portion of history, its significance in terms of politics, economy, and society has grown recently.

**Historical Overview**

One of the oldest customs in human history is probably the bartering of goods and services between various peoples. However, accounts and explanations of such trade start only with the rise of the modern nation-state at the end of the European Middle Ages. International trade, instead, refers specifically to an exchange between members of different nations. Trade became a specific area of study for political theorists and philosophers as they started to analyze the structure and role of the nation. The historical development of the foreign trade has been briefed in the following section.

**Mercantilism**

During the 16th and 17th centuries, mercantilist analysis gained significant traction in European thought and centered on the well-being of the country. It maintained that acquiring wealth, especially wealth represented by gold, was crucial to the formulation of national policy. Because mercantilists considered the benefits of gold to be practically infallible, they never bothered to provide a convincing argument for why pursuing gold should be given such a high priority in their economic strategies.

Mercantilism stemmed from the belief that there is always a conflict between national interests and that the only way for one country to grow its trade is at the expense of other countries. As a result, governments were forced to set wage and price ceilings, support domestic industry, encourage the export of completed goods and the import of raw materials, and simultaneously restrict the import and export of raw materials and completed goods.

Consequently, the mercantilist philosophy's prescribed trade policy was straightforward: promote exports, inhibit imports, and seize the gold profits from the ensuing export excess. Though their trade policy may have been little more than a rationalization of the interests of a rising merchant class that desired wider markets hence the emphasis on expanding exports coupled with protection against competition in the form of imported goods, mercantilists' ideas were frequently intellectually shallow.

**Liberalism**

By the middle of the eighteenth century, a powerful backlash against mercantilist sentiments was taking shape. The Physiocrats, a group of economists in

France, advocated for trade and production liberty. Trade agreements with foreign powers should be negotiated, according to economists and businessmen who expressed their opposition to customs duties that are excessively high and frequently prohibitive. A number of agreements representing the new liberal ideas about trade were signed as a result of these attitudes changing, including the Anglo-French Treaty of 1786, which put an end to the two nations' economic conflict.

The fundamental principles of mercantilism were deemed untenable following the writings of Adam Smith. But this did not mean that countries gave up on mercantilist practices altogether. The argument that the government should, up to a certain extent, keep foreign goods off the domestic market in order to protect domestic production from outside competition was now used to justify restrictive economic policies.

Many national economies were successfully shielded from external competition in the middle of the 19th century by a protective customs policy. For instance, the 1860 French tariff levied astronomically high tariffs of 60 percent on pig iron, 40 to 50 percent on machinery, and 600 to 800 percent on woolen blankets, all of which were British goods. Additional protection was given by the cost of transportation between the two nations.

**The Resurgence of Protectionism**

In the latter half of the 19th century, a protective sentiment began to spread throughout the Western world. Most other countries quickly adopted a protectionist policy modeled after that of Germany. The United States sharply increased its duties during the Civil War shortly after 1860, and the McKinley Tariff Act of 1890 was an extremely protective law. The only nation to uphold the ideals of free trade was the United Kingdom.

However, in contrast to the mercantilist practices that had been prevalent in the 17th century and were to be reinstated in the interwar period, the protectionism of the final quarter of the 19th century was relatively mild. By 1913, economic liberty had become the norm. Customs duties were low and stable, and quantitative restrictions were unheard of. Gold was a freely convertible currency that functioned as a kind of universal international money. In 1913, trade in the West was more liberalized than it was in 1970 in Europe.

**The Contemporary form of Mercantilism**

These trade arrangements were severely disrupted by World War I. World trade had been so severely disrupted by the end of the hostilities that recovery was extremely difficult. The dismantling of wartime controls characterized the first five years of the postwar period. Many nations implemented additional trade restrictions in 1920 as a result of the economic downturn and the benefits that depreciating currencies like Germany's brought to their respective nations. The world economy was engulfed by a protectionist wave that resulted from nationalist ideologies and economic pressure, rather than from policy makers intentionally adhering to any particular theory.

**Classification of International Trade**

**Import Trade**

It alludes to acquiring merchandise from an overseas nation. Countries import goods that they cannot produce due to financial constraints, physical impediments, or even the inability to produce those goods in sufficient quantities to meet their needs.

**Export trade**

It refers to the selling of goods to a nation abroad. The products in this trade are shipped abroad.

**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**

**Economic Growth and Development:**

**(I) Separation of Traders and Foreign Currency:**

Producers and buyers are nationals of the same nation when dealing domestically, but they are not when dealing internationally. Foreign currency payments are a part of international trade. Trade with other nations involves the use of various foreign currencies.

