Perspectives on Business Management & Economics
Volume I • June 2020
ISBN: 978-81-946245-3-0

GLOBAL TRADE: ITS ORIGIN, EVOLUTION AND THE PRESENT SCENARIO

SUCHITRA M. KUMAR
Asst Professor, IIAM, Visakhapatnam
ORCID ID: 0000-0002-9187-6758

CAPT. K.S.M. KUMAR
Master Mariner
ORCID ID 0000-0002-2899-4065

ABSTRACT

Global Trade or International Trade refers to the exchange of goods, capital, resources, manpower, technological exchanges etc between countries for their mutual benefits. Detailed explanation on the subject in the present context is outlined. The Historical Trade patterns and Modern Trade Patters are compared. The historic evolution of trade from ancient times to the present scenario has been analyzed. Various ancient and present trade routes like the Silk Route discussed along with the measures to revive some of them. Explains how the international trade affects the economy of the nations and the world economy. Merits and de-merits of the global trade discussed categorically. How nations are utilizing the various means of international trade is also dealt with. Goods are imported and/or exported which forms a major part of the national revenue. Present trade agreements with nations area wise (like American Trade, European and Asian) and their impact on the national as well as International economy studied in detail. Existing Trade agreements are dealt with. Salient features of world Trade Organization analyzed. Major power stalkers in the present Global trade identified. Prof. Paul Krugman's New Trade Theory is detailed. Also explains the global economic prospects, present trend and the future predictions/growth projections of the world trade through various means of analysis.

KEYWORDS: global trade, international trade, history of trade, globalization, multimodal, trade agreements

JEL CLASSIFICATION: B17, B27

CITE THIS ARTICLE	ARTICLE HISTORY
Kumar, Suchitra M., & Kumar, Capt. K.S.M., (2020, June). Global Trade: Its Origin, Evolution and the Present Scenario. *Perspectives on Business Management & Economics*, 1(1), 49-67. Retrieved from http://www.pbme.in/papers/7.pdf	Received: April 23, 2020 Accepted: June 16, 2020 Published: June 20, 2020

1. INTRODUCTION TO GLOBAL TRADE

Trade in general is a basic economic concept involving the buying and selling of goods and services, with compensation paid by a buyer to a seller, or the exchange of goods or services between parties. There are two types of trade namely internal or Domestic Trade and External or International trade. Global Trade otherwise called International Trade refers to the export and import of goods and services across international boundaries. The exchanges can be goods, capital, resources, man power, and even technological exchanges for mutual benefits of the countries involved. Goods and services that leave the country to another are called exports and the ones which are brought for sale are called imports. The basic principle of Global trade is the concept of comparative advantage. A country may be able to produce some goods at a cheaper rate than others and thereby enabling it to export the same while accepting some imports. Even though broadly speaking both are one and the same, there is a fine difference. Global trade refers to the issues and concerns of the entire world but international trade involves only a few countries.

2. HISTORY OF GLOBAL TRADE

Trade is believed to have originated in the pre-historic time when humans used the barter system to get certain goods and services in exchange of another. It is even dated to 150000 years back to Circa. First long-distance trade is believed to have been between Mesopotamia and the Indus Valley around 3000 B.C. But most of the ancient long-distance trades were for luxury items like silk, spices, textiles, metals, gold and gems.

Ancient Trade

Ancient trade provided the general meeting point or the market. Barter system was the most primitive means of trade where all agricultural products and household items were traded in exchange of another item or service. Trade between distant places involved middlemen in addition to tradesmen. There were risks of the commodity being destroyed or looted. But imperishable goods like spices, costly textiles, gold and silver earned the traders fame and money even though they also were liable for loot en route. Cyprus with its rich deposits of copper which it traded had famed itself as a rich nation in ancient times.

Means of transporting goods by waterways started as early as 3000 and the trade was mainly concentrated around rivers like the Nile, the Euphrates, the Tigris, the Indus etc. where ancient civilizations were concentrated. When more sophisticated and better boats were built coastal trade became predominant. The Mediterranean Sea became a major trade hub with links with the nations and islands even up to the African coast.

ISBN: 978-81-946245-3-0

Caravan trade

The Caravan trade flourished around 1000 BC in the desert areas of Asia and Africa where the traders used camels as the means of transport and moved round in groups. The caravan trade linked the western Arabia with India, Egypt and Mesopotamia. By 300 BC, the Greek invasions of the Egypt and Mesopotamia led to the ancient multimodal transport of goods, through caravans and then through ships to the Mediterranean. Goods coming from Mesopotamia in caravans were shipped at the port of Seleucia. Two main stop points in this route were the old Babylonian town of Doura, on the west bank of the Euphrates and the oasis city of Palmyra. By the first Century BC Palmyra became buzzing with all trade activities but the Greeks had already lost Persia or Mesopotamia. A new and rich supply of goods started coming from the Far East in this time through the so-called Silk Route.

