INTERNATIONAL TRADE

INTERNATIONAL BUSINESS/MARKETING

To accompany the Georgia International Business Curriculum.

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GEORGIA PERFORMANCE STANDARDS:

MKT-MP-5: Define international business/marketing, explain why nations engage in international trade and describe how international trade affects the economic interdependence of nations

Student Information Guide

DIRECTIONS:
Use the information in this student information sheet to complete the accompanying student study sheet. Complete all items on the study sheet and turn in to the teacher.

INTERNATIONAL TRADE

International trade is the exchange of capital, goods, and services across international borders or territories. It refers to exports of goods and services by a firm to a foreign-based buyer (importer)In most countries, it represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries.

Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. International trade is a major source of economic revenue for any nation that is considered a world power. Without international trade, nations would be limited to the goods and services produced within their own borders.

International trade is in principle not different from domestic trade as the motivation and the behavior of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture.

Another difference between domestic and international trade is that factors of production such as capital and labor are typically more mobile within a country than across countries. Thus international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labor or other factors of production. Then instead of importing a factor of production, a country can import goods that make intensive use of the factor of production. An example is the import of labor-intensive goods by the United States from China. Instead of importing Chinese labor the United States is importing goods from China that were produced with Chinese labor.

TOP TRADING NATIONS

Rank	Country	Exports + Imports	Info date
-	European Union	$3,642,000,000,000	2007 est.
1	United States	$2,439,700,000,000	2009 est.
2	Germany	$2,209,000,000,000	2009 est.
3	People's Republic of China	$2,115,500,000,000	2009 est.
4	Japan	$1,006,900,000,000	2009 est.
5	France	$989,000,000,000	2009 est.

REGULATION OF INTERNATIONAL TRADE

For centuries under the belief in mercantilism most nations had high tariffs and many restrictions on international trade. In the 19th century, especially in the United Kingdom, a belief in free trade became paramount. This belief became the dominant thinking among western nations since then. In the years since the Second World War, controversial multilateral treaties like the World Trade Organization have attempted to promote free trade while creating a globally regulated trade structure. These trade agreements have often resulted in discontent and protest with claims of unfair trade that is not beneficial to developing countries.

Free trade is usually most strongly supported by the most economically powerful nations, though they often engage in selective protectionism for those industries which are strategically important such as the protective tariffs applied to agriculture by the United States and Europe.

Traditionally agricultural interests are usually in favor of free trade while manufacturing sectors often support protectionism .This has changed somewhat in recent years, however. In fact, agricultural lobbies, particularly in the United States, Europe and Japan, are chiefly responsible for particular rules in the major international trade treaties which allow for more protectionist measures in agriculture than for most other goods and services.

During recessions there is often strong domestic pressure to increase tariffs to protect domestic industries. This occurred around the world during the Great Depression. Many economists have attempted to portray tariffs as the underlining reason behind the collapse in world trade that many believe seriously deepened the depression.

The regulation of international trade is done through the World Trade Organization at the global level, and through several other regional arrangements such the North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico, and the European Union between 27 independent states.

RISK IN INTERNATIONAL TRADE

Companies doing business across international borders face many of the same risks as would normally be evident in strictly domestic transactions. For example,

- Buyer insolvency (purchaser cannot pay);
- Non-acceptance (buyer rejects goods as different from the agreed upon specifications);
- Credit risk (allowing the buyer to take possession of goods prior to payment);
- Regulatory risk (e.g., a change in rules that prevents the transaction);
- Intervention (governmental action to prevent a transaction being completed);

- Political risk (change in leadership interfering with transactions or prices); and
- War and other uncontrollable events.
- unfavorable exchange rate movement

GALLERY

Dual-currency cash machines in Jersey: as international trade increases, the need to handle multiple currencies is becoming more powerful.

Triangle trade: Slaves being sold from Africa to North America, sugar from South America to New England, and Rum and other goods from North America back to Africa.

Globalization: Peugeot in Jakarta, Indonesia. International trade coincides with the expansion of multinational corporations.

A camel caravan, still used today for international trade, especially in Sahara.

