

International Business Transactions

Foreign trade as a sector of the national economy

Faculty of Economics



Agenda

1. The purpose of the lecture
2. Main definitions
3. Foreign trade balance
4. Foreign trade functions
5. Cost and benefits of foreign trade – perspective of the national economy, entrepreneur's perspective, consumer perspective
6. International institutions and organizations in the world trade system

The purpose of the lecture

Answering the following questions:

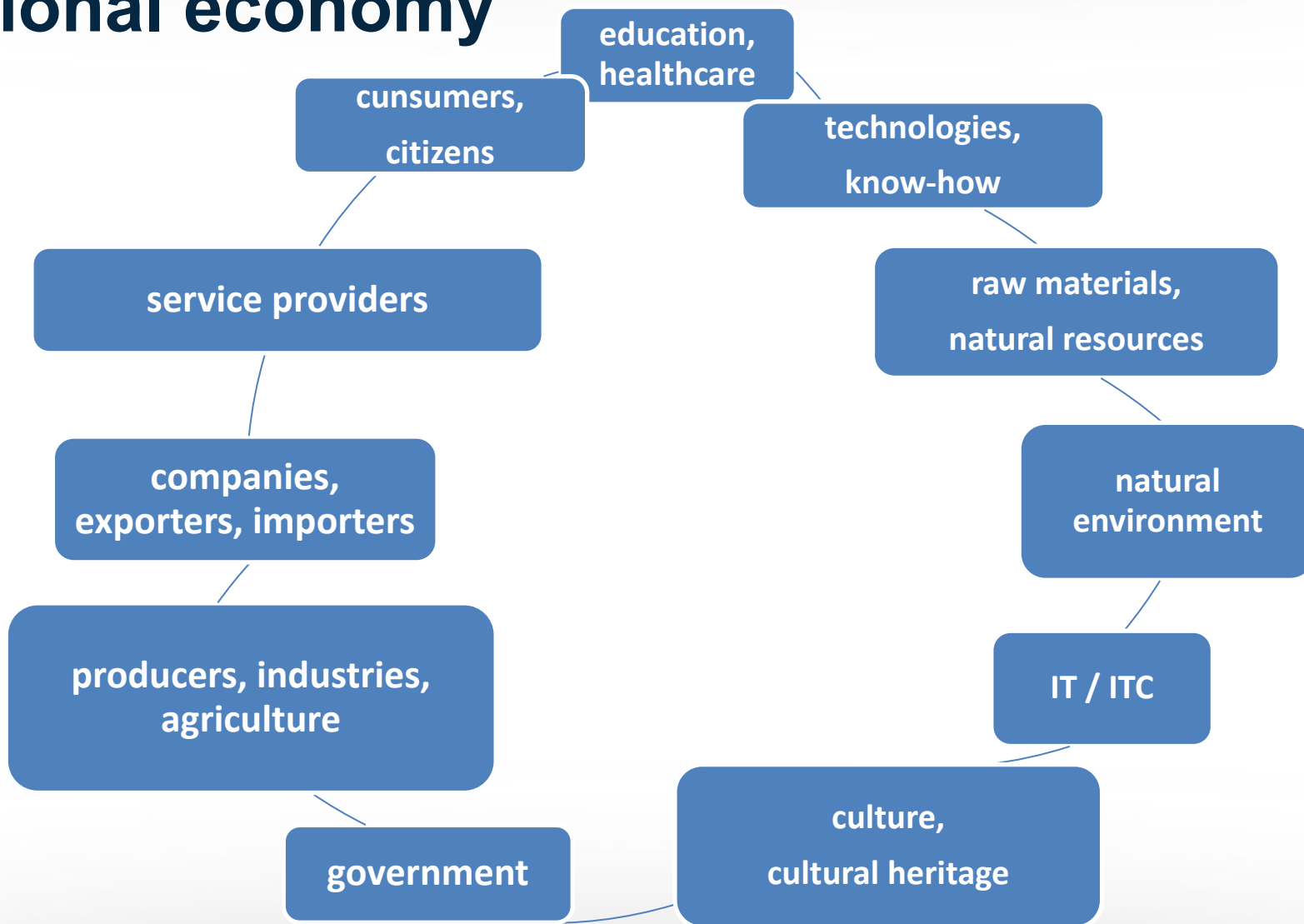
- How does foreign trade affect my country's economy?
- How does export / import affect entrepreneurs in my country?
- What kind of opportunities and threats does foreign trade create for entrepreneurs in my country?
- Can I imagine my life without foreign trade?
- How would I complete the statement:

There iswithout foreign trade.