In 106 BC a caravan of goods left China and reached Persia through the Himalayan route without any issues of plunderers of the steppes thanks to the patronage of the Han Dynasty rulers of China. This is considered the first successful trade through the Silk Route. In the first Century BC the Romans conquered Syria and Palestine and thereby controlling the terminal hub of the Silk Route and sending goods directly by the sea. China was adamantly trading silk for gold only and this caused the introduction of Global economics as the Mediterranean countries especially Rome was buying silk with huge amounts of gold. Both east Asia and Western Europe had their own sophisticated trade systems and the Silk route acted as a link between these countries. The world’s oldest trade route thus came into existence as the caravan route of the Middle East and the shipping lanes of the Mediterranean. At this time only the Indo China connections and trade was established as a maritime link. In the first Century AD itself Indian merchants were trading through the seas up till South China. In this trade they also were spreading Hinduism and Buddhism.

African Trade

Prominent trade patterns were also established in the African Continent during these times. The caravan trade flourished running North and South across the Sahara Desert and also due to the patronage of the strong rulers in the area. The African gold was the most precious commodity which was moved to the northern areas. Old kingdom of Ghana could have a full control of this trade due to its strategic geographical location, in the south west corner between Senegal and Niger. The second valuable commodity of trade from Africa was the slaves. Caravans also brought salt in addition to the African commodities like ivory, cola nut (containing caffeine), ostrich feathers and eggs, dates, metal items etc. These caravans never used to transport goods at a stretch; instead the goods were many times handed over or repacked and handled by many caravans till it reached the final destination. These handlings were always carried out at some resting points in the oases. There were middlemen involved and sometimes even partnerships of trade existed.

Russian Trade

The Vikings generally invaded the regions of Northern Europe and the Baltic with the sole aim of plundering. But the river routes of Eastern Europe extending further inland tempted them for trade and thereby landing them even up to Russia in the Ninth Century. Important trading

ISBN: 978-81-946245-3-0

centers were developed along the riverside as transit points. Goods ferried by water between the important trading points converge on this area. By the early 9th century Viking tribes known as the Rus had developed a base on the site of Novgorod thereby leading to the establishment of Russia. All goods gathered from all parts: gold, clothes, wine, fruits from the Greeks; silver and horses from the Czechs and Hungarians; furs, wax, honey and slaves from the Rus' used to arrive and depart these transit points.

European Trade

In 1159, Henry - The Lion, the then Duke of Saxony and Bavaria of Germany invaded and established the town of Lubeck which later flourished as a town to cater the trade needs of the Baltic. Goods from Netherlands and the Rhine River found ways to the Baltic markets through this city and Hamburg to the North Sea. These twin centers of a network of trading alliances later came to be known as the Hanseatic League (Hanse means a guild of traders). The German merchants used to make mutual alliances to protect their interest and the goods. The main agenda was the control of pirates thus enabling the safety of goods. In the 13th Century the Hanseatic Trade flourished well with the growth of the European Economy. The towns in the guild organized themselves in a more formal fashion with membership fees and rights of the members established. There were about 100 such German towns by 14th Century who controlled the trade of the Baltic and the North Sea. But the glory of these towns and the guild faded with the decline in the European Economy towards the end of 14th Century. The political developments and the unity of certain areas like the merger of the Scandinavian Countries, merger of other small countries) and the hostility of the new rulers also contributed to the decline of the Hanseatic League. The last league operation is believed to be in 1669. The ups and downs of the European Economy from 11th to 14th century greatly affected the trade in Europe. The European economy saw an uptrend in the 12th and 13th Centuries and the cities prospered; rich monasteries controlled by powerful abbots became predominant in Europe during this time creating a feudal system. The development in trade caused many cities to flourish and improving the life style and standards of living. The coastal Italian cities became the hubs of trade and Venice became prosperous especially after the Fourth Crusade. Netherlands, France, Germany and England became trade partners.

Banking also developed along with the flourishing trade. Previously Jews were the pioneers in banking but around 13th Century, predominant Christian Families, particularly from the Northern parts of Italy became money lenders thus amassing wealth.

This trade and prosperity began to decline in the 14th Century due to multiple reasons. Cultivation became less thereby reducing trade. A succession of bad harvests occurred which was a blow to the farmers and in general the economy. The Black Death or the plague pandemic of 14th century coasted many lives and that was the final blow to the fall of the trade and economy of Europe. In 15th Century, with the Renaissance and the geographic explorations, the European trade and economy recovered from its decline and again attained prosperity.

ISBN: 978-81-946245-3-0

Chinese Sea Trade

The greatest extent of Chinese trade was achieved in the early 15th century when Zheng He, a Muslim eunuch, sailed far and wide. He reached up to the Persian Gulf, the coast of Africa (returning with a giraffe on board) and possibly even Australia. Typical Chinese exports during this time included porcelain, lacquer, silks, items of gold and silver, and medicinal preparations. The junks returned with herbs, spices, ivory, rhinoceros horn, rare varieties of wood, jewels, cotton and ingredients for making dyes.

Pax Mangolica and Silk Road

Even though the Silk Road was started during the Han Dynasty in the first Century itself the route was not that economical due to various reasons like robbery en route, the fierce climate, lack of proper transport etc. By the middle of the 13th Century the Mongol King Genghis Khan took control of the region from the Northern parts of China till the Black sea thereby controlling the trade and economy of the Asian continent. The opportunity of trade through the Silk Road attained its peak during these times. In the beginning the Silk Road was unsafe due to the plundering by the nomads of the steppes like the Mongols at the Eastern side and the fierce rivalry between the Muslims and Christians at the West end. But with the unity of the area under Genghis Khan the situation became favorable. Like the Pax Romana this time was called the Pax Mongolica. Trade with the Mongols is described by the famous trader Marco Polo, his father and his uncle.

