In: The Palgrave Handbook of International Trade and Development in Africa, Springer, November 2024, pp. 35-55
DOI: 10.1007/978-3-031-65715-3_3

Chapter 3
Impact of Political and Legal Environments on International Trade

James Atambilla Abugre, Joe Nellis and David Ofosu-Dorte

Abstract

International trade has become increasingly important in the functioning of the global economy as a result of financial globalization and differences in resource endowments, prompting extensive economic research and increased demand for regional and global integration amongst nations and continents. International trade is one of the most salient changes in the world economy since 1980. However, many nations and other regional economic blocs have over the years instituted trade restrictions, tariffs, trade policies such as subsidies, tax waivers among others to harness the potentials of economic comparative advantages in and within their jurisdictions. Political ideologies, instability and insurgencies and risks are important factors that affect international trade across the globe. Legal regimes are equally important factors that determine the flow of free trade among nations. Civil and Common law countries which have different focus of trade regulations and dividend policies are critical matters that affect trade decisions among MNCs and countries. This chapter examines the political and legal environments of international trade. In this chapter, we provide an overview of the emerging political and legal environments in Africa. We then discuss how the political as well as the legal environments and policy trends impact international trade of African countries.

Keywords: *Impact, International trade, political and legal environments*

31 Introduction

Global economic activity is significantly influenced by international trade, which also stimulates economic development in both the developed and developing world. Trade between countries is fueled by differences in a variety of factors, such as resource endowments, climatic conditions, production costs, etc. International trade has been a vehicle through which job opportunities are created and the provision of a wide range of consumer goods and services. Not only that, but it has also played a significant role in the global rise in average living standards (Kline, 2010).. Although cross-border trading has been growing quickly over the past few decades, international trade has long been a component of human civilization.

International trade allows countries to specialize in producing goods and services that they have a comparative advantage in, and then exchange those goods and services with other countries for products that they cannot produce as efficiently. This leads to increased efficiency, lower costs, and higher quality products, which benefits both producers and consumers. Globalization and advancements in technology have made it easier for businesses to engage in international trade, opening up new markets and creating opportunities for growth. With the rise of e-commerce, businesses can now sell their products and services to customers around the world, regardless of their physical location.

However, international trade can also face challenges, such as trade barriers, tariffs, and regulations that can make it more difficult or expensive for businesses to operate in foreign markets. Additionally, geopolitical factors such as political instability, social unrest, and conflicts can disrupt trade relations and create uncertainty for businesses operating in global markets. A

Published by Springer. This is the Author Accepted Manuscript issued with: Creative Commons Attribution License (CC:BY 4.0).
The final published version (version of record) is available online at DOI:10.1007/978-3-031-65715-3_3. Please refer to any applicable publisher terms of use.

government's policies towards trade, foreign investment, and intellectual property rights can also have a significant impact on international trade. Legal factors have a significant impact on international trade, as they can create either a favorable or unfavorable environment for businesses engaged in global commerce. Economic policies, trade agreements, and regulations are all important factors that affect international trade. These agreements and regulations can help to lower trade barriers, reduce tariffs, and provide a framework for resolving disputes between trading partners. Intellectual property laws, labour laws, and environmental regulations impact so much on international trade by creating additional costs or compliance requirements for businesses operating in different countries.

Despite these challenges, international trade is an essential component of the global economy, driving economic growth, creating jobs, and providing consumers with a wider range of products and services at competitive prices. Overall, political, and legal factors can play a significant role in shaping the global trade environment. Businesses engaged in international trade need to stay informed about changes in policies, regulations, and trade agreements to adapt and take advantage of new opportunities, while also mitigating risks associated with political and legal uncertainties.

The chapter presents an overview of international trade with critical focus on the merits and demerits of it. The structure of international trade is discussed as well as the drivers that affect international trade with a sharp focus on the impact of political and legal aspects of the drivers. International and regional bodies and agencies that help to facilitate international trade are also highlighted and their roles discussed. The chapter concludes with the discussions and summarizes the key factors that limit the flow of free and fair international trade in the 21st century of the world among nations.

3.2 Overview of International Trade

International trade refers to the exchange of goods and services between countries or regions. In the globalized world we live in today, international trade is a crucial component of economic activity, driving growth, and development across the globe (Kline, 2010). International trade is a significant factor in openness among different countries and has contributed significantly to economic development. A key strategy for the expansion of the national economy in recent years has been international commerce. However, the importance of international commerce goes far beyond this; it also plays a role in promoting social and international relations between nations. The process of globalization has been accelerated by increased international trade.

International trade dates back to the 16th and 17th centuries of the barter trade system where goods were exchanged with other goods that one produced and lacked respectively. The advocacy of trade liberalization soon became topical in the 18th century led by Adam Smith in his book 'The Wealth of the Nations' in 1776. This shift in ideological thought called for the removal of trade barriers and restrictions by and among nations to open up the global market to world produce. This ideology has since been the driving force behind international trade for centuries leading to various innovations and trade agreements among countries and economic blocs.

