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Text: International Trade

§1:Trade

Most economists believe in free-that people and companies should be able to buy goods from all countries . without any barriers when they cross frontiers .

The comparative cost principle is that countries should produce whatever they can make the most cheaply. Countries will raise their living standards and income if they specialize in the production of the goods and services in which they have the highest relatives productivity : the amount of output produced per unit of an input (e.g. raw material , labour) .

Countries can have an absolute advantage – so that they are the cheapest in the world, or a comparative advantage – so that they are only more efficient than some other countries in producing certain goods or services . this can be because they have raw materials , a particular climate , qualified labour (skilled workers) . and economies of scale – reduced production costs because of large-scale production .

§2: Balance of payments

Imports are goods or services bought from a foreign country , exports are goods or services sold to a foreign country .

A country that exports more goods than it imports has a positive balance of trade or a trade surplus . the opposite is a negative balance of trade deficit . trade in goods is sometimes called visible trade . Services such as banking , insurance and tourism are sometimes called invisible imports and exports , adding invisibles to the balance of trade gives a country's balance of payment .

§3: Protectionism

Governments , unlike most economists , often want to protect various areas of the economy .These include agriculture – so that the country is certain to have food-and other strategic industries that would be necessary if there was a war and international

trade became impossible . governments also want to protect other industries that provide a lot of jobs .

Many governments impose tariffs or import taxes on goods from abroad , to make them more expensive and to encourage people to buy local products instead . however , there are an increasing number of free trade areas , without any import tariffs , in Europe , Asia , Africa and the Americas .

The world trade organization (WTO) tries to encourage free trade and reduce protectionism ; restricting imports in order to help local products , according to the WTO agreement , countries have to offer the same condition to all trading Partners. The only way a country is allowed to try to restrict imports is by imposing tariffs . countries should not use import quotas-limits to the number of products which can be imported – or other restrictive measures . various international agreements also forbid dumping – selling goods abroad at below cost price in order to destroy or weaken competitors or to earn foreign currency to pay for necessary imports .

Financing international Trade

A- Documentary credits :

A company which sells goods or services to other countries is known as an exporter. A company which buys products from other countries is called an importer. Payment for imported products is usually by documentary credit , also called a letter of credit. This is a written promise by a bank to pay a certain amount to the seller, within a fixed period, when the bank receives instructions from the buyer.

Documentary credits have a standard form. They generally contain :

- a short description of the goods.
- a list of shipping documents required to obtain payment.
- a final shipping date.
- a final date (or expiration date) for presenting the documents to the bank.

Documentary credits are usually irrevocable, meaning that they cannot be changed unless all the parties involved agree. Irrevocable credits guarantee that the bank which establishes the letter of credit will pay the seller if the documents are presented within the agreed time.

B-Bills of exchange :

Another method of payment is a bill of exchange or draft. This is a payment demand, written or drawn up by an exporter, instructing an importer to pay a specific sum of money at a future date. When the bill matures, the importer pays the money to its bank, which transfers the money to the exporter's bank. This bank then pays the money to the exporter after deducting its charges.

A bank may agree to endorse or accept a bill of exchange before it matures. To endorse a bill is to guarantee to pay it if the buyer of goods does not. If a bill is endorsed by a well-known bank, the exporter can sell it at a discount in the financial markets. The discount represents the interest the buyer of the bill could have earned between the date of purchase and the bills maturity date. When the bill matures, the buyer receives the full amount. This way the exporter gets most of the money immediately, and doesn't have to wait for the buyer to pay the bill.

C-Export documents :

Exporters have to prepare a number of documents to go with the shipment or transportation of goods.

* The commercial invoice contains details of the goods : quantity, weight, number of packages, price, terms of payment, and information about the transportation.

* The bill of lading is a document signed by the carrier or transporter (e.g. the ship's master) confirming that the goods have been received for shipment ; it contains a brief description of the goods and details of where they are going.

* The insurance certificate also describes the goods and contains details of how to claim if they are lost or damaged in transit – while being transported.

* The certificate of origin states where the goods come from.

* Quality and weight certificates , issued by private inspection and testing companies, may be necessary, confirming that these are the correct goods in the right quantity.

* An export licence giving the right to sell particular goods abroad is necessary in some cases.

Incoterms

1. Transport and additional costs

Companies exporting or importing goods use standard arrangements called **incoterms** – short for international commercial terms, established by the International Chamber of Commerce (ICC)- that state the responsibilities of the buyer and the seller. They determine whether the buyer or the seller will pay the **additional costs** – the cost on top of the cost of the goods. These include transportation or shipment, **documentation** – preparing all the necessary documents, customs clearance – completing import documents and paying any import duties or taxes, and transport insurance.

2. The E and F terms

There are 13 different Incoterms that can be divided into 4 different groups: **E Term (Departure),** the **F terms (Free, M ain Carriage Unpaid)**, the **C Terms (Main Carriage Paid)**, and the **D Terms (Delivered/Arrival)**. Each group of terms adds more responsibilities to the seller and gives fewer to the buyer.

The E term is **EXW** or **Ex Works**. This means that the buyer collects the goods at the seller`s own premises – place of business – and arranges insurance against loss or damage to the goods in transit.

In the second group, **the F terms**, the seller delivers the goods to a carrier appointed by the buyer and located in the seller`s country. The buyer arranges insurance.

- **FCA or Free Carrier** means that the goods are delivered to a named place where the carrier can load them onto a truck, train or aeroplane.
- **FAS – Free Alongside Ship** means that the seller delivered the goods to the quay next to the ship in the port.
- **FOB – Free On Board** means that the seller pays for loading the goods onto the ship.

3. The C and D terms

I n the third group, the **C terms**, the seller arranges and pays for the carriage or transportation of the goods, but not for the payment of customs duties and taxes.

Transportation of goods is also known as freight.

- **In CFR – Cost and Freight** (used for ocean freight) and **CPT – Carriage paid to** ..(used for air freight and land freight), the buyer is responsible for insurance.
- **In the terms CIF – Cost, Insurance and Freight** (used for ocean freight) and **CIP –Carriage and Insurance Paid To**…(used for air freight and land freight), the seller arranges and pays for insurance.

In the fourth group, the D Terms, the seller pays all the costs involved in transportation the goods to the country of destination, including insurance.

- **In DAF – Delivered At Frontier**, the importer is responsible for preparing the documentation and getting the goods through customs.

If the goods are delivered by ship to a port, the two parties can choose who pays for unloading the goods onto the quay. The two possibilities are:

- **DES – Delivered Ex Ship** – the buyer pays for unloading the goods from the ship
- **DEQ – Delivered Ex Quay** – the seller pays for unloading the goods from the ship to the quay, and for the payment of customs duties and taxes.

If the goods go through customs and are delivered to the buyer, there are two possibilities:

- **DDU – Delivered Duty Unpaid** – the buyer pays any import taxes.
- **DDP – Delivered Duty Paid** – the seller pays any import taxes.