Main definitions

- national economy
- world trade
- international trade
- foreign trade
- export, import, reeksport
- foreign trade balance

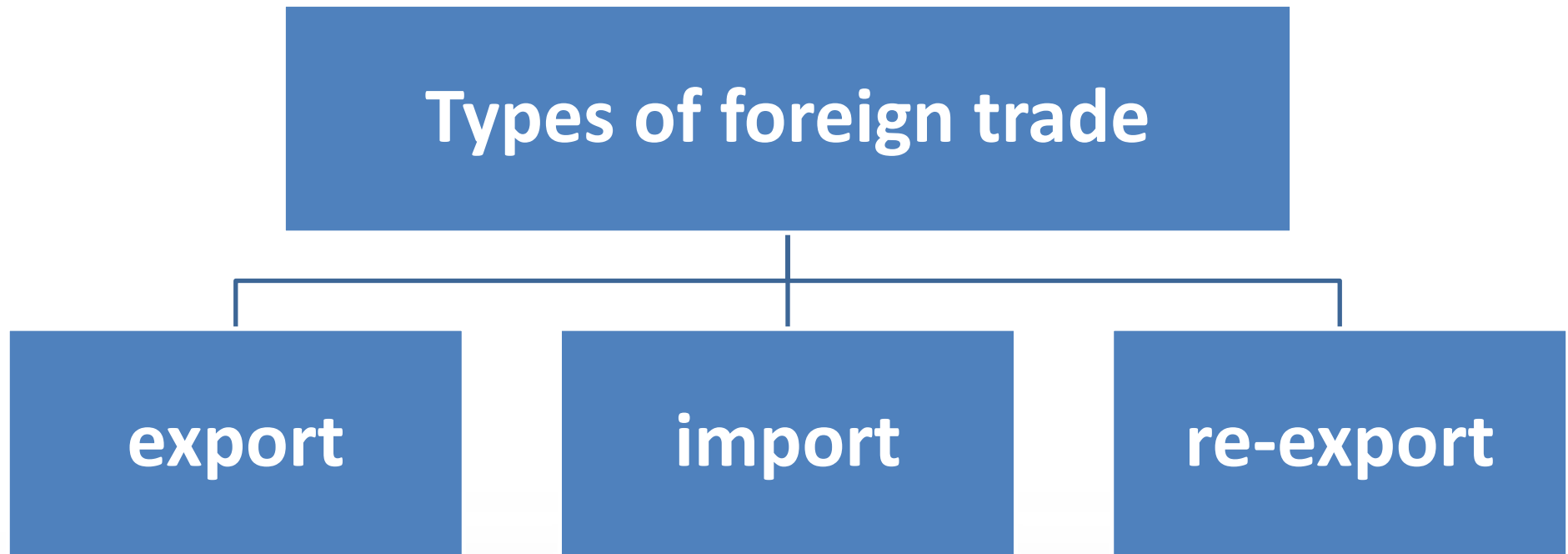
National economy



Main definitions

- **foreign trade** – the exchange of capital, goods, and services across international borders or territories
- **international trade** – the exchange of goods and services between at least two countries
- **global / world trade** (international trade) – import and export of goods and services across international boundaries.

