AN OVERVIEW ON INTERNATIONAL TRADE

Gholamreza Bagheri, Yaser Ahangari Nanehkaran

Abstract
Recent developments in the fields of transportation and e-communication have led to increase interest in interchanging goods and services between all countries around the world. The governments by international trade solve economic problems and society’s requirements; also the issue of international trade has been a social welfare, progress and wealth. Unfortunately international trade has become institutionalized not only by economic factors, but also non-economic factors. Trade is not solely based on commercial objectives rather politics also plays a dominant role in it. ‘Much of the international trade system both drives and reacts to national, political, fiscal and monetary policies’ . In this article main goal is describe the basic concept, importance, roles, rules and law of international trade. Moreover, the paper proposes the models of international trade.

Keywords
Gross domestic product, Chamber of Commerce, International Commercial Terms, World Trade Organization, the General Agreement on Tariffs and Trade, Revised American Foreign Trade Definitions, the General Agreement on Tariffs and Trade, Heckscher-Ohlin model
1 INTRODUCTION

International trade is exchange of capital, goods, and services across international borders or territories. In other words, to know what is happening in the course of international trade, governments keep track of the transactions among nations. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history (see Silk Road, Amber Road), its economic, social, and political importance has been on the rise in recent centuries. Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own borders. International trade is, in principle, not different from domestic trade as the motivation and the behavior of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture. Another difference between domestic and international trade is that factors of production such as capital and labor are typically more mobile within a country than across countries. Thus international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labor or other factors of production. Trade in goods and services can serve as a substitute for trade in factors of production. Instead of importing a factor of production, a country can import goods that make intensive use of that factor of production and thus embody it. An example is the import of labor-intensive goods by the United States from China. Instead of importing Chinese labor, the United States imports goods that were produced with Chinese labor. One report in 2010 suggested that international trade was increased when a country hosted a network of immigrants, but the trade effect was weakened when the immigrants became assimilated into their new country.

2. IMPORTANCE AND ROLES OF INTERNATIONAL TRADE

There are many areas in which the importance of trade can be established. Perhaps the most critical of these areas concerns economic growth. During the 19th and 20th centuries, trade has played a leading role in bringing about global economic growth. In addition to its role as an "engine of growth" for the world economy, international trade has also played a pivotal role in bringing about rapid economic growth and development in several countries. The 19th century was perhaps the important century for (primary commodity) export-led growth. Expansion of exports can lead to growth through stimulating technical change and investment, or by spilling demand over other sectors.

Expansion of primary commodity exports often led to growth in the 19th century particularly in Sweden, Australia and Canada. In Sweden, growth was propelled by the exportation of timber and wood products, and in Australia, growth was driven by the exportation of wool, lamb and mutton. In Canada, growth was propelled by the export of wheat. This gave rise to the so-called "staple theory" of growth. In practice, different primary products will have different effects on economic growth because they differ as regards conditions of supply and demand.

