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# International Trade : Uncertainty and Development

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It is the relative advantage which makes trade among nations possible. If there is no absolute or comparative cost differences in production, international trade would have been meaningless. It is due to comparative advantage that every nation specializes on those production in which she finds better profit while she buys from that nation where it is cheaper or advantageous. When a country specializes according to the availability of factors and geographical features its domestic production exceeds domestic demand. Thus the surplus production will be exported to other nations where it achieves fruitful returns.

The increasing returns and the pace of communication and transportation development have attracted many manufacturers into export markets. Therefore, the success of each individual firm's export depends on the policy of international marketing that it pursues.

Likewise many developed nations are heavily depended on international trade. United States, for example shares 13.2 percent of total world exports. Other industrialized nations like France, Germany, UK and Japan share 6 percent, 9.5 percent, 6 percent and 8 percent of world trade respectively. (See Table No. 1).

Table No. 1
Shares on World Trade of Major Trading Countries

| Name of Countries | Value of MFT exports, 1980 ($ Billions) | Share of World exports 1981 | Export as Percent of GNP 1980 |
|---|---|---|---|
| United States | 144 | 13.2 | 8.2 |
| France | 84 | 6.0 | 17.2 |
| Germany | 167 | 9.5 | 23.4 |
| UK | 86 | 6.0 | 22.3 |
| Japan | 124 | 8.0 | 12.5 |

Source: International Marketing, Philip R. Cateora, 1983.

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## HISTORICAL OVERVIEW

Trade among nations existed even thousands of years back. Multinational companies were seen during the eighteenth century. East India Company was operating on a world-wide basis, functioning much like a present day Japanese trading company.

The consciousness of international trade and marketing began only at the time of Mercantalism in the 17th century who believed that the only way for a nation to grow was to amass wealth at the expense of other nations. The Mercantalists were also the market protectionists who believe if any other nations intervene inside their territory in trade, their accumulated wealth flows out of their boundary which makes them weaker.

The doctrine of Mercantalism was replaced by the 18th century Industrial Revolution and the trade took place under the laissez-faire policy. Invention of new technology in production method with new communication and energy made over threefold increase in world trade till the beginning of the 20th century. But the changing environment of commercial competition shifted to military competition during world war I which devasted the world trade. After the post war reconstruction the world economy recovered by the later 1920s. Once again the global trade reached the peak of about $ 70 billion which amounted to double the pre-world war I period. Then the great depression of 30s brought down world trade more than fifty percent. Many industrialized nations were badly affected by the depression and the problems of unemployment, financial instability and economic insecurity became epidemic to those countries. Therefore, the whole world market became a protectionist, by building trade barriers like tariffs and other non-tariff barriers. Slowly to erase the trade barriers and to re-establish international trade, multinational agreements on trade development such as the General Agreement of Tariffs and Trade (GATT) was signed in 1947 by 23 nations consisting mostly of major industrialized nations. GATT is the code of rules and a forum in which countries can disscuss and solve their trade problems and negotiate to enlarge world trading opportunities. Consisting of 85 members/nations by 1981 GATT is able to resume world trade although it is called "Rich Nations Club" by the developing nations. Trade facilities were secured to under developed countries only when the United Nations Conference on Trade and Development (UNCTAD) was convened in the beginning of 60s.

## UNCERTAINTY IN INTERNATIONAL MARKETING

Usually the exchange rate and deficit balance of payments are two main problems faced by trading nations in international trade. Exchange policies like devaluation and revaluation of currencies bring fluctuations in international trade. Many nations even block foreign currencies to discourage imports. Blocked currency is popular among developing nations. But the individual firms while entering international marketing, have to face with the uncertainty in business activities caused by the uncontrollable environment in business are political forces, economic decisions and competition which are also called marketing environment external to the firms and beyond the controlling power of the marketing manager.

Political decisions are brought into effect on trade between nations. Trade restrictions are often used as political weapon. For example, restrictions on some types of trade with Russia were being used as a way for the United States to show its displeasure with Russia's political involvement in Poland. Political decisions such as confistication, expropriation and domestication of foreign firms have caused great uncertainty to the growing multinational firms and industries in world trade. But these types of decisions are only brought out at the time of revolutions and some other political disorders. Many US firms were confisticated during the political disorder in Iran at the end of 1970s.

