INTERNATIONAL TRADE

Introduction:

International trade is the trade between two or more countries. The essence of international trade is **specialization**. That is, a country should specialize in the production of those things for which it has the greatest advantage over others. Such specialization results into greater volume of output for the world as a whole than would be possible if each country tried to produce everything it needed.

Meaning of international trade;

1. International trade is also known as *foreign trade*. It is the trade between two or more countries.

2. Like home trade, international trade involves exchange of goods between individuals, private organizations, governments, between individuals and private organizations, between individuals and governments, or between private organizations and governments.

3. Supply or sale of goods to another country is called *export trade*, while purchase of goods from another country is referred to as *import trade.* Also, the goods that are exported are called export goods and those that are imported are called *import goods*.

WHY INTERNATIONAL TRADE?

1.Some countries produce more than they need while others can't produce enough to meet their requirements e.g. Uganda has more coffee and cotton but cannot produce enough wheat, pepper, salt etc .Canada has surplus wheat, India produces tea, Australia wool hence the need for export to avoid waste and be able to pay for the import.

2. Differences in nature i.e. the relief, soils, climate and geology forces countries to specialize in things they can produce within their boundaries and buy from other countries what they can't produce.

3. Although the climate and other conditions may be suitable, the cost of production may be too high.

4. Differences in culture and skills. Some countries have groups of people with special skills and inventive capacity developed overtime to produce certain commodities which others can't produce e.g. Japan is skilled in the production of motor vehicles', Switzerland is well-known for watch production hence the need for international trade.

5. The uneven distribution of factors of production makes countries not to be self sufficient hence international trade increases the choice of goods and raises the standard of living of people within a country.

Categories of foreign trade;

Bilateral- This is foreign trade between two countries.

Multi lateral –This is foreign trade between more than two countries.

Import trade –Is when goods and services are brought from another country.

Export trade –Is where goods and services are sold to another country.

Visible trade –This consists of imports and exports of tangible goods e.g. vehicles', coffee, plastics, fruits etc

Invisible trade –This refers to the purchase and sale of services or it is the exchange of services between countries e.g. telecommunications, Insurance, banking etc.

Differences between home trade and foreign trade

1. **Status,** Home trade is the internal trade of a country while foreign trade is its external trade.
2. **Agent's involved,** Home trade involves wholesalers and retailers while exporters and importers are involved in foreign trade.
3. **Duty,** Goods in home trade are subjected to excise duty while foreign trade has customs duty(imports)
4. **Warehousing,** Goods in home trade are kept in wholesale while foreign trade in bonded ware houses.
5. **Advertising,** Goods in home trade are advertised through the local media while through international in foreign trade.
6. **Transporting**, Roads and railways are the major ways of transport in home trade whereas sea and air apply to foreign trade.
7. **Market Research**, Market research in foreign markets is more expensive than in home trade.
8. **Market**, Home trade has small market compared to foreign trade.
9. **Money used,** Home trade uses local currency but foreign trade uses foreign currency.

Advantages of international trade;

1. It enables the country to get what it doesn't have.

2. It enables a country to dispose off its surplus goods which would otherwise be destroyed.

3. It earns the country foreign exchange which it can use to purchase capital goods. E.g. Uganda exports coffee to Kenya and earns foreign exchange that it can use to purchase spare parts from Japan.

4. It enables the citizens of a country to acquire a variety of goods and services.

5. It makes it possible for countries to specialize in the production of goods over which they have a greater advantage.

6. It encourages competition between the local producers and foreign producers. This leads to improvement in the quality of goods hence fair prices.

7. It promotes efficient utilization of domestic resources leading to greater development.

8. In times of calamities like famine or epidemic diseases, supplies can be obtained quickly from other countries through international trade.

9. The taxes that are levied on imported goods provide a substantial source of revenue to the government.

10. It makes countries interdependent. This means that they depend on each other hence promoting peace and unity.

11. International trade promotes cultural transmission e.g. people from one country can learn a language of another country making communication easier.

Disadvantages of international trade;

1. Some countries specialize in the production of primary products e.g. tea ,coffee whose prices tend to fluctuate more often and yet prices of primary products have always remained below those of manufactured goods hence some countries become richer while others become more poor.
2. If a country exports mainly raw materials like minerals, they may get exhausted in the process and the country will be left with no exports to finance its imports if it mainly deals in extractive activities.
3. As countries specialize, they tend to become sole suppliers of certain goods and when this happens, they monopolize the market and charge high prices that affect the buying or importing countries.
4. Some imported goods may have adverse effect on the citizens of the country eg expired goods, romantic literature. These often affect the youth to the extent of eroding their morals.
5. When imported commodities are of a higher quality compared the similar home produced ones, local industries may be pushed out of production.
6. It may lead to a balance of payments problem if there's excess importation.
7. A country may suffer if it specializes and relies heavily on one export commodity in case of unexpected demand and prices.
8. Should countries that have been trading with each other go to war; the one which might have been depending on the other for supply of commodities can be handicapped when the supply is cut off.