Portuguese and their Slave Trade

The Portuguese Expeditions of the 15th Century made their ships reach up to the sub-Saharan areas of the African continent. They started sourcing slaves from these regions. The Portuguese gained occupancy of the volcanic and fertile land of the Cape Verde Islands and they used to employ some slaves in Cape Verde for the estates and major part of the captured slaves were taken to Europe for auctions. On the Guinean coast the Portuguese made trading stations to buy captive Africans to trade to the Europe. Cape Verde Island coast came to be known as the Slave Coast. The Islands flourished with its cultivation of tobacco, cotton and sugar cane. The Portuguese started slave trade to their colony in Brazil too. Sooner or later other nations with trans-Atlantic interests also started trading for these goods and slaves in the Slave Coast.

In the 16th Century the spices trade was done mainly by the Venicean merchants and the goods were brought from India and Arabia through land. By the invention of the sea route around the Cape of Good Hope by Vasco De Gama the Portuguese could have the monopoly of the spices trade as the goods now started to be shipped. The Portuguese under Albuquerque had captured strategic transit points like Hormuz in the Persian Gulf, Goa in the west coast of India, Bombay and the Malacca thereby enabling them to control the entire trade through sea with their own might and supremacy. Developing maritime trade and explorations improved the sailors' knowledge of ocean meteorology and the phrase trade winds became common.

ISBN: 978-81-946245-3-0

In the 17th Century with the formation of the English East India company the trade in the Indian coast became divided. The English established a base factory or warehouse at Surat in 1613 to cater the storage of textiles, spices and indigo and then to ship to Europe. But there were strong contenders for the trade.

The Spanish, The French, The Dutch and the British all wanted to overpower the monopoly of the Portuguese trade. By the 18th Century the British also became predominant in the global trade with their ships reaching almost all parts of the continents and colonizing many coasts. They used to follow triangular trade pattern without wasting any leg of any voyage. Soon the trade patterns and the monopolies started shifting around these major maritime powers and the entire trade came under the control of the strongest of them from time to time. Slowly the British took over the trade monopoly both in Asia and also in the Europe. But the greater volume of trade across the Atlantic was carried out by the Spanish people.

Global Trade in 19th and 20th Centuries

Trade and commerce have achieved remarkable growth in the 19th century. The concept of Globalization came into being with the integration of national economies and trade interests to a global economic system thereby taking care of the interests of all the countries involved. Globalization has helped to improve the trade between different countries to achieve multi fold growth.

Globalization is considered to have two phases, the first from the beginning of the 19th century till the First World War and the second phase from the end of the Second World War till now.

Countries have realized their own potentials of production and export and have come to mutual agreements on the trade thereby enhancing mutual co-operation. Many trade agreements and treaties came into force during these times. Economic interactions help to sustain the prosperity and individual national interests.

The first wave of Globalisation was also backed up by the technological advances the human kind made in the beginning of the 19th Century. Until 1913 the global trade growth was more than 3% annually. International trade suffered a setback with World War 1 due to the rise of nationalism and decline of liberalization.

World trade grew after the World War 2 but collapsed with the Economic depression. But the period from 1950 to 1960 saw a phenomenal growth in the world trade. This was not long lasting. It again plummeted with the oil crisis of the 1960s. From 1970 the Global trade graph again rose till 2007 when the great recession shook the entire world. The growth is quite appreciable except for the small breaks during the times of various recessions as mentioned. Again, the cold war climate in Europe also has caused the global trade to slow down but was not for long.

The revolutionary changes in technology and transport has entirely changed the global trade in the end of 20th century. Globalisation and the improved and fast means of transport enhanced the global trade especially with the multimodal transport system of goods.

ISBN: 978-81-946245-3-0

3. INDIA'S GLOBAL TRADE – A BRIEF HISTORY

India boasts of the first ever global trade through the maritime sector by the Mesopotamians trading with the Indus Valley people as early as the 3rd Millennium BC. The world's first ever dock was found at Lothal which dates back to 2400 BC. After the Roman invasion of Egypt there was an increase in trade with India and Rome around 25 BC. India had developed a predominant trade relationship with South East Asian Empires of Arabia and Persia during the 8th Century. Excavations in the Odisha coast had yielded proof of Indo China Trade dating back to 2300 BC due to the presence of some artifacts which were common in Vietnam area. Chandra Gupta Maurya (322-298 BC) tried to make a naval force in India as per the writings of Megasthenes. The Mauryas had ventured out and achieved many ocean voyages for various reasons.

The Maritime Silk route (2nd Century BC to 15th Century AD) was the major maritime trade route connecting India, China, SE Asia and Arabia, Somalia, Egypt and Europe and goods even from South India found their way out to foreign nations. Kalinga (present Odisha) after its annexure to the Maurya Empire by Ashoka in 3rd Century BC, had established maritime trade with China, Java and Sumatera etc.