Some people do not see international trade favorably: here a person protests against the WTO in Jakarta.

TRADE WAR

A **trade war** refers to two or more nations raising or creating tariffs or other trade barriers on each other in retaliation for other trade barriers.

Some economists would agree that some economic protections are more costly than others because they may be more likely to trigger a trade war. For example, if a country were to raise tariffs, then a second country in retaliation would similarly raise tariffs. But increasing, for example, subsidies, is difficult to retaliate against by a foreign country. Many poor countries, for example, do not have the ability to raise subsidies. In addition, poor countries are more vulnerable than rich countries in trade wars.

TRADE FACILITATION

Trade facilitation looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated cost burdens and maximize efficiency while safeguarding regulatory objectives.

EXAMPLES OF REGULATORY ACTIVITY IN INTERNATIONAL TRADE

Fiscal: Collection of customs duties, excise duties and other indirect taxes; payment mechanisms
Safety and security: Security and anti-smuggling controls; dangerous goods; vehicle checks; immigration and visa formalities

Environment and health: hygiene controls; health and safety measures
Consumer protection: Product testing; labeling; conformity checks with marketing standards (e.g. fruit and vegetables)
Trade policy: Administration of quota restrictions

SUBSIDIES

A **subsidy** is a form of financial assistance paid to a business or economic sector. Most subsidies are made by the government to producers or distributors in an industry to prevent the decline of that industry or an increase in the prices of its products or simply to encourage it to hire more labor. Examples are subsidies to encourage the sale of exports; subsidies on some foods to keep down the cost of living; and subsidies to encourage the expansion of farm production and achieve self-reliance in food production.

Subsidies can be regarded as a form of protectionism or trade barrier by making domestic goods and services artificially competitive against imports. Subsidies may distort markets, and can impose large economic costs. Financial assistance in the form of a subsidy may come from one's government, but the term *subsidy* may also refer to assistance granted by others.

IMPORTS

An import is any good or service brought in from one country to another country for sale.

Imports, along with exports, form the basis of international trade. Import of goods normally requires involvement of the customs authorities in both the country of import and the country of export and are often subject to import quotas, tariffs and trade agreements.

EXPORTS

An export is any good or commodity, transported from one country to another country, typically for use in trade.

BALANCE OF TRADE

The balance of trade is the difference between the monetary value of exports and imports of output in an economy over a certain period. It is the relationship between a nation's imports and exports. A favorable balance of trade is known as a trade surplus and consists of exporting more than is imported; an unfavorable balance of trade is known as a trade deficit.

The balance of trade encompasses the activity of exports and imports, like the work of this cargo ship going through the

TRADE BARRIER

A **trade barrier** is a general term that describes any government policy or regulation that restricts international trade. The barriers can take many forms, including the following terms that include many restrictions in international trade within multiple countries that import and export any items of trade:

- Tariffs
- Import licenses
- Export licenses
- Import quotas
- Subsidies
- Non-tariff barriers to trade
- Embargo

Most trade barriers work on the same principle: the imposition of some sort of cost on trade that raises the price of the traded products. If two or more nations repeatedly use trade barriers against each other, then a trade war results. Other trade barriers include differences in culture, customs, traditions, laws, language and currency.

Economists generally agree that trade barriers are detrimental and decrease overall economic efficiency. In theory, free trade involves the removal of all such barriers, except perhaps those considered necessary for health or national security. In practice, however, even those countries promoting free trade heavily subsidize certain industries, such as agriculture and steel.

EXAMPLES OF FREE TRADE AREAS

- North American Free Trade Agreement (NAFTA)
- South Asia Free Trade Agreement (SAFTA)
- European Free Trade Association
- European Union (EU)
- Union of South American Nations

TARIFFS

A **tariff** is a tax levied on imported or exported goods.

TRADE DIVERSIONS

Trade diversion is an economic term related to international economics in which trade is diverted from a more efficient exporter towards a less efficient one by the formation of a free trade agreement.

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This document, originally from Wikipedia, has been modified
and the information has been independently verified by Alyssa Elrod and Dr. Frank Flanders, Ed.D.