Recent financial globalization facilitated by technology in the financial ecosystem has ensured that the world's economy is integrated and responsive to global happenings such as trade liberalization and protectionism policies, social and political dynamics, and legal and regulatory controls (Kiminza, 2021). The advancements in technology and transportation have made it easier for businesses to engage in cross-border trade. Businesses can now market their products and services

to customers around the world, irrespective of their physical location. The easy access to international markets enabled by technology has turned the world into 'one globalized village', ensuring free flow of funds, goods and services across and into nations of the world. This promotes a world-class competitive trading environment and guarantees efficiency and quality in service delivery (Johnson et. al., 2010). Global standardization of goods and services, pricing mechanisms and regulatory frameworks have become uniform and streamlined without vast differentiation if any. International financial payments, which are made between trading nations' central banks and the private banking system, ease the transactions of international trade. International trade and the associated financial transactions are typically conducted to give a nation the commodities and services that it lacks in exchange for those that it produces in abundance; these transactions, working in tandem with other economic policies, tend to raise a nation's standard of living.

There are different forms of international trade, including import and export trade, intra-industry trade, and intra-firm trade (Kiminza, 2021). Import trade involves the purchase of goods and services from foreign countries, while export trade refers to the sale of goods and services to foreign countries. Intra-industry trade is the exchange of similar goods or services between countries, while intra-firm trade occurs when a company's subsidiaries in different countries engage in trade with each other.

International trade is influenced by various factors, including government policies, trade agreements, and economic conditions. Trade barriers such as tariffs, quotas, and embargoes can make it more difficult or expensive for businesses to engage in international trade. On the other hand, trade agreements such as free trade agreements can help to reduce trade barriers and increase trade flows between countries (Johnson et. al., 2010). Overall, international trade plays a critical role in the global economy, driving economic growth, creating jobs, and providing consumers with access to a wider range of products and services. However, it can also face challenges such as trade disputes, geopolitical tensions, and regulatory barriers that can impact trade flows and create uncertainty for businesses operating in global markets.

3.2.1 Classification of International Trade

International trade operations, strategic alliances, and foreign direct investments are the three main categories under which international trade has been broadly classified. They are discussed in turns:

International trade operations

This category particularly encompasses the import, export, combined import-export operations, and transit activities that make up international business (Kline, 2010). Even though the parties may, in some cases, have divergent interests, they balance their differences and come to an understanding by weighing the advantages. Foreign sales contracts serve as the legal instrument for these foreign trade transactions, which are categorized legally as bilateral contracts (Weber et. al., 2009). Most of the time, these deals are short-term; however, the partnerships between the parties may be long-term or short-term as they deem necessary.

Strategic Alliances

This refers to the operation requiring collaboration among the various partners from different nations, with a focus on the transfer of technologies across borders (Johnson et. al., 2010). This

category primarily includes activities like franchising, sub-contracting, joint ventures (private or government), regional agreements etc.

Foreign Direct Investments

This closely relates to the terms of engagement, involvement/participation, risk, and profit, each of which is being used to its fullest extent. It serves as an option to entering the world market. It falls under the category of cross-border investment, in which interested citizens or multinationals of one economy make substantial investments in or other influences on businesses located in another (Kline, 2010).

3.3 Theories of International Trade

International trade theory can be classified under two main categories namely, classical or country-based theories and modern or firm-based theories.

3.3.1 Classical or Country-based Theories of International Trade

The proponents of the country-based approach primarily hold the belief that economic development should take precedence and focus mainly on wealth accumulation within one's own country. The various theories under this traditional approach are discussed below.

Mercantilism Theory

This theory argues that countries must consider their own wellbeing first by increasing exports and reducing imports. Hence, effort should be made to guarantee that only the essential raw materials are imported. The theory also advances the idea that a country should prioritize amassing riches in the form of gold and silver in order to strengthen its national treasure (Horvat,1999). Simply put, the classical economists who developed the theory of mercantilism argued that a nation's wealth and financial standing were primarily determined by the quantity of gold and silver it possessed. Thus, the best way to sustain a wealthy society is to increase the reserve of precious metals. According to this theory, in order for a country to produce enough goods to export them and to rely less on imports, exports must be strongly encouraged while imports must be rigorously discouraged. Because it focuses primarily on the principle of self-protection, this theory is frequently referred to as the protectionist theory. Some nations still adhere to this strategy in the twenty-first century and permit only a small quantity of imports while increasing their exports. The best examples of such nations are Japan, Taiwan, China, etc. It is essential to note that almost all nations at some point in history have adopted protectionist policies (Horvat,1999). Supporting these protectionist measures, however, has a price, including high taxation and other drawbacks**.**

Absolute Advantage Theory

The mercantilism approach was criticized by Adam Smith in 1776 in his book 'The Wealth of Nations'. He argued that specialization and division of labor are essential for economic development in terms of global trade. Higher productivity is ensured by specialization, raising the country's population's quality of living in the process. In small markets, he argued, the division of labor would not allow for specialization, which would otherwise be simple in the case of bigger markets. This expansion encouraged more in-depth specialization, which raised output across all sectors (Smith,1937).

The theory argues against governments attempting to control trade between nations or limit it on a global scale. Additionally, a nation's wealth and the quantity of gold and silver that its citizens possess should be determined by the quality of living of that nation's citizens (Smith,1937). The theory beliefs that trade restrictions reduce competitions and promotes monopoly thereby leading to poor management inefficiency in the market.

Comparative Advantage Theory

This theory was first propounded by David Ricardo on the principle of free trade or Laissez- Faire trade. This theory emphasizes the value of specialization as a source of increased output, and to treat international trade as a specific example of specialization. In a world where productive resources are limited and human wants are insatiable, each nation should concentrate in the production of goods it has the capacity to produce; export part of this production, exchange other goods that it cannot efficiently produce with it or from the income it gets from the sale of it.