From 200 to 1280 AD, the Chola Emperors had an upper hand in developing the maritime trade with China and Java as they had absolute control over the west and eastern side of Indian peninsula. Their empire the Srivijaya was the largest empire in SE maritime Asia. Even the Pandyas and Cheras also had developed ports like Kollam and engaged in maritime trade.

In 1497 AD, four merchant vessels set sail from Portugal under the leadership of Vasco De Gama as per the orders of the then Portugal ruler Manual 1. They rounded the Cape of Good Hope sailing towards India and finally made landfall in India in 1499 thus providing an alternate sea route between India and Europe paving way for a strong trade pact even though the chain of events that followed led to the colonization of India.

On April 05th1919, SS Loyalty, the first ship of the Scindia Steam Navigation Company sailed from India to the UK which was a mile stone in India's Maritime history as the sea routes were all dominated then by the British.

4. MAJOR INTERNATIONAL TRADE AGREEMENTS

World trade is governed by certain trade agreements and treaties. They can be free trade agreements, unilateral, bilateral or multilateral agreements.

The concept of Free Trade among nations as suggested by Adam Smith in his Wealth of Nations has been well acclaimed by all nations. Free trade, usually defined as the absence of tariffs, quotas, or other governmental impediments and allows each country to specialize in the goods it can produce cheaply and efficiently relative to other countries. Such specialization enables all countries to achieve higher real incomes. But the domestic producers and other intermediate persons in trade may get affected. Some countries, such as Britain in the nineteenth century and Chile and China in recent decades, have undertaken unilateral tariff reductions—reductions made independently and without reciprocal action by other countries. The advantage of unilateral free trade is that a country can reap the benefits of free trade immediately. Countries that lower trade barriers by themselves do not have to postpone reform

ISBN: 978-81-946245-3-0

while they try to persuade other nations to follow suit. The gains from such trade liberalization are substantial: several studies have shown that income grows more rapidly in countries open to international trade than in those more closed to trade. Dramatic illustrations of this phenomenon include China's rapid growth after 1978 and India's after 1991, those dates indicating when major trade reforms took place. Some countries believed in unilateral reforms in trade as the only effective way to boost up the domestic sector. But multilateral and bilateral agreements of trade were more advantageous as they enhance the economic benefits of International trade and also help in specialization of products by nations. It also may reduce political oppositions.

GATT

After World War II, the United States helmed in establishing the General Agreement on Tariffs and Trade (GATT) in 1947, which quickly became the world's most important multilateral trade arrangement. This agreement, after many negotiations, substantially reduced the tariff barriers of the manufactured goods. This helped to revive the world trade and hence the economies of the countries involved. After the introduction of GATT, the average tariffs set by industrial countries have fallen from about 40 percent to about 5 percent. These tariff reductions helped promote the tremendous expansion of world trade after World War II and the concomitant rise in real per capita incomes among developed and developing nations alike. The annual gain from removal of tariff and nontariff barriers to trade as a result of the Uruguay Round Agreement (negotiated under the auspices of the GATT between 1986 and 1993) has been put at about $96 billion, or 0.4 percent of world GDP.

In 1995, the GATT became the World Trade Organization (WTO).

The WTO oversees four international trade agreements:

1. General Agreement on Tariffs and Trade (GATT)
2. General Agreement on Trade in Services (GATS)
3. Agreements on trade-related intellectual property rights (TRIPS)
4. Trade-related investment (TRIMS)

The WTO is now the forum for members to negotiate reductions in trade barriers; the most recent forum is the Doha Development Round, launched in 2001.

World Trade Organization and its role in Global trade

The countries realized the importance of a governing body or a regulatory committee to cater the interests of the individual nations in global trade. Hence on January 1st 1995 the World Trade Organization (WTO) was formed with its headquarters at Geneva under the Marrakesh Agreement signed by 123 nations in 1994. WTO is the international body formed by its member nations to monitor and execute the trade agreements between different nations thereby ensuring fare trade between nations. The WTO is a place where member governments go, to try to sort out the trade problems they face with each other. The WTO is not just about liberalizing trade, and in some circumstances its rules support maintaining trade barriers — for example to protect consumers, prevent the spread of disease or protect the environment.

At present there are 164 member nations which forms 98% of the world trade and has Mr. Roberto Azevedo as its Director General. The last country to join WTO was Afghanistan in 2016. 16 countries do not wish to be part of WTO (Aruba, Curacao, Eritrea, Kiribati, Kosovo, Marshall Islands, Micronesia, Monaco, Nauru, North Korea, Palau, the Palestinian Territories, San Marino, Saint Maarten, Turkmenistan, and Tuvalu)

The WTO is committed to protecting fair competition. There are rules on subsidies, dumping WTO is committed to economic development. For example, recent rounds have put pressure on developed countries to accelerate restrictions on imports from the least-developing countries.