9. Unnecessary tolerance and political dominance in case a country depends on imports from other countries.
10. High taxation leads to loss of money.

Absolute and Comparative Advantage:

A country may have absolute advantage over the other when it can produce a particular commodity *better than the other*. However, a country may be less efficient than the other in the production of two commodities e.g. Coffee and Cotton. It is advisable that this country still specialize in one of the commodities in which it has less absolute disadvantage. In other words, the production of two commodities is compared and the better side is chosen and this is called *Comparative advantage.*

RESTRICTIONS IN INTERNATIONAL TRADE:

Individual countries take measures to control their imports inoder to offset to some extent the disadvantages of international trade and to protect the home industry from competition, such measures include;

A) **Tariffs**

This is the tax imposed on a commodity entering a country and as a result the price of that particular import will be increased. This makes the product expensive discouraging domestic consumers from buying more of such a commodity which reduces its in flow.

B) **Total ban**

In special circumstances, a country may impose a total ban on imports (stop completely) the importation of particular goods. Its main aim is to protect recently established home industries.

C) **Subsidies**

These affect both imports and consumption of commodities i.e. the government may subsidize import prices of raw materials or the final goods prices to enable the locally produced goods compete favorably with the foreign goods.

D) **Foreign exchange control**

This limits the quantity of foreign exchange that people can obtain from import goods and services. This will help check for the amount spent on imported goods especially those that are less important. This is done through the central bank.

E) **The Quota**

This is where a country under takes to import from another country only a limited or fixed amount of quantities of a product in question. This will reduce the amount of supply of the product in relation to the demand.

Reasons for restrictions in International trade;

- To protect the infant industries against being out competed by well established competitors those are already producing on large scale and at low costs.
- To improve terms of trade. If a country is facing a deficit in the balance of payment account, then it is *logical* to limit the high importation and import only essentials.
- To discourage dumping which is the selling of goods abroad at a lower price than in the home market.
- To improve the employment opportunities since the industries offer more jobs than agriculture can/might.
- It is the weapon to reduce imported inflation.
- It discourages consumption of harmful goods like drugs.
- To foster closer political and economic ties. A country may impose tariffs on imports inoder to give preferential rates to countries with which it shares some political interests e.g. East African Community.
- To raise revenue for the economy, this is mainly when taxes are a major weapon of potential payment.
- To correct a temporary balance of payment equilibrium. Taxes will have an effect on raising import prices hence reducing the demand and foreign exchange expenditure on manufactured goods.
- To acquire self sufficiency.

The barriers in international trade.

1. Lack of foreign exchange or currency makes international trade difficult i.e. the importing country has to use other currencies so as to buy the imports and vice versa. If the foreign currency is not available then international trade may not take place.
2. Language barrier; most times if not all people in different regions speak different languages trading becomes difficult if the two trading parties cannot understand each other's language.
3. Transport problem; this mainly applies to land locked countries or countries that are too far apart. Transportation becomes a problem because it is time consuming, expensive and very risky.
4. Documentation in international trade is very complicated because of too many formalities between the loading formalities.
5. Political differences or misunderstandings' can hinder any country from trading.
6. Technical differences in the different governments may have different technical specifications for goods sold in the country.
7. Differences in culture or religion between countries discourage trade

8. Custom regulations which must be obeyed.
9. Insurance costs involved are greater and make international trade expensive.
10. Trade restrictions
11. Limited or lack of market because of low quality and some countries are self sufficient, high competition.

Possible ways of encouraging international trade.

1. Countries should encourage regional groupings so that they can trade among each other.
2. Introduction of a uniform currency to reduce the problem of lack of foreign exchange and differing currencies.
3. Encouraging trade fair exhibits so that different countries can get to know the goods available and how they are used.
4. Governments should establish advisory boards to advice people.
5. Exchanging trade delegates between potential countries by setting up friendly relations.
6. Removal of trade barriers i.e. establishing trade liberalization policies.
7. Encouraging investors by the government.

Documents used in foreign trade.

