Chapter 11

TRADE

11.1 Domestic Trade

Exchange of goods among various regions (cities, towns etc) falling within geographical boundaries of a country is called internal trade or domestic trade. Under domestic trade, people of a country, whether citizens of that country or foreigners, exchange goods among its various regions mainly because of indivisibility of natural resources and cost of production.

11.2 Foreign Trade

Exchange of goods among people and entities belonging to different countries is called international trade or foreign trade. Opposite to domestic trade, in foreign trade, buyers and sellers of goods belong to different countries.

11.3 Difference between Domestic and Foreign Trade

Both, domestic and foreign trade is based on regional or geographical division of labour and specialization in cost of production. Basic objectives of both kinds of trades are to make commodities available and to earn profit. However, domestic trade is different from foreign trade due to following reasons:

1. Mobility of Factors of Production

There is no restriction on mobility of different factors of production within geographical boundaries of a country. Labour can freely move from one part of the country to another part to earn higher wages. Similarly, capital can also be transferred from one region of the country to another for earning higher profits. It is therefore clear that there are no restrictions on mobility of labour and capital within territorial limits of a country. On the contrary, cross-border mobility of these factors has to face a number of restrictions such as culture, language, laws, religions and weather etc.

2. Difference in Currency

Each country has its own currency which is freely used to pay for goods traded within geographical boundaries of that country. However, when there is cross-border trade of goods, the importing country (purchaser) has to pay the exporting country (supplier) in its currency. For example, Pakistan has to convert its currency into US dollars for importing goods from America and into Pound Sterling for importing goods from the UK.

3. Trade Restrictions

Normally, there is no restriction on movement of goods from one part of the country to its other region. Traders can freely transport goods from one place to another within the same country. However, movement of goods from one country to another country is subject to a number of restrictions such as import and export licenses, trade tariffs, imposition of duties and taxes etc. Nature and degree of these restrictions differ from country to country.

4. Transportation Expenditure

The traders have to incur additional expenditures for the transportation of goods from one place to the other. Transportation expenditure is less for movement of goods within the country as compared to the transportation of goods from one country to another country. Transportation expenditure is very high in case of foreign trade. This difference in freight cost causes instability in comparative prices of local and imported goods in any country.

11.4 Advantages and Disadvantages of Foreign Trade

International or foreign trade is one of the major economic needs of the current age, since no country is self-sufficient in production of its required goods and services. Significance of international trade can be assessed from its following advantages:

Advantages of International Trade

1. Availability of Essential Goods

Due to unequal distribution of natural resources, no country is self-sufficient in producing all goods it needs. The countries import such goods from countries which produce these, at comparatively lesser cost. For example, Pakistan is importing plant and machinery from developed countries to accelerate its industrial growth. In the same way, many countries are importing various agricultural produce, like, cotton, wheat etc., from it which Pakistan can spare after meeting its own requirements.

2. Specialization in Production

The countries specialize in producing same goods with comparatively lower cost. The countries import those goods which they cannot produce locally or it costs more to produce locally as compared to importing it. Therefore, international trade not only ensures optimum utilization of resources but also reduces cost of production.

3. Availability of Cheap Goods

International trade also facilitates the availability of cheaper goods to many countries. It is because that a country would like to import a commodity from a foreign country at comparatively lower price rather than to produce it locally at higher costs. Thus, such countries buy such goods from other countries for which they have specialization and skill and which they can produce at comparatively lower cost than they can themselves do.

4. Provision of Goods in Unfavourable Circumstances

Foreign trade facilitates provision of required commodities at the hour of need or when there are undesirable and unfavourable circumstances, such as famine, earthquake, floods and other natural calamities. Under such circumstances, the affected country may import required commodities (medicines, food, clothing and shelter etc.) from other countries to provide instant comfort to the suffering population/area.

5. Disposal of Surplus Output

International trade facilitates countries having surplus output to sell it to the countries where such goods are in demand. Such countries, in turn, can import their requisite goods and commodities from other countries with the finance they earned. Thus, surplus production is utilized in the international market and wastage of resources is saved.

6. World Peace and Mutual Cooperation

International trade promotes an atmosphere of harmony and peace at global level. Businessmen, producers and professionals come into contact with each other and discuss common economic interests. This situation creates feelings of cooperation and brotherhood and helps evolving this world as a peaceful place.

Disadvantages of International Trade

1. Misuse of Resources

The main disadvantage of international trade is that the resources of less-developed countries are misused or remain underutilized due to lack of technology and specialization. For example, developed countries exploit OPEC countries because later lack necessary technology. In this way, economies of such countries do not develop rapidly although availability of resources are with them.