According to the theory, it is preferable for a nation to export goods for which its relative cost advantage over rival nations is higher than its absolute cost advantage. Even if a nation produces goods efficiently, it may choose to import them from another nation if there is a comparative benefit in doing so. In a similar vein, a country may still export a product to another country even if it is not highly efficient at importing certain products from other nations. In practice, this idea promotes beneficial trade (Horvat,1999).

Factor Proportions theory (Heckscher-Ohlin theory)

The theories developed by Smith and Ricardo were ineffective for most countries because they could not decide which of the goods would be advantageous to them. The theories of absolute advantage and comparative advantage backed up the notion that a free and open market would assist nations in identifying which goods they could create effectively.

The Factor Proportions theory explains how countries can benefit from trade by specializing in the production of goods that make the most efficient use of their abundant factors of production. The theory was developed by two Swedish economists, Eli Heckscher and Bertil Ohlin, in the early 20th century (Baskaran, et.al. 2021). The theory is based on the idea that different countries have different factor endowments, meaning they have varying amounts of labor, capital, and natural resources. The theory argues that countries should specialize in producing goods that make the most efficient use of their abundant factors of production.

For example, a country that has labor, but limited capital may specialize in labor-intensive industries like textile production. Meanwhile, a country with abundant capital but limited labor may specialize in capital-intensive industries like technology manufacturing.

The theory suggests that by specializing in these industries, countries can maximize their production and efficiency, leading to increased economic growth and overall welfare (Baskaran et.al., 2021). Additionally, by engaging in international trade, countries can access goods and services that they may not be able to produce themselves, leading to further gains in economic welfare.

Critics of the theory argue that it oversimplifies the complex realities of global trade and that it does not take into account factors like transportation costs, technological advancements, and

government policies. However, the Factor Proportions Theory remains an important contribution to understanding the benefits of international trade and specialization**.**

3.3.2 Modern or Firm-based Theory

Country Similarity Theory

The country similarity theory of international trade posits that countries with similar characteristics, such as culture, economic systems, and resource endowments, are more likely to trade with each other than with countries that are dissimilar. This theory is based on the idea that countries that share similar characteristics will have similar demands for goods and services, and therefore, will be more likely to trade with each other (Horvat,1999). The theory suggests that countries with similar levels of economic development and similar resource endowments are likely to trade in similar products. For example, countries with a high level of natural resources, such as oil-producing countries, are likely to trade with other countries that have a high demand for these resources, such as countries with large manufacturing industries.

Another aspect of the country similarity theory is cultural similarity. Countries that share cultural characteristics, such as language, religion, and social norms, are more likely to trade with each other. This is because cultural similarity can help to establish trust and build relationships between countries, which can facilitate trade (Baskaran,et.al., 2021).

However, the country similarity theory has been criticized for oversimplifying the complex factors that influence international trade. For example, trade may also be influenced by political factors, such as government policies and international relations, as well as economic factors such as exchange rates, tariffs, and trade agreements. Moreover, the theory does not take into account the fact that countries may have comparative advantages in producing different goods and services. Comparative advantage is the ability of a country to produce a particular good or service at a lower opportunity cost than another country, which is a key driver of international trade. While the country similarity theory may provide insights into the patterns of international trade, it is important to consider a range of factors when analyzing the dynamics of trade between countries.

The product cycle theory of international trade was developed by economist Raymond Vernon in the 1960s. The theory suggests that the life cycle of a product influences its international trade patterns. The product cycle theory assumes that products go through a life cycle consisting of three stages: new product, maturing product, and standardized product (Vernon, 1992).

In the new product stage, a product is initially developed and introduced in the domestic market. In this stage, the product is usually produced in the country where it was invented, and there is little or no international trade in the product. However, as the product gains popularity and demand increases, production is often outsourced to other countries with lower labor costs and resources. In the maturing product stage, the product becomes more widely adopted and demand increases, leading to increased production and international trade. During this stage, the product is exported to other countries where it has not yet been introduced, and production is often outsourced to countries with lower labor costs. In the standardized product stage, the product reaches maturity and becomes a commodity. At this stage, production is often moved to countries with the lowest costs, and trade patterns are determined by the relative cost advantages of different countries.

The product cycle theory suggests that the location of production and trade patterns are influenced by the product's life cycle stage (Vernon, 1992). Initially, production is concentrated in the country where the product was invented, but as the product becomes more widely adopted, production is shifted to other countries with lower costs. As the product reaches maturity, production is moved to countries with the lowest costs.

The product cycle theory has been criticized for oversimplifying the complexity of the factors that influence international trade, such as comparative advantage, economies of scale, and factor endowments. It also assumes that innovation always occurs in developed countries, which may not be the case in the globalized economy.

Global Strategic Rivalry Theory

The global strategic rivalry theory of international trade suggests that trade relations between countries are shaped by their strategic interests and geopolitical considerations. Countries engage in international trade not just to achieve economic gains but also to pursue strategic objectives such as geopolitical influence, military power, and national security. This theory assumes that international trade is not a zero-sum game and that countries may engage in trade practices that benefit them at the expense of others. It also suggests that countries may use trade policies and practices as a tool to advance their strategic objectives and gain a competitive advantage over other countries.

