Exporting, Importing, and Countertrade

Chapter 11 Book = Chapter 16 Connect

Repeat: Why Export?

- Exporting to increase market size and profits
  - lower trade barriers make it easier (WTO and other regional economic agreements, e.g. EU and NAFTA)
- Large firms: proactive
- Smaller firms: reactive
  - Smaller firms often intimidated by the complexities

Why Export?

- Repeat of Previous Chapters:

  Exporting firms need to
  - identify market opportunities
  - deal with foreign exchange risk
  - navigate import and export financing
  - understand the challenges of doing business in a foreign market

What Are the Pitfalls of Exporting?

- Common pitfalls include
  - poor market analysis
  - poor understanding of competitive conditions
  - a lack of customization for local markets
  - a poor distribution program
  - poorly executed promotional campaigns
  - problems securing financing
  - a general underestimation of the differences and expertise required for foreign market penetration
  - an underestimation of the amount of paperwork and formalities involved

How Can Firms Improve Export Performance?

- Many firms are unaware of export opportunities available
- Firms need to collect information first and educate themselves on the opportunities
- Firms can get direct assistance from some countries and/or use an export management companies
  - Western Europe and some Asian countries have extensive government support for exporters

Where Can U.S. Firms Get Export Information?

- The U.S. Department of Commerce
  - the most comprehensive source of export information for U.S. firms
- The International Trade Administration and the United States and Commercial Service Agency
  - “best prospects” lists for firms
- The Department of Commerce
  - organizes various trade events to help firms make foreign contacts and explore export opportunities
- The Small Business Administration
- Local and state governments

What Are Export Management Companies?

- Export management companies (EMCs)
  - export specialists that act as the export marketing department or international department for client firms
- Two types of assignments are common:

1. Firm will take over
   - not all EMCs are equal—some do a better job than others

What Are Export Management Companies?

2. EMCs with continuing responsibility for selling the firm's products
   - not developing own export capabilities

How Can Firms Reduce the Risks of Exporting?

- Export Strategy
  - General rule: “Take it Easy”

How Can Firms Reduce the Risks of Exporting?