Main Functions of WTO

1. Administering WTO trade agreements
2. Forum for trade negotiations
3. Handling trade disputes
4. Monitoring national trade policies
5. Technical assistance and training for developing countries
6. Co-operation with other international organizations

Principles of WTO

The trading system should be

Without discrimination: A country should not discriminate between its trading partners (giving them equally "most favored nation" or MFN status) and it should not discriminate between its own and foreign products, services or nationals (giving them "national treatment")

Freer: Barriers coming down through negotiation

Predictable: Foreign companies, investors and governments should be confident that trade barriers (including tariffs and non-tariff barriers) should not be raised arbitrarily; tariff rates and market-opening commitments are "bound" in the WTO

More competitive: Discouraging "unfair" practices such as export subsidies and dumping products at below cost to gain market share

More beneficial for less developed countries: Giving them more time to adjust, greater flexibility, and special privileges

Advantages of the WTO

1. Helps to promote peace among nations
2. Disputes are constructively handled without bias
3. Freer Trade cuts the cost of living
4. Products qualities and choice increased
5. Better Economy through better and fair trade
6. Better shielding for nations against lobbying
7. Makes an efficient market system

ISBN: 978-81-946245-3-0

Drawbacks

1. More Economic dependence on Global markets which causes domestic economic instability
2. More competitive environment for establishing new industries and firms
3. More imports may lead to less demand of domestic products and lead to unemployment
4. Unequal developments of member nations
5. Dominated by wealthy nations
6. Opposed certain environmental laws like the US Clean Air Act
7. Not generally democratic in nature

The WTO has not contributed much as yet to improve Global trade by introducing any new trade-agreements or treaty but has helped to keep up the pace of the market and avoid disputes as far as practicable.

4. LIST OF OTHER MAJOR TRADE AGREEMENTS

African, Caribbean, and Pacific Group of States (ACP Group)

Establishment Date: 6 June 1975

Aim: to manage their preferential economic and aid relationship with the EU

Members (77)

Angola, Antigua and Barbuda, The Bahamas, Barbados, Belize, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Republic of the Congo, Cook Islands, Cote d'Ivoire, Djibouti, Dominica, Dominican Republic, Equatorial Guinea, Eritrea, Ethiopia, Fiji, Gabon, The Gambia, Ghana, Grenada, Guinea, Guinea-Bissau, Guyana, Haiti, Jamaica, Kenya, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Mali, Marshall Islands, Mauritania, Mauritius, Federated States of Micronesia, Mozambique, Namibia, Nauru, Niger, Nigeria, Niue, Palau, Papua New Guinea, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Solomon Islands, Somalia, South Africa, Sudan, Suriname, Swaziland, Tanzania, Togo, Tonga, Trinidad and Tobago, Tuvalu, Uganda, Vanuatu, Zambia, Zimbabwe

Andean Community of Nations (CAN)

Note – formerly known as the Andean Group (AG), the Andean Parliament, and most recently as the Andean Common Market (Ancom)

Establishment Date: 26 May 1969; present name established 1 October 1992; effective -16 October 1969

Aim: to promote harmonious development through economic integration

Members (5): Bolivia, Colombia, Ecuador, Peru, Venezuela

ISBN: 978-81-946245-3-0

Arab Cooperation Council (ACC)

Establishment Date: 16 February 1989

Aim: to promote economic cooperation and integration, possibly leading to an Arab Common Market

Members (4) Egypt, Iraq, Jordan, Yemen; note – the ACC has remained inactive since the Gulf crisis

Asia-Pacific Economic Cooperation (APEC)

Establishment Date: 7 November 1989

Aim: to promote trade and investment in the Pacific basin

Members (21) Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, NZ, Papua New Guinea, Peru, Philippines, Russia, Singapore, Taiwan, Thailand, US, Vietnam

Observers (3) Association of Southeast Asian Nations, Pacific Economic Cooperation Council, Pacific Islands Forum

Black Sea Economic Cooperation Zone (BSEC)

Establishment Date: 25 June 1992

Aim: to enhance regional stability through economic cooperation

Members (11) Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, Ukraine

Observers (9) Austria, Egypt, France, Germany, Israel, Italy, Poland, Slovakia, Tunisia

Caribbean Community and Common Market (Caricom)

Establishment Date: 4 July 1973; effective – 1 August 1973

Aim: to promote economic integration and development, especially among the less developed countries

Members (15) Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago

Associate members (4) Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Turks and Caicos Islands

Observers (8) Aruba, Colombia, Dominican Republic, Mexico, Netherlands Antilles, Puerto Rico, Venezuela

European Free Trade Association (EFTA)

Establishment Date: 4 January 1960; effective – 3 May 1960

Aim: to promote expansion of free trade

ISBN: 978-81-946245-3-0

Members (4) Iceland, Liechtenstein, Norway, Switzerland

North American Free Trade Agreement (NAFTA)

Establishment Date: 17 December 1992

Aim: to eliminate trade barriers, promote fair competition, increase investment opportunities, provide protection of intellectual property rights, create procedures to settle disputes

Members (3) Canada, Mexico, US

In addition to the above there are many Free Trade Arrangements both bilateral and multilateral between various countries like the Singapore FTA, Bahrain FTA, Chile FTA etc.

MULTIMODAL TRANSPORT SYSTEM AND CONTAINERIZATION IN GLOBAL TRADE

5. MULTIMODAL TRANSPORT SYSTEM

Multimodal transport means the transportation of goods under a single contract, but performed with at least two different modes of transport; the carrier is liable for the entire carriage, even though it is performed by several different modes of transport. Goods are transported from the interior areas of the countries through different means of transport including waterways, rails and road till they finally reach their destination. Sometimes the goods are further shipped to different nations after reaching the port city.