The global strategic rivalry theory is often associated with the idea of economic nationalism, which refers to policies aimed at protecting domestic industries and promoting national economic interests. Economic nationalism can take various forms, such as tariffs, subsidies, and quotas, and is often used by countries to shield their domestic industries from foreign competition and promote domestic production (Brander et. al., 1983). Moreover, the global strategic rivalry theory suggests that countries may use trade as a means of achieving geopolitical influence and promoting their national security interests. For example, countries may use trade agreements to forge closer political and economic ties with allies and to isolate their rivals. They may also use trade sanctions to punish countries that pose a threat to their national security or geopolitical interests.

However, the global strategic rivalry theory has been criticized for oversimplifying the complex factors that influence international trade. It assumes that countries always act in their strategic interests and overlooks the fact that economic interdependence and cooperation can also play a role in shaping trade relations between countries. While the global strategic rivalry theory may provide some insights into the strategic considerations that influence international trade, it is important to consider a range of factors when analyzing the dynamics of trade between countries. The role of economic interdependence, cooperation, and comparative advantage should not be overlooked when evaluating the motives and consequences of trade policies and practices.

Porter's national competitive advantage theory

Porter's national competitive advantage theory suggests that a country's ability to compete in the global marketplace is determined by four key factors: factor conditions, demand conditions, related

and supporting industries, and firm strategy, structure, and rivalry (Porter, 1985). These factors work together to create a competitive advantage for firms operating in a particular industry within a country.

Factor conditions refer to the resources and capabilities that are available in a country, including natural resources, human resources, capital, and technology. Porter argues that a country's competitive advantage in a particular industry is determined by the quality and availability of these factors. Demand conditions deal with the characteristics of a country's domestic market, including the size, growth, and sophistication of consumers. Porter suggests that a country's competitive advantage is influenced by the level of demand for products and services in its domestic market, as well as the characteristics of that demand. Related and supporting industries take into account the presence of complementary industries and suppliers that support the development and growth of a particular industry. Porter argues that a country's competitive advantage is enhanced by the presence of these industries and suppliers, as they provide inputs, knowledge, and support to firms in the industry (Porter, 1985).

Firm strategy, structure, and rivalry refer to the strategies and structures of firms operating in the industry, as well as the level of competition and rivalry within the industry. Porter suggests that a country's competitive advantage is enhanced by the presence of strong domestic firms that are innovative, flexible, and competitive. According to Porter, these factors work together to create a diamond-shaped framework of competitive advantage for a particular industry within a country. The strength and interdependence of these factors determine the degree of competitive advantage that a country can achieve in a particular industry. The theory has been widely applied to explain the success of industries and firms in different countries. However, the theory has also been criticized for oversimplifying the complexity of the factors that influence competitive advantage, and for assuming that the same factors apply to all industries and countries. The theory also overlooks the role of global factors, such as international trade and competition, in shaping the competitiveness of industries and countries.

3.4 Drivers of International Trade: Political and Legal Drivers Affecting International Trade

Due to the immense contributions that international trade brings to table of national economies and global transformation of living conditions; attempts have always been made by countries to formulate policies that inure to their benefit. Several factors influence the level of international trade in an economy. These driving factors of international trade can be broadly categorized into two main categories: demand-side and supply-side factors (Kline, 2010). Demand-side factors that drive demand for foreign goods and services include consumer preferences, income levels of the citizens, demographic factors, among others. The supply-side factors include technological advancement, resource availability, comparative advantage etcetera. Both the demand-side and supply-side factors are heavily dependent on the political regime of the country, economy dynamics, technological development, legal environment regarding trade, social factors among others (Morrow et.al., 1998). However, this chapter focuses on the political and legal factors that impact on international trade and these are discussed below.

3.4.1 Political Impact on International Trade

The political environment is one of the critical factors that affect international trade. It can serve as a catalyst and a disincentive in attracting foreign investment and or facilitating the domestic

industry to remain competitive in the global market. Political stability, political ideology, tax policy and its regime, trade restrictions (import and export regulations), international relations among others are the key political instrument that facilitate trade or otherwise in a country.

Government Policy and Political Ideology

Through a variety of policy initiatives, including the use of the state's purchasing power, promotion and branding, legislative protection, particularly for emerging businesses, and tax waiver mechanisms, government policies can significantly affect which companies in a given industry gain the most global market share. These policies have an effect on local industry development, which ultimately affects the unemployment rate, income levels, and economic growth of the nation as a whole (Weber et. al., 2009). Each nation's government wants to grow exports since doing so will improve output, wealth, and the possibility of job creation. Additionally, a nation's government favors its people and businesses purchasing goods and services domestically as opposed to importing them because this generates jobs for the nation. This policy agenda of any government is in tandem with the protectionist approach towards international trade where nations of the world are encouraged to look within and concentrate on trading domestically to protect the nation interest of the country (Morrow et.al., 1998).

Nationalism unfair competition, and "learning by doing" have all been put out as the pillars upon which governments embrace protectionism over time. Protectionism and liberalization (free trade policies) are essentially the two separate types of foreign trade policy, and ways that nations manage global trade. Through the use of tariff and non-tariff measures, protectionism enables the home market to be protected from foreign competition, whereas free trade policy only permits the most minimal state intervention in foreign trade, which is determined by supply and demand factors operating in a free market (Morrow et.al., 1998).