Competitions from business firms located in the same base country as well as from foreign firms provides another dimension of uncertainty in achieving the marketing objectives of the firms. Dumping up of Japanese electronic chips in many development nations had made difficulties to US firms in international marketing competition recently.

If economic conditions deteriote, restrictions against foreign investment and purchasing may be imposed partially or fully to strengthen the domestic economy. Purchase is usually discouraged by imposing tariffs and non-tariff barriers, which in turn decrease the export of the firms involved. The use of tariffs and quotas are against free trade while these are renowned methods to protect domestic industries from international competition and to strengthen the internal economy.

Therefore, in international marketing the task of marketing manager is to mould the controllable elements of the environment (namely-product, price promotion and distribution) and accordingly make decisions.

DEVELOPMENT OF INTERNATIONAL TRADE

Although international trade has many obstacles to cope with, its development is remarkable as the increasing volume of international negotiations play a major role in boosting international trade. All of these methods of marketing and international negotiations tried to minimise the difficulties of global trade.

Joint ventures as a means of engaging in international business have become very popular, specially among less-developed countries. Entering joint ventures reduce political and economic risks in marketing to the firms while it has also become a means of foreign investment to the countries which lack investment. In the same way multinational firms are spreading world-wide by committing a significant portion of financial, technological and human resources to overseas operation.

By combining a group of countries, various firms of international marketing have existed in world marketing pattern. Various firms of world marketing may be of free trade area, a custom union, a common market and a regional cooperation. The pattern of free trade area is the pioneering one. Nations included in free trade area are free to export and import goods without any barriers and restrictions. But they are free to compose rate of tariffs and restrictions as they wish to any other countries outside the free trade area. A group of countries form an international marketing called custom union, which does not only abolish tariffs and other restrictions between constituent member countries but also involves the imposition of uniform tariffs and other trade restrictions against non-member countries. In the same way a common market which represents a higher firm of international marketing besides allowing the free movement of products also permits, in addition, the free movement of factors of production within the common market area such as European Common Market and Andean Common Market.

Establishment of regional cooperation has become very popular among developing nations. Regional cooperation is an integration of a group of nations of the same region for mutual cooperation among the member nations in trade and economic development. In Regional Cooperation, several governments agree to participate jointly with business in developing basic industries beneficial to the economics of the region as a whole. The success of EEC has become a model for many other regional cooperations in Asia, Africa and Latin America, such as Association of South East Asian Nations (ASEAN), Economic Community of West African States (ECOWAS), Caribean Community and Common Market (CARICOM) etc. (See Table No. 2).

Table No. 2
Major Multinational Markets and Their Imports

| Name or Multinational | Member Countries | Imports (In million US $) |
|---|---|---|
| 1. European Community (EC) (Combined Association of Benulux and EEC) | Belgium | 71,185 |
| | Luxemburg | - |
| | Netherlands | 76,881 |
| | Denmark | 19,363 |
| | France | 134,912 |
| | West Germany | 188,001 |
| | Italy | 99,452 |
| | Ireland | 11,159 |
| | UK | 120,095 |
| | Greece | 10,531 |
| | Spain | - |
| | Portugal | - |
| 2. Association of East Asian Nations (ASEAN) | Indonesia | 10,834 |
| | Malaysia | 7,844 |
| | Singapore | 24,008 |
| | Philippines | 7,727 |
| | Thailand | 9,214 |
| | Brunei | - |
| 3. Latin America Free Trade Association (LAFTA) (Later changed into Latin American Integration Association, (LAIA) | Argentina | 6,713 |
| | Bolivia | 985 |
| | Brazil | 19,804 |
| | Chile | 4,319 |
| | Colombia | 3,233 |
| | Ecuador | 1,986 |
| | Mexico | 11,829 |
| | Paraguay | 432 |
| | Peru | 2,092 |
| | Uruguay | 1,231 |
| | Venezuela | 9,618 |

Source: International Marketing, Philip R. Cateora, 1983.