2. Over Dependence on Foreign Goods

Specialization process slows down economic development of various (unspecialized) sectors of economy of a country, instead of promoting growth in all sectors. It is why that some countries heavily depend on importing foreign goods, except a few sectors of their economy. Such countries are highly exposed to economic difficulties and are easily affected by an unfavourable occurrence in the world. It is the reason that some countries have ignored element of specialization in international trade and continue to produce essential goods to promote its economic growth.

3. Danger to Freedom

History tells us that several countries faced economic depressions and lost their freedom due to foreign trade. For example, rulers of subcontinent allowed British traders to set up commercial and industrial concerns in the region and ultimately lost their control over sub-continent, which became a British colony for the next 100 years. As a result, people of the area and their generations suffered gravely. The British rulers, however, did not give local economy its due importance, but made it a source of raw material for development of its own trade and industry. It is the main cause of our lagging behind the world's leading economies, despite our gaining independence.

4. Availability of Harmful Goods

Another disadvantage of international trade is easy availability of dangerous goods, such as lethal arms, banned medicines and intoxicants etc by the money thus earned. People of many countries are not only wasting their money but also harming their health. Import of lethal arms is causing law and order situation to promote atmosphere of horror and terror. Its ultimate result is elimination of feelings of peace and harmony.

11.5 Balance of Trade and Balance of Payments

Balance of Trade

During a year, a country earns foreign exchange by exporting visible goods (rice, cotton, textile products, surgical goods etc.) and also spends foreign exchange on import of visible goods (medicines, cars, plant and machinery etc). Balance of trade is maintaining an account of foreign exchange earnings and expenditure. In simple words,

"Balance of trade of a country is the value of its visible exports and imports"

If money value of visible exports of a country exceeds money value of its visible imports, this situation is called 'Surplus Balance of Trade'. On the other hand, a country shall be called to have 'Deficit Balance of Trade' if money value of its imports exceeds money value of its exports.

Balance of Payments

"Balance of payment is a comprehensive record of all economic transactions between residents of one country and rest of the world".

Balance of payment includes both items, visible and invisible. Invisible goods or items are those which cannot be physically checked or seen. These include expenditure incurred on import/exports of goods during trade; for example, freight of shipping companies, insurance expenses, goods handling charges etc. Since balance of trade includes visible items only, it is a part of balance of payment. Therefore, balance of payment of a country shows full detail of its economic transactions with other countries.

In simple words, **"Account of monetary receipts and payments of a country during a year on visible and invisible imports and exports is called balance of payments"**.

Pakistan's balance of payment has always been in deficit, except for a few years, mainly due to following reasons:

1. Reduction in exports
2. Increase in import of goods such as raw materials, plant and machinery etc.
3. Habitual increase in consumption pattern
4. Inflation and instability in terms of trade
5. Excessive foreign debts and devaluation

11.6 Major Exports and Imports of Pakistan

Pakistan is basically an agricultural country. 70% of our agricultural produce is exported to the other countries in the form of raw material. However, ratio of our industrial products in the country's total exports has recently been increasing due to better policies and planning of the government.

Major Exports of Pakistan

Following are the major exports of Pakistan:

1. Cotton

Cotton occupies a key place in Pakistan's economy. Pakistan is earning enormous amount of foreign exchange by exporting cotton. However, production of cotton is affected by unfavourable weather conditions, pests' attacks and crop infections. It was due to aforesaid reasons that during some years, Pakistan has to face difficulties in earning foreign exchange by exporting cotton.

Major importers of our cotton are Japan, China, Singapore and Italy etc.

2. Rice

Rice is another important export of Pakistan. Foreign exchange earnings of Pakistan are increasing with the rise in export of rice. Pakistan is well-known all over the world for producing good quality rice. Many rice mills process rice, for export purposes, using latest technology and machinery. Major markets for Pakistani rice are Gulf States, Saudi Arabia, Iran, Turkey and Sri Lanka.

3. Cotton Yarn

Cotton yarn is a very prominent product in the list of Pakistan's exports. Pakistan is earning millions of dollars through export of cotton yarn. Export of Pakistan's cotton yarn is increasing with the increase in production of cotton in the country.

Main buyers of our cotton yarn are Japan, China, Germany and Hong Kong.

4. Cotton Cloth

Cotton cloth manufactured in Pakistan is considered one of the finest in the world and is therefore liked very much throughout the world. That is why cotton cloth is one of our major exports. A significant part of cotton cloth is used within the country due to increasing population. It is the reason for sluggish rise in foreign exchange earning through its export. However, cotton cloth still holds a top position among exports of the country.

Important customers of Pakistan's cotton cloth are the U.K., America, Russia and Iran.