The trade policy of governments is the bye product of the political ideology of the state. Thus, left-centre political leanings that advance socialism and communism where the state is encouraged to take active part in the control and production of goods and services; and for the state to take full control of all the standards of production and other resources respectively impact greatly on how international trade is transacted in such ideologies (Weber et. al., 2009). For instance, the Soviet Union countries and their allies such as China are state-led economies with huge state interventions in their trade policies. Restrictive policies are then put in place to protect, safeguard and sustain new entrants and existing businesses. These deliberate policies due to their political ideology somehow close their domestic market from the rest of the globe (Johnson et. al., 2010). Access to the market especially for products that the state perceives to be of national security interest are given state cushion through huge purchases from the government, tax waivers, capital support and impot restrictions relating to products of similar nature.

On the other hand, right-centre governments that believe in capitalism where the forces of the market determine the allocation of goods and services and promotes property owning democracy in a free state by individuals, certainly opens up the market for global trade and competition. Policies of the government under this political ideology are geared towards promoting efficiency of the private sector through empowerment and competition (Shaffer, 2001).

The differences in the political ideology of governments, therefore, influence the spending pattern of the state, tax regime of the government, the interventions of the government in industrial policy and engagements with the international community through trade treaties and agreements. For

instance, the approach to trade policies and spending patterns by the Republican and Democratic governments in the United States of America differ. This is in line with their political ideology and principles. Again, political alliances resulting from ideological set up can also impact international trade. Countries that have close political relationships may have more favorable trade agreements or policies in place, while countries that are in conflict may face trade restrictions or other barriers.

Political Stability

Political stability can have a significant impact on international trade. Countries that have stable political systems are often more attractive to foreign investors and trading partners, as they offer a more predictable and reliable environment for business transactions (Shaffer, 2001). On the other hand, countries with unstable political systems can create an uncertain environment for trade, which discourages foreign investment and limit trade opportunities.

One way that political stability affects international trade is through the establishment of trade agreements. Countries that have stable political systems are more likely to establish and maintain trade agreements with other countries, as these agreements often require long-term commitments and a stable political environment. These agreements can create a more predictable and reliable framework for trade, which can increase investment and trade flows between countries.

Additionally, political stability can affect the availability and cost of resources and raw materials, which can in turn affect international trade. For example, political instability in a country that is a major producer of oil or other natural resources can create supply disruptions and price volatility, which can impact trade relationships and global markets (Shaffer, 2001). Finally, political stability can also impact the overall economic performance of a country. Countries with stable political systems are more likely to have stronger and more stable economies, which can create a more favorable environment for trade and investment. Conversely, political instability can lead to economic instability, which can hinder trade relationships and discourage investment.

Restrictions on Imports

Governments in some countries employ trade restrictions to restrict or deter imports from other nations. The most frequently used restriction mechanisms include tariffs, quotas, and other non-tariff measures.

- ***Tariffs***

A tariff, often known as a duty, is a levy imposed on goods as they leave a customs zone. Tariffs are categorized as either revenue-producing or protective. Protective tariffs aim to make imported goods more expensive while protecting domestic producers from overseas rivalry. Revenue tariffs are intended to raise money, not to limit imports. Of course, the two sets of goals are not incompatible. Protective tariffs generate income, while revenue tariffs offer protection to any domestic producer of the duty-bearing items, unless they are so high as to prevent imports (Schaffer et. al., 2014).

There are two different types of tariffs: ad valorem tariffs, which are determined as a proportion of the value of the imported good, and specific tariffs, which are assessed as a fixed fee on imported goods.

Consumers pay more for imported goods when the government of a nation applies an import tax (tariff). Depending on the justification, tariffs can take different forms. For instance, a tariff could be implemented to make imported goods more expensive than those made domestically. In order to encourage exporters to create local subsidiaries that will make the automobiles and support local jobs, some countries tax imported cars.

- ***Import Quotas and Voluntary Export Controls (VER)***

A quota is a cap on the amount of a particular commodity that can be imported into the country. Quotas may be freely chosen or mandated by law (Schaffer et. al., 2014). Import quotas are determined by the importing government, whereas VER are decided by the exporting country in collaboration with the importing country. The same aim is achieved by tariffs and quotas, which is to limit imports while protecting domestic firms from external competition. A tariff reduces both supply and demand for the imported article from outside by raising the price of a foreign good above the price at which the market is in equilibrium. A quota restricts supply to a set amount, driving up the price above the point at which the market is in equilibrium and reduces demand both in the short and long term. In fact, between 2008 and 2012, deteriorating economic conditions forced a number of countries to impose import quotas intended to protect their local industries and sustain their economies from distress (Kiminza, 2021).

- ***Non-tariff Restrictions on Imports***
  - ***Rules and Regulations***

Non-tariff barriers include rules and regulations governing the content or quality of products as well as other standards that restrict imports. One of the most common nontariff barriers is the use of product standards, which may act as trade barriers. For instance, when South Africa limits the importation of wine from Malaysia, it is either protecting the wellbeing of South African consumers or preserving the financial viability of South African wine producers.

Along with strict packing and shipping regulations, anti-dumping rules, airport and harbor permits, and onerous customs processes, obstacles might also have legal or anti-import objectives, or even both.