Along with various firms of international marketing pattern, many internation negotiations and institutions are also coming into light. International institution like IMF was established to reduce exchange difficulty in trade while international agreements and conferences such as GATT and UNCTAD are regularly held to discuss and protect the trade and marketing.

The UNCTAD VII which was held in Geneva is of great importance to the export oriented firms of the developed and developing countries as well as for the governments of its member nations to revitalise development growth and international trade.

FOREIGN TRADE AND NEPAL

Trade is not limited among developed or industrialized nations only. It is becoming one of the vital sources in the economic development of under developed countries like Nepal. The economic development of Nepal is reshaping with Nepal's involvement in foreign trade since its democracy. Although trade between Nepal and Tibet in the ancient period is popular in our history of trade, a trade agreement between Nepal and India is an initial stage which counts very important in Nepal's trade policy. Similarly trade agreement with China helped to promote trade from northern region as well. Today Nepal has trade agreements with almost all its friendly nations including United States, Japan and Great Britain.

As modernization of the country is taking place in various fields of economy the volume of international trade of Nepal is also increasing simultaneously. A decade old trade situation shows following outcome in Nepal's foreign trade.

1. Increasing trend of imports
2. Deteriotion in exports
3. Growing trade deficit
4. Increasing trade with other countries besides India. (See Table No. 3 and 4).

The total amount of trade in the fiscal year 1975/76 was Rs. 3007001000. Of the total trade 39.7 percent was covered by the export while 60.3 percent by the imports. The figure of total trade increased to Rs. 10807050000 in the fiscal year 1984/85 which was secured 25.5 percent by the export and 74.5 percent by the imports. The increase in total trade also widened the trade deficit from Rs. 620151000 in fiscal year 1975/76 to Rs. 5287018000 in fiscal year 1984/85. One of the major features of the country's foreign trade has been the growing trade deficit caused by slackness in the growth of total exports and sharp expansion in total imports. About fourfold increase in total transaction and about sixfold increase in trade deficit of country is due to high imports of daily consumer goods and luxury goods such as vehicles, audio and vedio goods etc.

Nepal being an agricultural country, its exports are limited to agricultural and primary products such as rice, jute, hides and skins, timber, herbs, paper products etc. The exports of jute, timber, hides and skins cover high percentage in export revenue of Nepal. But some of the causes in past years have made exports of those products decline. The amount of export of Rs. 1193425000 in fiscal year 1975/76 had increased to Rs. 2760017000 in fiscal year 1984/85. But the percentage share of exports in the total trade has declined from 39.7 percent in the fiscal year 1975/76 to 25.5 percent in the fiscal year 1984/85. Factors like delay in the announcement of fiscal incentives and increase in cost of production and a fall in the quality of exportable commodities thereby reducing their competition capacity in international market are its internal factors. Reduction in demand and serious fall in the price of exportable commodities like jute and jute goods, hides and skins, handicrafts are major external factors affecting Nepal's export market.

Table No. 3
Total Foreign Trade Balance of Nepal 1975/76 to 1984/85

Value in '000 Rs.

| Fiscal Year | Exports | % in Total Trade | Imports | % in Total Trade | Total Trade (100%) | Balance |
|---|---|---|---|---|---|---|
| 1975/76 | 1193425 | 39.7 | 1813576 | 60.3 | 3007001 | - 620151 |
| 1976/77 | 1177694 | 37.6 | 1950949 | 62.4 | 3128643 | - 773255 |
| 1977/78 | 11259475 | 29.8 | 2658400 | 70.2 | 3784344 | -1532456 |
| 1978/79 | 1525475 | 33.4 | 3046024 | 66.6 | 4571499 | -1520549 |
| 1979/80 | 1325337 | 26.4 | 3692253 | 73.6 | 5017590 | -2366916 |
| 1980/81 | 1665328 | 26.6 | 4594140 | 73.4 | 6259468 | -2928812 |
| 1981/82 | 1473637 | 23.5 | 4805419 | 76.5 | 6280056 | -3332728 |
| 1982/83 | 1144606 | 15.8 | 6085976 | 84.2 | 7230582 | -4921370 |
| 1983/84 | 1684747 | 20.6 | 6493671 | 79.4 | 8178418 | -4808924 |
| 1984/85 | 2760017 | 25.5 | 8047035 | 74.5 | 10807052 | -5287018 |

Source: Trade Promotion Centre and Nepal Rastra Bank.