The following documents are commonly used import and export trade.

i) **Bill of lading**
This is the most important of export documents. It contains the details of goods loaded into the ship, the terms and conditions under which they have been accepted by the shipper and the shipping charges. When it is signed by the captain of the ship, it becomes an evidence of the receipt of goods by the shipper. It has three functions.
a) It is a receipt for the goods by the shipper
b) It is a contract of carriage
c) It is a document of title of the goods i.e. a person named in this document can claim the goods.
A seller usually gets the Bill of lading from the shipping company and sends it to the buyer along with his invoice and insurance certificate to enable him to receive the goods when the ship docks at the port of destination.

ii) **Certificate of origin**
Some countries have a mutual agreement to charge no or less customs duties on goods imported from one to the other. Such agreements are aimed at promoting mutual trade. To enable the customs officers to calculate correctly the customs duty on the goods, a certificate of origin is prepared by the seller, who gets it signed by the local Chamber of commerce or other appropriate government authority and sends it to the buyer who presents I to the customs officers with the invoice.

iii) **Indent**

If a trader is importing through an agent in the exporting country, he will send the list of goods needed by him to his agent in a document called an *indent*. An Indent is a request to the agent to place an order on behalf of the importer with an appropriate exporter. Often an Indent may be conditional, in that the importer may ask his agent to inform him of the prices before actually placing the order. Note that an Indent is not an order, or an invoice.

iv) **Proforma Invoice**

I t resembles an ordinary invoice in all detail, except for one; it does not debit. This serves the same informative purpose as an invoice but does not hold the addressee liable to pay. A Proforma invoice may be sent when payment is expected before delivery to enable the buyer to obtain the necessary permission from a central bank, or to help the buyer sort out the customs formalities before the goods reach the port

v) **Freight Note**

This is drawn by the shipping company and indicates the charge for shipping the goods. It is forwarded to the exporter who pays the amount and gets it receipted. He then forwards it to the importer together with a bill of lading and invoice. However, if he has quoted a F.O.B. price, he forwards the un-receipted freight note to the importer who is required to pay the shipping company before he gets delivery of the goods.

vi) **Letter of Credit**

This is a means by which an importer obtains credit and the exporter gets an assurance of payment of amounts due to him. Briefly, it works as follows,

a) The importer asks the exporter to supply goods. The exporter agrees provided the importer opens a letter of credit in the exporters favour at a reputed bank in the exporter's country.
b) The importer approaches his bank for this purpose. If his credit is good, his bank will issue a letter of credit straight away; otherwise it will ask for a deposit of the full value of the imports. The importers bank is called the *issuing bank.* The issuing bank writes a letter of credit to its associate in the exporter's country (*the corresponding bank*).
c) The letter of credit signifies that the issuing bank will pay to the corresponding bank the amount stated therein provided the exporter meets certain conditions.As long as the exporter satisfies those conditions, he is assured of being paid the amount due him.

Aletter of credit may be *revocable* or *irrevocable*.A revocable letter of credit can be withdrawn or its terms altered by the imporeter without prior consent of the exporter.For this reason, such letters are not commonly used.An irrevocable letter of credit cannot be modified in away or withdrawn without the permission of the exporter.A further measure of sfety for the xporte would be to ask for a *confirmed irrevocable letter of credt*,which is guaranteed both by the issuing bank (in the importers country) and the corresponding bank(in the exporters country).

vii) **Letter of Hypothecation**

A letter from an exporter to his bank, authorizing the bank to sell goods being exported for the best price it can get if the bank cannot obtain payment on a B/E drawn on the importer, that it has already discounted for the exporter. The exporter undertakes to make up any deficit between the amount of the discounted bill and the proceeds of the sale, less expenses(any excess is paid by the exporter).

viii) **Consular Invoice**

This is an invoice that has been seen and signed by the consulate or embassy of the country to which the goods are being exported. Certain countries have a requirement that all invoices for goods shipped into their ports must bear the signature and stamp of their consular offices in the exporting country. This provide the consul an opportunity of ensuring that goods are reasonably priced and that no undesirable goods enter their country. There is often a small fee payable by the exporter to the consul for getting his invoices signed. Sometimes a certificate of inspection is issued instead of a consular invoice.

ix) **Bill of Exchange**

This is an un conditional order in writing, sent by one person to another, requiring the person to whom it is addressed to pay on demand or at a stated future date, a sum of money to a named person, his order or to the bearer.A bill of exchange is either payable on demand or at a stated future date.A bill payable on demand is called a ***sight bill*** while a bill payable on a stated future date is called a ***usance bill***.

x) **Certificate of Indemnity**

This is a document, which enables the importer to posses goods in case they arrive before he receives the bill of lading.

xi) **Shipping note**

This is issued by the shipping company to the seller giving details and conditions of carriage. This document also shows the dock authorities the goods involved on the ship and their destination.