Again, in order to prevent the introduction and spread of plant pests and diseases in international trade, phytosanitary requirements may be introduced by a country or union. These measures aim to ensure that plant products, including fruits, vegetables, grains, and seeds, are free from harmful pests and diseases that could cause economic or environmental damage in the importing country. Phytosanitary requirements can also have significant impact on international trade. Phytosanitary measures can include a range of activities, such as inspections, testing, quarantine, and the use of pesticides or other treatments to control pests and diseases. The specific requirements vary depending on the importing country's regulations and the type of plant product being traded. For example, countries may require phytosanitary certificates to accompany shipments of plant products, while others may require fumigation or other treatments to be applied before export. If a country's phytosanitary requirements are too strict or burdensome, they can create barriers to trade and limit the export opportunities for agricultural producers. On the other hand, if phytosanitary requirements are too lax, they can increase the risk of introducing harmful pests and diseases into the importing country, which can lead to economic losses and environmental damage.

- ***Currency Controls***

Governments may impose restrictions on the exchangeability of a certain currency (often the local currency) in an effort to reduce imports. Additionally, some countries control the exchange rate aggressively in order to discourage imports.

- ***Local Content Requirements***

Several countries insist that a specific proportion of a good or an item be produced or "assembled" locally. This mandates that the domestic partners relied on for business transactions must be a local company.

- ***Free-trade-zones and Export Financing***

Most nations designate specific regions as free-trade zones. To encourage trade with foreign nations, these regions have lowered tariffs, taxes, customs, processes, or other obstacles. Governments in some instances offer financial and technical assistance to domestic business to encourage the export of locally produced goods and services to the external market.

- ***Subsidies for Domestic Industry***

For local industry players to produce items at a lesser cost than their rivals in other regions of the world, a government may offer subsidies to domestic companies. Ceteris paribus, the subsidies will result in a rise in export demand for such companies due to the lower production costs. Businesses in other countries receive government incentives if the manufactured commodities are exported. Exporting commodities manufactured with the help of government subsidies into the international market helps in generating revenue from abroad. These companies could be able to offer their products at lower prices than their rivals from abroad thereby increasing the demand of these products (Weber et. al., 2009).

It may be argued that every government provides subsidies for businesses in some fashion, yet some subsidies are more obvious than others. In order to give domestic businesses ready market leverage, subsidies may take the form of free loans or low interest rates, land, tax exemptions, and government purchases of their goods. Through the transfer of demand and supply, these subsidies give businesses a lower operating cost structure, which lowers the price of their products and enables them to produce on a bigger scale and supply the world market (Jackson,1997).

China is one example of a country that uses subsidy initiative to incentivize its industrial landscape by providing machinery and power at cheaper cost to its industry, especially the new entrants. This subsidy policy by China has made its goods cheaper, competitive, and available in large volumes. The policy has also served as an incentive to attract huge foreign direct investments of multinational corporations into the Chinese economy over the last three decades.

- ***Restrictions on Piracy***

Every country has its own policy about piracy. International trade flows may be impacted by a government's lack of anti-piracy measures. Inaction on the part of the government to stop piracy could lead to import restrictions and perhaps discourage multinational corporations from trading to that country (Schaffer et. al., 2014). For instance, China has a very high rate of piracy. The so-

called "pirates" produce CDs and DVDs that are almost identical to the genuine goods produced in the US and other countries. They provide CDs and DVDs for sale in stores and on the street for less money than what the original items would have cost. As a result, imports are copied for local consumers rather than being given the originals. According to estimates, Chinese piracy costs the American video, music, and software producers nearly two billion United States dollars per year in sales.

3.4.2 Legal Impact on International Trade

Legal systems have a significant impact on international trade. The legal framework governing trade affects how businesses operate, how contracts are enforced, and how disputes are resolved (Kiminza, 2021). Countries with effective and transparent legal systems tend to have more robust and stable economies, and they are generally more attractive to foreign investors (Jackson,1997).

The legal systems of different countries can vary widely in terms of their structure, procedures, and legal traditions. These differences can create uncertainty and increase the costs of doing business across borders. The legal environment impacts on international trade in different forms. These are discussed in turns below.

The Type of Legal System

The type of legal system in a particular country can have a significant impact on international trade. Businesses that are able to navigate these legal systems effectively may be able to take advantage of unique opportunities, while those that are unable to do so may face significant challenges. There are several types of legal systems that affect international trade. The most common ones are:

Common Law - Common law systems are based on judicial decisions and precedents set in previous court cases and rulings. This type of legal system is used in Commonwealth and other countries such as the United Kingdom, the United States, Canada, and Australia. Common law systems tend to place a greater emphasis on individual rights and the protection of property rights (Shaffer, 2001). This can be important for international trade as it provides greater certainty and predictability in commercial transactions.

In terms of international trade, differences in dividend policies can affect the types of companies that are able to enter foreign markets. Companies that are reliant on dividends as a source of funding may prefer to enter markets where dividend policies are more flexible (Shaffer, 2001). In common law countries, dividend policies tend to be more flexible and based on shareholder preferences. Companies have more discretion in setting dividend policies and can adjust them based on changing circumstances. This can be attractive to foreign investors, as it allows for greater responsiveness to market conditions and investor needs. As a result, common law countries may be more attractive for foreign investment, as well as for companies looking to raise capital through stock markets. Again, dividend policies can affect the level of investment and trade flows between countries. Common law countries with flexible dividend policies may be more attractive to foreign investors, leading to greater investment and trade flows from multinational companies across the investment community. Shareholders usually enjoy low taxes from their dividend earnings and are therefore, encouraged to invest more in these economies.