**Diversification and risk management**

**(I) Restrictions and need for Middlemen:**

There are several restrictions on imports and exports, but they are imposed by various nations. Importing nations typically impose a number of import duties and restrictions on goods. In a similar vein, there are a number of guidelines that must be adhered to when shipping products abroad. Because of the complexity of the laws, rules, and procedures governing international trade, middlemen are necessary. They provide their services to ensure that trade runs smoothly.

Since goods are transported over great distances and sometimes even across oceans, there is a much higher risk associated with foreign trade

**Sustainable and Ethical trade**

**(I) Comparative Cost and Government Control**

A nation will focus on producing the goods where it has a cost advantage. These products are exported to foreign nations. Conversely, it will import goods that are less advantageous in terms of cost or lack of specialization. Foreign trade is regulated by the government of each nation. It permits imports and exports to have an impact on the choice of nations with which trade will occur.

**Foreign Trade Policy of India**

India's foreign trade policy, formally known as the Export-Import Policy or EXIM Policy, is a set of guidelines and instructions established by the Directorate General of Foreign Trade (DGFT) under the Ministry of Commerce and Industry, Government of India. This policy is periodically reviewed and updated, typically every five years, to ensure it aligns with evolving global and domestic economic development. On March 31 of each year, the policy can be amended, improved, or expanded upon, with new provisions going into effect on April 1. The Directorate General of Foreign Trade (DGFT), a division of the

Ministry of Commerce and Industry (MoCI), oversees and facilitates foreign trade in India.

**Objectives of the Indian EXIM Policy**

- To accelerate India's growth in imports and exports.
- To promote long-term economic growth by making essential raw materials, capital goods, intermediates, components, and consumables more widely accessible.
- To increase the competitiveness of the agriculture sector and its services, to generate new job opportunities, and to promote the achievement of globally recognized quality standards.
- To offer premium products and services at reasonable prices.
- To promote economic growth by granting access to capital goods, installations, consumables, intermediate goods, raw materials, and other components required for increasing output and rendering services.
- To raise the technological potency and productivity of Indian businesses, services, and agriculture in order to gain a competitive edge, generate job opportunities, and meet internationally recognized quality standards.
- To provide customers with high-quality products and services at prices those are competitive worldwide.

The main objectives of the policy are to increase trade within the nation in order to spur economic expansion and job creation.

**Advantages of international trade**

**(I) optimal use of natural resources:**

Having trade with other nation's enables each to utilize its natural resources to the fullest. Every nation can focus on producing the goods for which its resources are most appropriate. Resource waste is prevented. People from various nations interact with one another. International trade promotes the sharing of ideas and cultures among nations. It fosters friendly relations, cooperation, and understanding between diverse nations. Owing to global competition, national producers strive to create goods of higher quality while keeping costs as low as possible. This improves productivity and offers advantages to customers worldwide.

**(Ii) Availability of all types of goods**

By importing cheaper goods from other nations, it allows a nation to acquire goods that it cannot produce or is not producing because of higher costs. Trade with other nations promotes specialization and the production of a variety of goods in those nations. The benefits of division of labor allow for the relatively low cost of production of goods. The best modes of transportation and communication are necessary for international trade. The benefits of global trade also enable advancements in communication and transportation technologies.

**Disadvantages of international trade:**

(I) impediment in the development of home industries:

Domestic industry development is negatively impacted by foreign trade. It threatens the survival of the nation's emerging industries. The country's emerging industries run the risk of collapsing because of unrestricted imports and foreign competition. Imports of luxury

goods, counterfeit medications, and other items have a negative impact on the populace's health and economy. Sometimes, in order to generate foreign exchange, a nation's necessities that are in low supply are also exported. This leads to an inflationary shortage of these goods at home. For instance, India has been exporting sugar in order to receive foreign exchange, which explains the rising sugar prices in the nation.

(Ii) Economic and political dependence:

**Conclusion**

In the modern world, economic life has become more complex and diversified. No nation can exist in isolation and claim to be self-sufficient; the goal of international trade is to raise people's standards of living and increase production to compete in the global market. Foreign trade is a complex and dynamic field, influenced by economic, political, and technological factors. It's essential for countries to navigate these aspects effectively to maximize the benefits of international trade. It is not just a driver of economic prosperity but also a bridge that connects different cultures and nations. Its role in fostering development, enhancing global cooperation, and promoting sustainable practices is crucial in today's interconnected world. The future of foreign trade holds immense potential for innovation, growth, and global partnership, making it an indispensable aspect of the global economy.

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