Main definitions



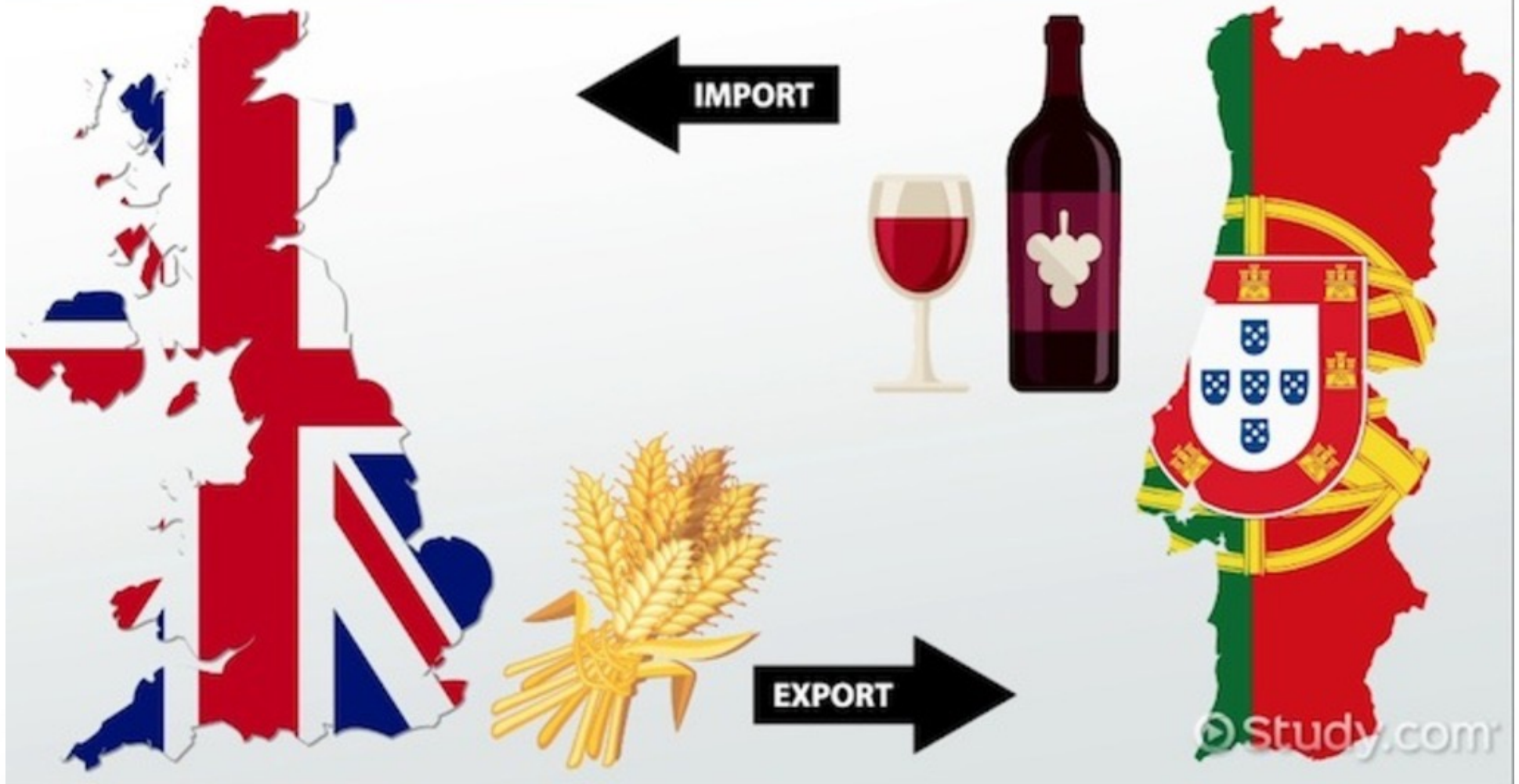
Import, export, re-export??

- **import** – purchasing of goods or services made in another country; ex.: importing edible oil from Chinese producers to sell it in Africa.
- **export** – selling domestic-made goods in another country; ex.: export of Readymade Garments (RMG) products to Western Countries.
- **re-export** – goods are imported from a foreign country and are re-exported to buyers in some other foreign countries; direct and indirect, ex.:

Export / Import??

- **traditional**
 - realized for years, through the history of a given country
- **complementary**
 - of goods that complement each other and are therefore most often consumed together, eg computer and monitor, car and gasoline
- **supplying**
 - export of raw materials, components for final goods production
- **necessary**
 - import of raw materials necessary for the functioning of the economy, e.g. crude oil and natural gas
- **innovative**
 - export of new products or export to new markets
- **supplementary**
 - import diversifies and increases the offer of goods on the internal market, stimulates competitiveness, on the other hand may be a threat to domestic small producers

ADVANTAGES



Foreign trade balance

positive

$$X > M$$

negative

$$X < M$$

equals zero

$$X = M$$

The role of foreign trade

1. Economic development



2. Foreign exchange earning



3. Market expansion

The role of foreign trade

4. Increase in investment



5. Foreign investment



6. Increase in national income

The role of foreign trade

7. Decrease in unemployment



8. Price stability



9. Specialization



10. Remove monopolies

The role of foreign trade

11. Removal of food shortage



12. Agricultural development



13. Import of consumer goods



14. Comptition with foreign producers

The role of foreign trade

15. World peace



16. Import of capital goods and technology



17. Import substitution



18. Better understanding

The role of foreign trade

19. Dissemination of knowledge



20. Interdependence



21. Factors productivity

advantages and benefits of International Trade?

- increased revenues. ...
- decreased competition. ...
- longer product lifespan. ...
- easier cash-flow management. ...
- better risk management. ...
- benefiting from currency exchange. ...
- access to export financing. ...
- disposal of surplus goods....

negative long-term consequences of foreign trade?

- economic dependence on net imported capital
- repayments of loans to foreign partners with interest
- distortion of the traditional structure of production, employment and investment
- opening the economy to negative world market trends:
 - economic recession,
 - inflation
 - foreign exchange fluctuations
 - speculative transaction

Foreign trade functions and effects

- transformative function
- resource-forming function
- multiplier function
- effectiveness function

- the effect of the scale of production
- the technical-technological effect
- the terms of trade effect
- the effect of import pressure

International trade – general conclusion

- opens new markets
- gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries, in their domestic economies, or which would be more expensive domestically
- may boost exports and economic growth, but the competition they bring is often damaging to small, domestic industries

Benefits and costs of international trade from perspective of

- consumers
- national government
- national bank
- investors
- cultural heritage
- international logistics
- suppliers
- natural environment