Trade records of few years also show an increase in the country's trade with other countries besides India. The total export of Rs. 843314000 in fiscal year 1982/83 increased to more than Rs. 1612457000 in the fiscal year 1984/85. India shared 73.7 percent of Nepal's total export in the fiscal year 1982/83. But this percentage declined to 58.4 percent in the fiscal year 1984/85. There had been satisfactory increase in export to other countries from 25.3 percent in the fiscal year 1982/83 to 40.6 percent in the fiscal year 1984/85. This increase was caused by the increased in export of readymade garments, paper and paper products and handicrafts. The recent increase in export to other countries is an outstanding achievement in trade diversification policy of Nepal. But the trade record shows slight increase in imports from India while similar decline in import from other countries for the past few years. (See Table No. 4)

Table No. 4
Composition of the Foreign Trade of Nepal 1982/83 to 1984/85

| Export | F.Y. 1982/83 Value | % in total Export | F.Y. 1983/84 Value | % in total Export | F.Y. 1984/85 Value | % in total Export |
|---|---|---|---|---|---|---|
| India | 843314 | 73.7 | 1160668 | 68.9 | 1612457 | 58.4 |
| Overseas | 289692 | 25.3 | 483738 | 28.7 | 1118978 | 40.6 |
| Tibet | 11600 | 1.0 | 40341 | 2.4 | 28582 | 1.0 |
| Total | 1144606 | 100.0 | 1684747 | 100.0 | 2760017 | 100.0 |
| Imports | | | | | | |
| India | 2499595 | 41.1 | 3058031 | 47.1 | 4035155 | 50.1 |
| Overseas | 3564086 | 58.5 | 3388080 | 52.2 | 3981363 | 49.5 |
| Tibet | 22295 | 0.4 | 47560 | 0.7 | 30517 | 0.4 |
| Total | 6085976 | 100.0 | 6493671 | 100.0 | 8047035 | 100.0 |

Source: Nepal Rastra Bank & Trade Promotion Centre.
Value in '000 Rs.

Concerned with the large deficit in international trade of Nepal, HMG has changed its foreign trade policy to support export market and to discourage imports of non-essential goods. Among various trade policies, HMG has fixed the minimum price of raw jute and waived excise and export duties on the export of jute, jute goods, cardamom, dry ginger, tea, herbs and readymade garments etc. to promote exports of the country. Similarly the government has imposed ban on the imports of some commodities. The devaluation of Nepalese currency with major convertible currencies including Indian rupees and US dollars a few years back is one of the remarkable policy in protecting Nepal's export market and for narrowing trade deficit.

## CONCLUSION

Absolute and comparative cost theories have clearly shown the advantages of trade. The benefits from trade has increasing its importance in the economic development of every nations. Today there are no countries which are not involved in foreign trade. Nations like United States, West Germany and Japan are major trading nations in the world.

International trade has many uncertainty on the one hand and various negotiations on the other has helped in its development. Problems of exchange rate and deficit balance of payment are two major problems for the governments involved in trade whereas the uncertainty in business activities caused by political forces, economic decisions and competition are major problems for individual firms while entering international marketing.

Trade obstacles like problems of high tariffs, and imposition of quotas are reduced and eliminated by various international trade negotiations such as GATT and UNCTAD. International marketing patterns like free trade area, custom union, common market and regional cooperation are becoming more popular among different nations to develop world trade.

The importance of trade in under-developed countries are not less. Economic development of Nepal is reshaping with its involvement in foreign trade. Increasing volume of international trade of Nepal - shows increasing trend of imports, deterioration in exports, growing trade deficit and increasing trade with other countries besides India. Several measures are taken by HMG of Nepal to facilitate the foreign trade and to reduce its rising trade deficit.

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