The International Multi modal transport regulations were framed based on the guidance of the United Nations Convention of 1979 and 1980 on the subject.

Advantages of multimode Transport System

1. Decrease in customs controls.
2. Only one contract is made.
3. Tracking cargo through satellite systems.
4. Low rates of theft or damage to the cargo that favor the costs of insurance premiums abroad.
5. Most cost and time effective way

Disadvantages

1. Inter modal cargo transport yields from relatively high foundation costs.
2. Lack of reliability- Because of its dependence on more than one mode of transportation

This system of transporting goods has become the backbone of the International Trade as this is cost effective and faster as efficient transport system is a prerequisite for better trade.

Around 80% of the volume of International trade is carried by the sea. The goods have to travel from far and wide to the seaports for exports and same is the case of imports to reach their final destination. Multimodal transport has eased the problems of delivering the goods safely and timely. Multimodal Transport allows to combine in one voyage the specific advantages of

ISBN: 978-81-946245-3-0

each mode, such as the flexibility of road haulage, the larger capacity of railways and the lower costs of water transport in the best possible fashion. Multimodal Transport also offers the shipper the possibility to rely on a single counterpart, the multimodal transport operator who is the architect of the entire journey and only responsible party from pickup to delivery, rather than having to deal with each and every modal specialist of the transport chain.

While Multimodal Transport seems to offer only benefits to all parties, shippers and service providers, it is also very difficult to achieve. Multimodal Transport requires a thorough control over all the steps involved in international transport, including multiple storage and handling stages; this means extensive use of information technologies and carriers' networks and regulatory frameworks that can provide freedom to plan and operate to carriers and reliable liability regimes to customers. On top of that Multimodal transport needs to be competitive in markets where uni-modal operations not only have been there for a long time but also are simpler to handle and, most of time, more cost effective.

Containerization

With the containerization the trade through land and water has improved multifold and has given a boost to the maritime and the Global trade. Goods could be delivered safely without damages to the final consignee with the containerization. b goods can be safely transported with reefer containers. Even animals could be transported with half height containers. Tank containers and open top containers can be used as required. Containerization is a system of intermodal freight transport using intermodal containers (also called shipping containers and ISO containers). The containers have standardized dimensions. Containers can be made of weathering steel to minimize maintenance needs.

Once containers reach the port on ships they are stored in yards and then transported by road/rail/inland waterways till they reach the final destination. They can't be easily opened and hence the cargo is safer, not exposed to the weather damages and hence the claims are less comparatively. Containerization has these advantages over the conventional break bulk cargo carriage.

The main advantages of containerization are:

Standardization. Standard transport product that can be handled anywhere in the world (ISO standard) through specialized modes (ships, trucks, barges, and wagons) and equipment.

1. Flexibility
2. Cost Effective
3. Improved Velocity of trade
4. Warehousing possibility
5. Improved Security and safety

The main drawbacks of containerization are:

6. Site constrains. Large consumption of terminal space (mostly for storage)
7. Capital intensiveness.

8. Stacking and extra labor
9. Repositioning
10. Theft and losses especially at the yards
11. Illicit trade possibility since the transporter or the carrier does not know the actual content of the container

Container trade has helped the remote rural products to reach far and wide to other major areas of the world. For example, the Coffee and from Brazil gets transported via road/inland waterways and shipped in containers. They reach the transit point at the port of Freeport at Bahamas from where they get shipped on to other vessels to Europe, North America or Asia as the case may be. Similarly, products from Europe or North America come to the transit points and find their way to the final destination. There are similar transit points all over the world like Singapore, Shanghai, Rotterdam, Amsterdam etc. Similarly, products from China and other Asian countries reach Europe and Americas. Hence containerization has helped global product distribution. Container ships are time bound and hence faster. Moreover, the turnaround time being fixed the goods are delivered or shipped without causing undue delays or legal formalities.

Bulk goods are transported via sea using the bulk carriers. Another very important trade aspect is oil trade. Tankers carry the oil products across the seas to the various customers across the globe. With the modernization in shipping and the expansion of ports the global trade has increased even though the recession has affected all fields including shipping. Since shipping is the best option for bulk transfer of goods shipping transportation still remains a major stake holder in international trade.

3. INSURANCE AND GLOBAL TRADE

Insurance has become an inevitable part of the Global Trade. It is an economic compensation to the losses which may encounter due to certain unforeseen circumstances. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities those results into economic growth and development. Thus, insurance plays a crucial role in sustainable growth of an economy.