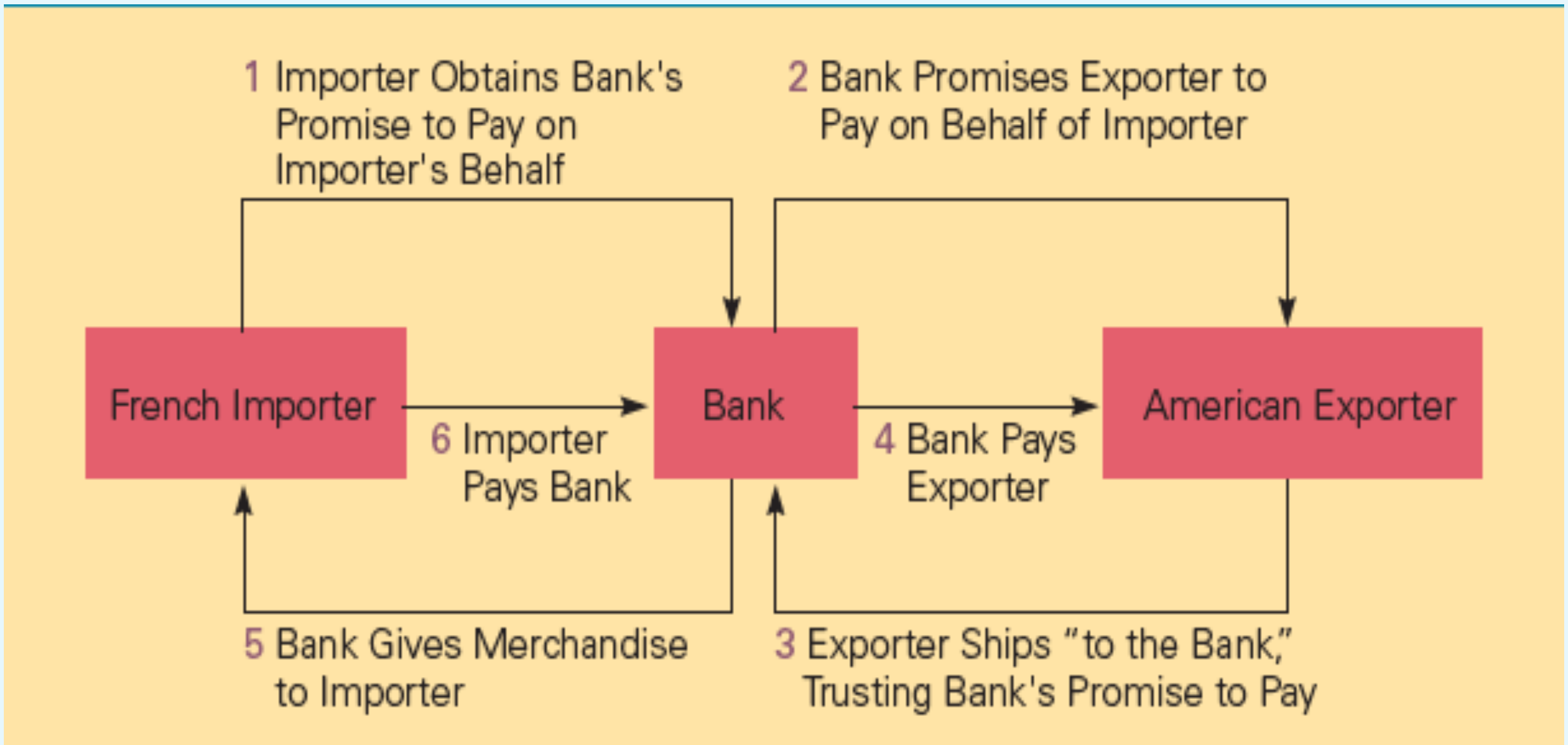
- hire an EMC or export consultant to identify opportunities and navigate paperwork and regulations
- focus on one, or a few markets at first
- Enter on a small scale in order to reduce the costs of any subsequent failures
- recognize the time and managerial commitment required
- develop a good relationship with local distributors and customers
- hire locals to help establish a presence in the market
- be proactive
- consider local production

How Can Firms Overcome the Lack of Trust in Export Financing?

- Because trade implies parties from different countries exchanging goods and payment the issue of trust is important
  - exporters prefer to receive payment prior to shipping goods, but importers prefer to receive goods prior to making payments
- To get around this difference of preference, many international transactions are facilitated by a third party - normally a reputable bank
  - adds an element of trust to the relationship

How Can Firms Overcome The Lack Of Trust in Export Financing?

The Use of a Third Party



What Is a Letter of Credit?

- A letter of credit is issued by a bank at the request of an importer
  - states the bank will pay a specified sum of money to a beneficiary, normally the exporter, on presentation of particular, specified documents
  - main advantage is that both parties are likely to trust a reputable bank even if they do not trust each other

What Is a Draft?

- A draft
  - an order written by an exporter instructing an importer, or an importer's agent, to pay a specified amount of money at a specified time
    - the instrument normally used in international commerce for payment
    - also called a bill of exchange

What Is a Draft?