Civil Law - Civil law systems are based on written laws and codes, rather than on judicial decisions. This type of legal system is used in countries such as France, Germany, Japan, and China. Civil law systems tend to place a greater emphasis on the rights of society as a whole, rather than on individual rights. This can make it more difficult for foreign businesses to operate in these countries, as regulations may be more complex and difficult to navigate.

Civil law countries tend to have more rigid dividend policies that are based on legal requirements and corporate regulations. Companies are required to pay out a certain percentage of profits as dividends and may face legal consequences if they do not do so. This can create stability for investors and provide greater protection for minority shareholders (Shaffer, 2001). However, it can also limit the flexibility of companies and may make them less attractive to foreign investors who are looking for greater returns on their investment. Companies that are more focused on long-term growth may prefer markets where dividend policies are more rigid. Civil law countries with rigid dividend policies may be less attractive to foreign investors, leading to lower levels of investment and trade. Dividend payouts and earnings by shareholders are always heavily taxed and this can serve as a disincentive to attract foreign capital into the economy. However, for long term growth of the company, the high taxes may encourage shareholders to invest back their dividends into the company and later earn capital gains from the plough backs, a condition that can positively affect the capital structure of the company.

Islamic Law - Islamic law, also known as Sharia law, is based on the teachings of the Quran and the Sunnah. This type of legal system is used in Muslim countries, such as Saudi Arabia, Iran, and Pakistan. Islamic law places a greater emphasis on ethical and moral considerations, which can be important in business transactions. However, it can also create cultural and religious barriers for foreign businesses.

Customary Law - Customary law is based on the traditions and customs of a particular society or group. This type of legal system is often used in developing countries, particularly in rural areas. Customary law can be difficult for foreign businesses to navigate, as it may be less formal and less predictable than other legal systems. Foreign investors feel insecure as the cultural dynamics dictate the type of business that can operate in a given geographical location.

Intellectual Property Rights (IPR)

play a critical role in international trade as they are designed to protect the rights of creators and owners of intangible assets such as patents, trademarks, copyrights, and trade secrets. IPR creates incentives for innovation and creativity (Schaffer et. al., 2014), which in turn helps drive economic growth and development while weak protections can lead to theft and piracy. However, it is important to strike a balance between protecting the rights of creators and owners and ensuring that intellectual property rights do not create undue barriers to entry or hinder competition (Jackson,1997).

There are several ways in which intellectual property rights affect international trade. These include but no limited to the following.

Encouraging innovation and creativity - Intellectual property rights encourage innovation and creativity by providing legal protection to individuals and companies for their inventions, products,

and brands. This protection incentivizes companies to invest in research and development, which leads to the creation of new products and technologies.

Promoting international investment - Companies that hold valuable intellectual property rights are often more attractive to foreign investors, as they have a valuable asset that can be used to generate profits. This can lead to increased international investment and trade.

Preventing theft and piracy - Strong intellectual property rights can help prevent theft and piracy of copyrighted material, trademarks, and patented inventions. This protects the rights of the creators and owners of the intellectual property and provides a legal framework for addressing infringements.

Creating barriers to entry - Intellectual property rights can create barriers to entry for foreign companies, as they may be required to obtain licenses or pay royalties to use patented inventions or trademarks. This can make it more difficult for foreign companies to compete in certain markets.

Resolving disputes - Intellectual property rights provide a legal framework for resolving disputes between parties who hold conflicting claims to the same intellectual property. This helps ensure that disputes are resolved fairly and efficiently.

Labour Laws

Labour laws and regulations affect international trade in several ways, both positively and negatively.

On the positive side, strong labour laws create a stable and productive workforce, which can attract foreign investment and lead to increased trade. Labour laws that protect the rights of workers, ensure safe working conditions, and provide for fair compensation can help build a strong and reliable workforce, which can make a country more attractive to foreign companies (Jackson,1997).

In addition, labour laws help to ensure a level playing field for companies operating in different countries. For example, minimum wage laws and restrictions on working hours help prevent companies from exploiting workers in countries with weak labour protections in order to gain a competitive advantage over companies that operate in countries with stronger labour protections.

On the negative side, labour laws can also create barriers to trade. Companies may be required to comply with different labour laws in different countries. This increases costs and creates administrative burdens. For example, labour laws that require companies to provide specific benefits to workers, such as healthcare or retirement plans, can make it more difficult for companies to enter foreign markets. Similarly, some labour laws may be seen as protectionist measures designed to restrict imports from foreign countries. For example, countries require that a certain percentage of a product's value be produced domestically in order to be sold in that country. These types of laws can make it more difficult for foreign companies to compete in those markets (Qureshi, 2022).

3.5 The Role of Multilateral and Bilateral Institutions in International Trade

International trade is affected by various institutions that work together to facilitate and regulate the flow of goods, services, and capital between countries (Qureshi, 2022). These institutions can be categorized into two main types: multilateral and bilateral institutions.

3.5.1 Multilateral Institutions

World Trade Organization (WTO)

The WTO is an intergovernmental organization that oversees and regulates international trade. Its goal is to promote free and fair trade by reducing trade barriers and ensuring that trade rules are followed by all its member countries (Chaisse et. al., 2013).

International Monetary Fund (IMF)

The IMF promotes international monetary cooperation, facilitates international trade, and promotes economic growth and stability. It provides loans to member countries experiencing economic difficulties and provides technical assistance to help countries improve their economic policies.