5. Carpets

Pakistan is very well known for hand-knoitted carpets and rugs due to high quality and beautiful designs. Pakistani carpets are exported to other countries at good price and therefore earn precious foreign exchange for the country.

Pakistan exports carpets mainly to the U.K., Germany, America, France and Italy.

6. Leather and its Products

Demand for leather and leather-wears is increasing day-by-day all over the world. Pakistan is considered among top countries producing leather and its products of excellently high quality. Pakistan is earning significant amount of foreign exchange by exporting leather and its products to China, Italy, Japan and Russia.

7. Others Exports

Besides above mentioned major exports, Pakistan is exporting many other items to other countries of the world. These include surgical goods, sports goods, ready-made garments, bed-linen, hosiery, towels, shoes, and petroleum products etc.

Major Imports of Pakistan

Following are the major imports of Pakistan:

1. Petroleum and its Products

Pakistan lacks adequate resources of petroleum in its territory and, therefore, has to spend a huge amount of foreign exchange on its import to meet its energy requirements. Since petroleum prices are directly linked with the cost of production, any rise in its price in the international market adversely affects prices of almost all items in the domestic market. It also depletes our foreign exchange reserves.

2. Eatables

Despite Pakistan's being an agricultural country, it is not self-sufficient in some essential food items such as tea, dairy products, edible oil, sugar, wheat etc. Pakistan has to import these from various countries and spend a lot of foreign exchange.

3. Chemical Goods

Chemical is an important raw material for many industries of the country. Therefore, Pakistan has to import these chemicals to promote industry and its production. It has adverse impact on the country's foreign exchange reserves.

4. Machinery and Raw Material

Pakistan has to import machinery and raw material from various countries for industrial development of the country. The country's industrial and economic development is not possible without the import of necessarily required machinery, technology and raw materials. With increasing industrialization of the country, expenditure on this segment is rising.

5. Iron, Steel and its Products

Pakistan has very limited resources of iron ore and steel. Iron and steel are very important raw material for setting up a capital goods industry. Pakistan has established a steel mill in Karachi. However, its capacity is unable to satisfy steel demand of the country. Therefore, Pakistan has to import large quantities of iron, steel and its products from other countries.

6. Chemical Fertilizers

Pakistan has an agrarian economy and chemical fertilizers have an important role for development of agriculture sector. Pakistan is manufacturing majority of chemical fertilizers required for its agricultural usages. However, Pakistan still has to import some kinds of chemical fertilizers to satisfy ever increasing demand of chemical fertilizers.

7. Miscellaneous Imports

Besides above-stated major imports, Pakistan has to import many other commodities to meet its domestic requirements. These include silk yarn, colours and dyes, electrical goods, paper and stationery etc. A significant portion of foreign exchange is spent on such imports. It causes instability in balance of trade.

Exercise

Q. 1: Each statement has four possible options. Tick (✓) the best one:

1. The cause of international trade among various countries is:
   - a. Establishment of industries
   - b. Un-equal distribution of resources
   - c. Economic development
   - d. To increase production
2. A comprehensive record of all economic transactions of residents of one country and foreign countries is called:
   - a. International trade
   - b. Balance of payments
   - c. Balance of trade
   - d. Domestic trade
3. Which of the following items exported from Pakistan has maximum contribution in foreign exchange earnings:
   - a. Carpets
   - b. Leather
   - c. Hosiery
   - d. Cotton

4. Usually, Pakistan's balance of trade is in:
   a. Deficit b. Balance
   c. Protection d. Profit
5. Which of the following items causes maximum foreign exchange spending:
   a. Papers b. Colours and dyes
   c. Petroleum d. Silk

Q. 2: Complete the following statements by filling in the missing words or phrases:

1. Trade among different cities of a country is called ....
2. .... is at the top in the list of Pakistan's exports.
3. By following the principles of ...., cost of production may be reduced.
4. Balance of .... includes all visible and invisible goods.
5. Labour and capital mobility to foreign countries has to face..................

Q. 3: Match the statement in column A with statement in column B; choose the best answer to write in column C:

A	B	C
Optimum utilization of resources	Domestic trade	
Invisible goods	Machine	
Regional trade of goods	Buses and trucks	
Visible goods	Specialization	
Transportation of goods	Can not be seen	

Q. 4: Answer the following questions in three sentences:

1. Write any three advantages of international trade.
2. Write any three disadvantages of international trade.
3. Write names of three important imports and three important exports of Pakistan.

Q. 5: Answer the following questions in detail:

1. Clearly differentiate between domestic trade and international trade.
2. Describe advantages and disadvantages of international trade.
3. What is difference between balance of trade and balance of payment?
4. Explain important imports and exports of Pakistan.