Shipping of goods could not function without insurance. Ways of protecting valuable vessels and cargoes by transferring or sharing risk have been known since ancient times. . Hull insurance was known to the Phoenicians, Greeks and Romans. The first statute dealing with the insurance of ships was recorded in Barcelona in 1434. The first marine insurers were established in Italy in the seventeenth century. By 1700 the name of Lloyd's was already synonymous with the London marine insurance market. Lloyd's, with Royal Exchange Assurance and Royal London Assurance, dominated the market. It was resentment of this virtual monopoly among ship owners in English ports outside London which prompted them to form the first mutual hull insurance clubs through which they insured each other against loss. The concept of mutuality, the sharing of common interests, was central to these clubs, their successors and those still flourishing today. It was a form of self-help dependent on trust and loyalty. 'The whole principle of Mutual Clubs is, if there is a loss all owners contribute, and if there is a gain all owners get the return'. It drew on the tradition of mutual assistance at sea

ISBN: 978-81-946245-3-0

when seafarers in distress relied on help from passing ships, even if owned by competitors. One rule common to almost all mutual marine insurance clubs, most of which were originally hull insurance clubs, was that Members should come to the aid of ships in distress belonging to fellow Members. These clubs were the first Insurance firms of trade. A Protection and Indemnity or P&I club is a non-governmental, non-profitable mutual or cooperative association of marine insurance providers to its members which consists of ship owners, operators, charterers and seafarers under the member companies. Now there are 13 P and I clubs all over the world like the London P and I Club, Steamship Mutual etc.

Foreign Trade involves the transportation of goods through various means of transport which involves many risks of loss or damage due to natural calamities, accidents or thefts. In order to guarantee safe transport of goods, the importer and the exporter, and the urgent need for both sides are willing to participate in the insurance, which is the basic reason that insurance has become one of the fundamental prerequisites for foreign trade. First, there must be a country's foreign trade, then need import and export insurance. If there is no foreign trade, insurance will lose clients. The development of foreign trade is a prerequisite for the development of insurance, in turn, the development of insurance has provided a guarantee for the foreign trade business, help to further engage in foreign trade.

4. DIFFERENT TYPES OF INSURANCES APPLICABLE TO TRADE

There are several core insurance policies that are likely to need for export of either products or services. Main insurance policies are listed below.

1. Product Liability
2. Professional Indemnity
3. Marine / Cargo / Transit

1. If exporting a physical product then it needs to move from the factory or warehouse to the customer and Marine insurance provides cover for this. There are a number of means of covering goods in transit and often this depends on who is made responsible for the goods whilst they are in transit.
2. If the exporter is responsible for the risk of loss or damage while transporting the goods to the customer, then cover will normally be arranged by the exporter. Alternatively, the transport of the goods may be carried out by a specialist third party haulier. In this case, the haulier may provide cover. The haulier may charge a higher cost than if the exporter insured himself, and cover may be limited.

In some cases, the customer will prefer to arrange the transit themselves and if this is the case then they will usually insure. Exporters can either insure single transits, or put an annual policy in place to cover all transits.

Present Global Trade area wise

The present trend in global trade differs area wise as the trade agreements vary with areas and countries. Let us analyze the general trade in different areas of the world with a broader continent-wise segregation.

European Trade

EUs trade policy protects its member nations by ensuring that the consumer protection acts are always adhered to. It also promotes human rights, safety standards and environmental protection. The EU has the ultimate authority of trade negotiations in the Europe. Even though the present-day European Market is sluggish it has the USA as its main trade partner with almost 633000 trade followed by China, Switzerland and Russia. Till 2019 USA remained EU's biggest export market and China the biggest importer. Present day trend in European trade with other countries are dipping due to various political and other reasons.

North American Trade

The US trade has currently 14 FTAs with almost 20 countries. The U.S. Constitution, through the Commerce Clause, gives Congress exclusive power over trade activities between the states and with foreign countries. Trade within a state is regulated exclusively by the states themselves. China is the biggest ally of US trade followed by Canada, Mexico, Japan and EU. The Transatlantic Trade and Investment Partnership (TTIP) - 2018 is a proposed trade agreement between the European Union and the United States, with the aim of promoting trade and multilateral economic growth. The largest US exporter is Apple Inc. followed by Pfizer and ExxonMobil.

Asian Trade

The trade in Asia is largely governed by the Asia-Pacific Trade Agreement (APTA) which is a preferential regional trade agreement formerly known as the Bangkok Agreement. APTA aims to promote economic development of its members through the adoption of mutually beneficial trade liberalization measures that contribute to regional trade expansion and economic cooperation. China is the world's biggest exporter with US as its main trading partner. China may look for new partners or different trade policies in the future as it holds the main share of Asian global trade. Most Asian countries have risen in economy through global trade in the 21st century. The growth in foreign trade has also attributed to the improved economies of the Asian countries especially East Asian countries and the trend may help them to surpass the European economy in the coming future.

The African Trade

The Continental Free Trade Area is the governing agreement in trade and commerce in and out of the African continent. Most of the African Countries are part of this agreement. The IMF also sees a jump in the African trade in the coming years due to more liberalized approach and inclusion of latest technologies. Giving African countries the opportunity to participate in the global economy through trade helps grow their economies, creates jobs, and reduces poverty. Under AGOA, U.S. imports from sub-Saharan Africa have increased considerably. Major imports to Africa are pharmaceuticals, textiles, automobiles, food, electronics, plastics etc. whereas the major exports are precious gems and metals, fertilizers, ores, iron and steel, fuel oil, fruits and nuts etc. Africa's main trade partner is the EU followed by China, Japan etc. There are inter-continental trade patterns in the African trade also.