World Bank

The World Bank is an international organization that provides loans and grants to developing countries for economic development projects. It promotes sustainable economic growth and poverty reduction by financing projects in areas such as infrastructure, health, education, and environmental sustainability (Chaisse et. al., 2013). The Bank has subsidiary bodies such as the International Financial Corporation and International Development Association among others that facilitate the implementation of its policies.

3.5.2 Bilateral Institutions*:*

Free Trade Agreements

Free Trade Agreements (FTAs) are agreements between two or more countries that aim to reduce trade barriers and increase trade between them. They typically involve the reduction or elimination of tariffs and other trade barriers, as well as the establishment of rules to govern trade between the countries (Qureshi, 2022). For instance, the African Continental Free Trade Area (AfCFTA), set up in 2018 is aimed at creating a single continental market for goods and services in Africa. The agreement was signed and ratified by 54 African countries with the main objective to promote intra-African trade and economic integration by removing trade barriers, promoting the free movement of people and goods, and creating a level playing field for African businesses. The agreement is expected to boost trade among African countries by up to 52% by 2022 and increase intra-African trade by $35 billion per year. The AfCFTA covers a market of 1.3 billion people with a combined Gross Domestic Product (GDP) of over $3.4 trillion, making it the largest free trade area in terms of participating countries since the formation of the World Trade Organization. The agreement is also expected to enhance Africa's competitiveness in global markets and promote the continent's economic diversification and industrialization.

Custom Unions

Customs unions are agreements between countries to eliminate trade barriers between them and establish a common external tariff on goods imported from outside the union. The European Union and the African Free Continental Trade Area are examples of customs unions.

Bilateral Investment Treaties (BITs)

BITs are agreements between two or more countries that aim to protect and promote foreign investment in each other's territories. They provide legal protections and guarantees to investors, such as protection against expropriation, and facilitate the movement of capital between the two countries (Chaisse et. al., 2013). The Economic Community of West African States (ECOWAS) has a treaty of free movement of goods and persons among member states with the goal of promoting inter-trade for economic development.

3.6 Conclusion

International trade has become a crucial driver of economic growth and development for countries across the globe. But it also operates within a complex political and legal environment which affects its free flow. Political and legal factors such as trade policies, regulations, and agreements have a significant impact on international trade.

The political environment of international trade is characterized by the interplay of various factors, including government policies, political stability, and relations between countries. Trade policies and regulations are influenced by political ideologies, national interests, and geopolitical considerations, and can be shaped by factors such as elections, political crises, and changes in leadership.

The legal environment of international trade is governed by a complex set of international and domestic laws and regulations. International trade laws and agreements, such as those established by the WTO and bilateral agreements, provide a framework for regulating trade between countries, protecting intellectual property rights, and resolving disputes.

References

Baskaran, T., Blöchl, F., Brück, T., & Theis, F. J. (2011). The Heckscher–Ohlin model and the network structure of international trade. *International Review of Economics & Finance*, *20*(2), 135-145.

Brander, J., & Krugman, P. (1983). A 'reciprocal dumping'model of international trade. *Journal of international economics*, *15*(3-4), 313-321.

Chaisse, J., & Matsushita, M. (2013). Maintaining the WTO's supremacy in the international trade order: a proposal to refine and revise the role of the trade policy review mechanism. *Journal of International Economic Law*, *16*(1), 9-36.

Darius Kiminza (2021): Political and Legal Factors Affecting the Impact of International Trade: htpp/www.scribd.com.

Heckscher–Ohlin model and the network structure of international trade. *International Review of Economics & Finance*, *20*(2), 135-145.

Horvat, B. (1999). The Evolution of International Trade Theory. In: The Theory of International Trade. Palgrave Macmillan, London

https://saylordotorg.github.io/text_international-business/s06-01-what-is-international-trade-th.html http://bgc.ac.in/pdf/study-material/International-Trade.pdf

Jackson, J. H. (1997). *The world trading system: law and policy of international economic relations*. MIT press.

Jackson, J. H. (1969). *World Trade and the Law of GATT* (Vol. 482). Indianapolis: Bobbs-Merrill.

James D. Morrow, Randolph M. Siverson and Tressa E. Tabares (1998): The Political Determinants of International Trade: The Major Powers, 1907-90. The American Political Science Review Vol. 92, No. 3

Johnson, D., & Turner, C. (2010). *International business: Themes and issues in the modern global economy*. Routledge.

Kline, J. (2010). *Ethics for International Business: Decision-making in a global political economy*. Routledge.

Porter, M. E. (1985). Technology and competitive advantage. *Journal of business strategy*, *5*(3), 60-78.

Qureshi, A. H. (2022). The World Trade Organization: implementing international trade norms. In *The World Trade Organization*. Manchester University Press.

Schaffer, R., Agusti, F., & Dhooge, L. J. (2014). *International business law and its environment*. Cengage Learning.

Shaffer, G. C. (2001). The world trade organization under challenge: Democracy and the law and politics of the WTO's treatment of trade and environment matters. *Harv. Envt'l L. Rev.*, *25*, 1.

Smith, A. (1937). *The Wealth of Nnations [1776]* (Vol. 11937). na.

Vernon, R. (1992). International investment and international trade in the product cycle. In *International economic policies and their theoretical foundations* (pp. 415-435). Academic Press.

Weber, C. L., & Peters, G. P. (2009). Climate change policy and international trade: Policy considerations in the US. *Energy Policy*, *37*(2), 432-440.

www.economicshelp.com