3. SOME RULES IN INTERNATIONAL TRADE

3.1 THE INTERNATIONAL RULES FOR THE DELIVERY OF GOODS

The rules or terms of delivery of goods were and are regulated by a series of international rules that serve as a benchmark for the business world. Since 1928, on the initiative of the International Chamber of Commerce in Paris (ICC), in order to provide traders with a set of international rules for interpreting the trading terms most commonly used in the international trade and thus help simplify the transactions for the negotiation of the sale of goods and the conclusion of the commercial agreement there has been developed a series of six terms of delivery or commercial terms which setting up rules for the uniform interpretation of obligations, risks and responsibilities in international sales, especially as they were uncertain and contradictory. Later, in 1936, the International Chamber of Commerce in Paris has published a series of international rules concerning the delivery, called INCOTERMS (International Commercial Terms) that include 11 international trading terms, also known as "delivery clauses", rules that were able to define the seller's and the buyer's obligations better and more completely than in 1928, which is why Inconterms 1936 were accepted by most merchants, less the British and Americans. Simultaneously with the development of trade around the world, the "Working Commission for commercial practices" of the International Chamber of Commerce in Paris, reviewed, complemented and systematised on several occasions, namely: 1953, 1967, 1976, 1980, 1990, 2000 and 2010 the previous rules on uniform interpretation of the clauses.
contained in the agreement of international sale of goods. However, the Vienna Convention (1980) on international sale of goods governed the transfer of risk without any reference to the transfer of ownership, because it was unlikely to establish a criterion making it possible to identify the time of transfer of ownership, since the rules of law in many countries defined this time differently. If in 1990 there was conducted a general review of the “Incoterms Rules”, which are different from the version of 1980 by reducing the number of trading terms used, we can say that the 2000 version retains the terms, but sets new rules on the conclusion of bilateral agreements regarding the changes in the remote electronic transmission of commercial information. We appreciate that gaps and uncertainties encountered and received by specialists in the development of international trade before 2000, have led to the development of Incoterms 2000, where representatives from the U.S. and Japan participated for the first time; the said countries that have their own commercial practice regarding the development of international transactions; such participation has played a significant role in increasing the universality of “Incoterms Rules”, rules with a more concise content, designed to facilitate the success of international commercial transactions, giving more certainty to exporters and importers. Please note that these rules intended to clarify certain aspects since the phase of negotiation and conclusion of the international sale agreement; such agreement actually triggers all the conduct of future operations and relates to: individualisation, packaging, carriage, insurance, customs clearance, circulation of documents, payment, collection, etc. Thus, the Incoterms 2000 rules were able to overcome all borders, representing a common language of business people, regardless of the market where they are used, with direct implications on certain habits which bring a discordant note in the trade relations between Europe and the Orient, Europe and the American continent, the American continent and the African continent etc. We can not continue our approach presenting the terms of delivery of goods in foreign trade without specifying that the United States of America adopted, since 1919, a Code of Practice on international trade, which was revised in 1941, becoming “Revised American Foreign Trade Definitions”, or RAFTD, used in the American space, especially in the U.S., Canada and Mexico, which includes six categories of terms, each specifying the seller’s and buyer’s obligations. However, Incoterms tend to impose a universal code, essentially representing the positions of representatives of the two trends that are manifested in the international trade, namely: the “reforming” trend, perceived as a new trend aimed at uniforming the global commercial practices in order to achieve a wide opening, to allow participation in international transactions on favourable terms, of all countries of the world and the “conservative” trend, supported in particular by some highly developed countries, trying to maintain some advantageous practices, arising from the position of economic supremacy that they have earned over time. We can not help notice the tendency to generalise the Incoterms rules, a code of practice which has seen significant improvements, an aspect supported by a specialised work published in the U.S., which recommends even the American companies to replace Raftd with the Incoterms, in order to provide more clarity to the definition of contractual terms and to better protect their commercial interests.

3.2 THE INCOTERMS RULES

The content INCOTERMS are a set of rules that determine the rights and obligations of the international sales contract, selecting a rule of interpretation of commercial terms INCOTERMS, progress is the result of negotiation between the parties and expresses the ratio of these economic forces. In relation to the obligations of the parties to an international sales contract are several different types of contracts covered by the clause. To define the main rules INCOTERMS was considered as a starting point delivery of goods, establishment of the seller and the buyer, the rules concerning the obligations of each party that are grouped into ten items with identical titles for all the rules. Due to significant developments in international trade, for making available to retailers in the interpretation of the rules commonly used trade terms in international trade, the International Chamber of Commerce in Paris draw a set of delivery conditions for their interpretation in international sales, rules that were in international trade practice some habits, but who were not of equal significance to traders in different countries.

4. INTERNATIONAL TRADE LAW

International trade law includes the appropriate rules and customs for handling trade between countries. However, it is also used in legal writings as trade between private sectors, which is not right. This branch of law is now an independent field of study as most governments has become part of the world trade, as members of the WTO. Since the transaction between private sectors of different countries is an important part of the WTO activities, this latter branch of law is now a very important part of the academic works and is under study in many universities across the world. Since the transaction between private sectors of different countries is an important part of the WTO activities, this latter branch of law is now a very important part of the academic works and is under study in many universities across the world International trade law should be distinguished from the broader field of international economic law. The latter could be said to
encompass not only WTO law, but also law governing the international monetary system and currency regulation, as well as the law of international development.

The body of rules for transnational trade in the 21st century derives from medieval commercial laws called the lex mercatoria and lex maritima — respectively, "the law for merchants on land" and "the law for merchants on sea." Modern trade law (extending beyond bilateral treaties) began shortly after the Second World War, with the negotiation of a multilateral treaty to deal with trade in goods: the General Agreement on Tariffs and Trade (GATT). International trade law is based on theories of economic liberalism developed in Europe and later the United States from the 18th century onwards International Trade Law is an aggregate of legal rules of "international legislation" and new lex mercatoria, regulating relations in international trade. "International legislation" — international treaties and acts of international intergovernmental organizations regulating relations in international trade. lex mercatoria - "the law for merchants on land". Alok Narayan defines "lex mercatoria" as "any law relating to businesses" which was criticised by Professor Julius Stone. and lex maritima - "the law for merchants on sea. Alok in his recent article criticised this definition to be "too narrow" and "merely-creative". Professor Dodd and Professor Malcolm Shaw of Leeds University supported this proposition.