Latin American Trade

The Latin American Free Trade association formed in 1960 is the main governing body of the Latin American trade. By size and economic importance, the region has three major free trade deals: the still-to-be-implemented renegotiation of NAFTA, known as the United States-Mexico-Canada Agreement, or USMCA; Mercosur, the four-country common market made up of Argentina, Brazil, Paraguay and Uruguay; and the Pacific Alliance The Latin American market is one of the largest markets. The main exports are agricultural products, natural resources like metals, ores, coffee, textiles and petroleum. The main imports are plastics, machinery, vehicles, iron and steel, wheat, and paper. Latin America & Caribbean major trading partner countries for exports are United States, China, Brazil, Argentina and Canada and for imports United States, China, Brazil, Germany and Japan.

Global trade of India

India exports approximately 7500 commodities to about 190 countries, and imports around 6000 commodities from 140 countries. Major exports from India are engineering goods, refined petroleum, gems, jewelry, chemicals, agricultural products and textiles, the major Indian imports were crude petroleum, gold, coal briquettes, diamonds and petroleum gas. India has signed bilateral FTAs with Sri Lanka, Afghanistan, Thailand, Singapore, Bhutan, Nepal, Korea, Malaysia and Japan. Free Trade Agreement (SAFTA, 2004) and the India-Association of Southeast Asian Nations Agreement (ASEAN, 2010). India's trading partners include China, USA, UAE, African countries etc.

India with the co-operation of other Asian countries including China is trying to revive the ancient Silk Road trade and has largely succeeded in its efforts.

Theories of Global Trade

The aim of Trade Theory is to explain the existing patterns of trade, the impact on the domestic economy, and the type of public policies that should be introduced to increase a country's well-being.

A classical, country-based international trade theory that states that a country's wealth is determined by its holdings of gold and silver. When the value of exports is greater than the value of imports. When the value of imports is greater than the value of exports.

New trade theory (NTT) suggests that a critical factor in determining international patterns of trade are the very substantial economies of scale and network effects that can occur in key industries.

These economies of scale and network effects can be so significant that they outweigh the more traditional theory of comparative advantage. In some industries, two countries may have no discernible differences in opportunity cost at a particular point in time. But, if one country specializes in a particular industry then it may gain economies of scale and other network benefits from its specialization.

Another element of new trade theory is that firms who have the advantage of being an early entrant can become a dominant firm in the market. This is because the first firms gain

ISBN: 978-81-946245-3-0

substantial economies of scale meaning that new firms can't compete against the incumbent firms. This means that in these global industries with very large economies of scale, there is likely to be limited competition, with the market dominated by early firms who entered, leading to a form of monopolistic competition.

Monopolistic competition is an important element of New Trade Theory, it suggests that firms are often competing on branding, quality and not just simple price. It explains why countries can both export and import designer clothes.

This means that the most lucrative industries are often dominated in capital-intensive countries, who were the first to develop these industries. Therefore, being the first firm to reach industrial maturity gives a very strong competitive advantage. (some may say unfair advantage)

New trade theory also becomes a factor in explaining the growth of globalization.

It means that poorer, developing economies may struggle to ever develop certain industries because they lag too far behind the economies of scale enjoyed in the developed world. This is not due to any intrinsic comparative advantage, but more the economies of scale the developed firms already have.

Paul Krugman was a leading academic in developing New Trade Theory. He was awarded a Nobel Prize (2008) in economics for his contributions in modeling these ideas of International Trade and for his analysis of trade patterns and location of economic activity.

5. CONCLUSION

Global trade has helped many countries to improve their economic status and GDP. Each country can produce and export goods and services in which it has a comparative advantage and import goods and services in which it doesn't make.

Advantages of global trade include specialization, economic growth and reduction of global conflict. Barriers to trade can be either policy driven or natural.

But at the same time the domestic market loses as there is tight competition in quality and tariffs of the imported goods. This may lead to unemployment in the domestic sector and a fall in GDP. Furthermore, some developed countries may make forceful markets in developing countries thereby forcing their products and sometimes they may harm the indigenous environment thereby destroying it.

The current trend in the International trade is increasing foreign trade and interdependence of the countries. But the market growth in 2019 was weak owing to the comparatively higher tariff rates and prolonged trade policy uncertainty. There is a severe competition among the countries as the market is more open and tariffs are negotiable. The trade trends are subjected to the changing environments like political, technological and cultural grounds. The trend also depends on the agreement and co-operation among countries with respect to their foreign trade policies. Liberalizations, emerging market growth and cross border freedom of movement and trade are some other factors which decide the trend of International Trade. After a few years of increasing uncertainty and upheaval, most outlooks are finally showing a trend for an easing of global trade volatility into 2020 post COVID-19 as expected.

ISBN: 978-81-946245-3-0

REFERENCES

1. http://www.historyworld.net
2. Proceedings of the 2016 International Symposium on Business Cooperation and Development: The Role of Insurance in trade
3. Open to Export Journal
4. The London P and I Club Manual
5. The Library of Economics and Liberty: international trade agreements by Douglas A. Irwin
6. NC state University SCRC
7. http://www.traderady.ca/2019/featured-stories/10-global-trade-trends
8. Wikipedia