xii) **A weight note**

This shows the quantity of goods delivered at the dock. It states the number of boxes in a particular consignment and the name of the person responsible for all costs. This is necessary because weight is one of the ways of determining dock charges.

xiii) **Export license**

A license is issued for the export of certain types of cargo. The purpose of licensing may be;-

a) To limit outflow of scarce resources especially food stuffs
b) To control the export of ammunitions and other military goods.
c) To preserve the national heritage incase of art work and designs.

xiv) **Airway bill**

This is a contract of carriage between the importer and the airline company for goods transported by air. An airway bill is similar to a bill of lading ***except*** that the airway bill is not ***negotiable.*** In other words, title to an airway bill cannot be transferred to another person.

xv) **Calling forward note**

This informs the seller (exporter) the date and time by which the goods should be at the dock ready for loading to a particular ship.

xvi) **Ship's manifest**

This is a customs declaration giving full details of the contents on the vessels. It shows the crew, passengers and cargo carried. As soon as the ship arrives at the port, a ship's manifest should be presented to the customs office before the ship is unloaded.

xvii) **Dock warrant**

When a businessman exports or imports goods through a particular port, he is issued a dock warrant by the dock officials. This document is simply evidence that certain goods of a businessman are being held here.

Agents of foreign trade;

Import Merchants

These buy goods from foreign countries and undertake their storage before distribution. They act under their own account and name. Import merchants first study the market position before they import certain goods. Sometimes, they know in advance where they are going to sell the imported goods.

Import Brokers

These are middlemen who connect the buyers in the purchase of goods or raw materials from abroad to the suppliers. These agents do not possess the goods physically, but just facilitate possible sale of goods. An import broker is given a commission called ***Brokerage***.

Del Credere Agents

These act on behalf of the supplier in selling the goods from overseas. They guarantee the sale of goods and they collect all debts from buyers. Should any buyer fail to pay his debt, a Del Credere agent undertakes to pay the money himself. Because of this guarantee and risk, he is given an extra payment by the manufacturer; this is called a ***Del Credere commission***.

Import Commission Agents

These import goods and materials on behalf of others and are given a ***commission*** for their services performed. They do not stand any risk, since they even return the goods not bought at the suppliers expenses.

TERMS OF SALE IN INTERNATIONAL TRADE/PRICE QUOTATIONS IN FOREIGN TRADE.

A lot of expenses are involved in any import transaction. Some of these may be borne by the seller and included in the price quoted to the buyer.

The following terms are used on quotations and invoices to show the position of the buyer:

1 .**LACO OR EX-WORKS**

This means that the price quoted on the invoice is the cost of goods at the exporter's premises. The buyer is expected to pay movement or transport costs up to his own place.

2. **F.O.R (Free on Rail)**

This means that the price quoted includes delivery charges up to the railway station in the exporter's country.

3. **D.D (Delivery Docks)**

This means that the price quoted includes the cost of carriage to the docks. Docks are places where ships are loaded and off loaded from.

4. **F.A.S (Free Along Side Ship)**

This means that the price quoted includes carriage charges up to the docks, dock handling charges and dock dues, but not loading expenses.

5. **F.O.B (Free On Board)**

This means that the price quoted included loading expenses onto the ship.

6. **C&F (Cost and Freight)**

This means that the price quoted includes the cost of goods and also the shipping charges.

7. **C.I.F (Cost, Insurance and Freight)**

This means that the price quoted includes the cost of goods, shipping charges and insurance premium to cover the good against marine risks.

8. **C.I.F.I (Cost, Insurance. Freight and Interest)**

This means that the price quoted included all expenses covered by C.I.F plus interest on the value of goods.

9. **C.I.F.I&C (Cost, Insurance, Freight, Interest and Commission)**

This means that the price quoted included all expenses covered by C.I.F.I quotation plus the commission of the agent who undertakes to import goods on behalf of the importee.

10. **FREE OVERBOARD/FREE OVER SIDE/EX-SHIP**

This is a price quotation, which covers all the items of expense up to the port of destination (but not yet off-loaded)

11. **LANDED**

This is a price quotation, which includes all expenses till the cargo is discharged at the port of destination.

12. **LOADED**

This quotation includes all costs to the port of destination, plus unloading charges.

13. **IN BOND**

This is a price quotation, which includes all items of the expenses, till cargo id delivered to a bonded warehouse.

14. **DUTY PAID**

This is a price quotation where, on top of all other expenses, duty paid includes payment of customs duty.

15. **FRANCO (Free of Expenses).**

This is a price quotation which includes all charges up to, and including delivery of goods to the premises of the buyer.

Note:

Read and make notes on comparative advantage.

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