5. MODELS

The following are noted models of international trade.

5.1 ADAM SMITH’S MODEL

Adam Smith displays trade taking place on the basis of countries exercising absolute cost advantage over one another.

5.2 RICARDIAN MODEL

The Ricardian model focuses on comparative advantage, which arises due to differences in technology or natural resources. The Ricardian model does not directly consider factor endowments, such as the relative amounts of labor and capital within a country.

The Ricardian model makes the following assumptions:

1. Labor is the only primary input to production
2. The relative ratios of labor at which the production of one good can be traded off for another differ between countries

5.3 HECKSCHER-OHLIN MODEL

In the early 1900s a theory of international trade was developed by two Swedish economists, Eli Heckscher and Bertil Ohlin. This theory has subsequently been known as the Heckscher-Ohlin model (H-O model). The results of the H-O model are that countries will produce and export goods that require resources (factors) which are relatively abundant and import goods that require resources which are in relative short supply.

In the Heckscher-Ohlin model the pattern of international trade is determined by differences in factor endowments. It predicts that countries will export those goods that make intensive use of locally abundant factors and will import goods that make intensive use of factors that are locally scarce. Empirical problems with the H-O model, such as the Leontief paradox, were noted in empirical tests by Wassily Leontief who found that the United States tended to export labor-intensive goods despite having an abundance of capital.

The H-O model makes the following core assumptions:

1. Labor and capital flow freely between sectors
2. The amount of labor and capital in two countries differ (difference in endowments)
3. Technology is the same among countries (a long-term assumption)
4. Tastes are the same.

5.3.1 REALITY AND APPLICABILITY OF THE HECKSCHER-OHLIN MODEL

In 1953, Wassily Leontief published a study in which he tested the validity of the Heckscher-Ohlin theory. The study showed that the U.S was more abundant in capital compared to other countries, therefore the U.S would export capital-intensive goods and import labor-intensive goods. Leontief found out that the U.S's exports were less capital intensive than its imports.

After the appearance of Leontief’s paradox, many researchers tried to save the Heckscher-Ohlin theory, either by new methods of measurement, or either by new interpretations. Leamer emphasized that Leontief did not interpret H-O theory properly and claimed that with a right interpretation, the paradox did not occur. Brecher and Choudri found that, if Leamer was right, the American workers’ consumption per head should be lower than the workers' world average consumption. Many textbook writers, including Krugman and Obstfeld and Bowen, Hollander and
Viane, are negative about the validity of H-O model. After examining the long history of empirical research, Bowen, Hollander and Viane concluded: "Recent tests of the factor abundance theory [H-O theory and its developed form into many-commodity and many-factor case] that directly examine the H-O-V equations also indicate the rejection of the theory."

In the specific factors model, labor mobility among industries is possible while capital is assumed to be immobile in the short run. Thus, this model can be interpreted as a short-run version of the Heckscher-Ohlin model. The "specific factors" name refers to the assumption that in the short run, specific factors of production such as physical capital are not easily transferable between industries. The theory suggests that if there is an increase in the price of a good, the owners of the factor of production specific to that good will profit in real terms. Additionally, owners of opposing specific factors of production are likely to have opposing agendas when lobbying for controls over immigration of labor. Conversely, both owners of capital and labor profit in real terms from an increase in the capital endowment. This model is ideal for understanding income distribution but awkward for discussing the pattern of trade.

5.4 NEW TRADE THEORY

New Trade Theory tries to explain empirical elements of trade that comparative advantage-based models above have difficulty with. These include the fact that most trade is between countries with similar factor endowment and productivity levels, and the large amount of multinational production that exists. New Trade theories are often based on assumptions such as monopolistic competition and increasing returns to scale. One result of these theories is the home-market effect, which asserts that, if an industry tends to cluster in one location because of returns to scale and if that industry faces high transportation costs, the industry will be located in the country with most of its demand, in order to minimize cost.

Although new trade theory can explain the growing trend of trade volumes of intermediate goods, Krugman's explanation depends too much on the strict assumption that all firms are symmetrical, meaning that they all have the same production coefficients. Shiozawa, based on much more general model, succeeded in giving a new explanation on why the traded volume increases for intermediate goods when the transport cost decreases.

5.5 GRAVITY MODEL

The Gravity model of trade presents a more empirical analysis of trading patterns. The gravity model, in its basic form, predicts trade based on the distance between countries and the interaction of the countries' economic sizes. The model mimics the Newtonian law of gravity which also considers distance and physical size between two objects. The model has been proven to be empirically strong through econometric analysis.

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REFERENCES