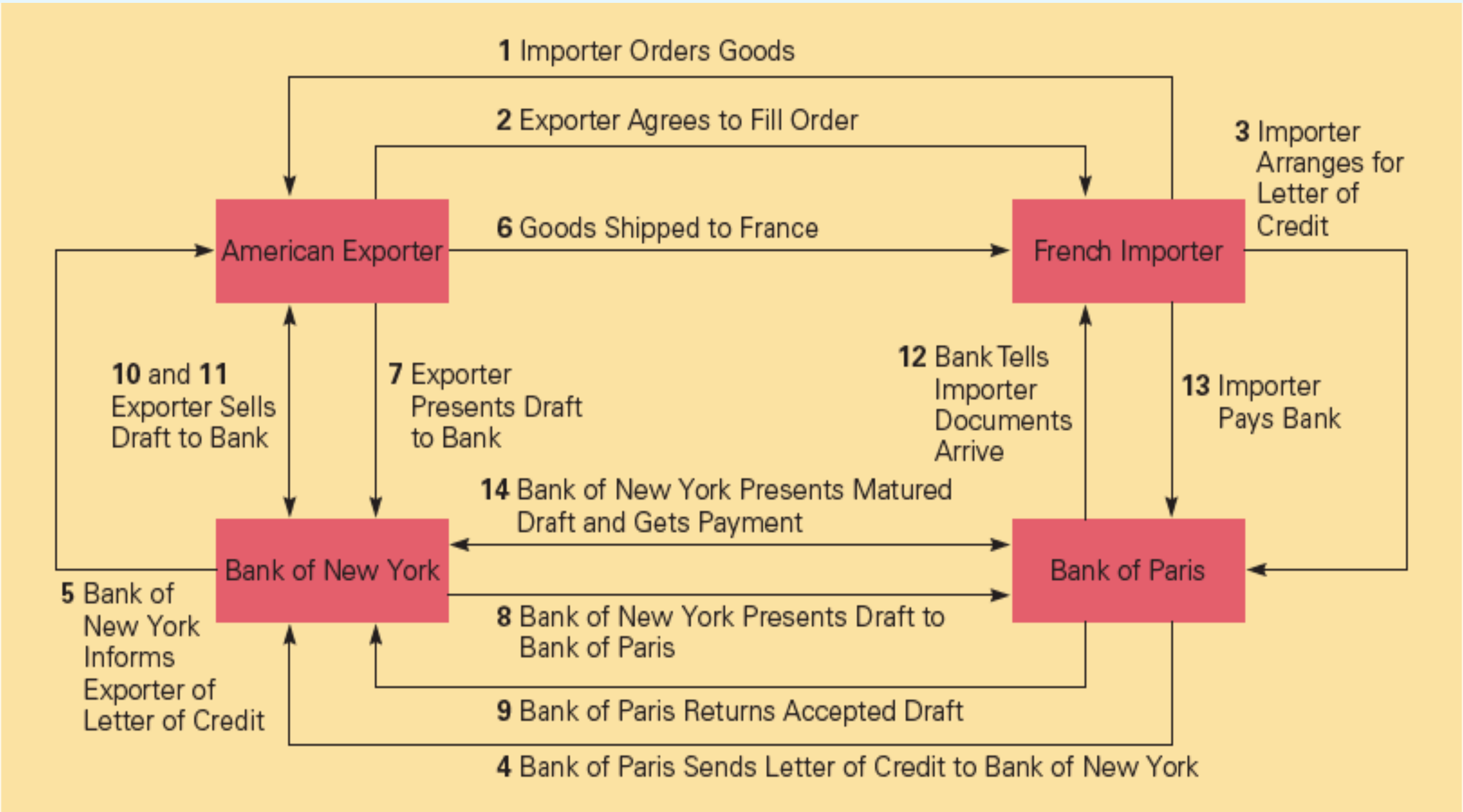
- A sight draft is payable on presentation to the drawee
- A time draft allows for a delay in payment
  - normally 30, 60, 90, or 120 days
  - once a time draft has been "accepted" it becomes a negotiable instrument that can be sold at a discount from its face value

What Is a Bill of Lading?

- The bill of lading is issued to the exporter by the common carrier transporting the merchandise
- It serves three purposes
  1. It is a receipt - merchandise described on document has been received by carrier
  2. It is a contract - carrier is obligated to provide transportation service in return for a certain charge
  3. It is a document of title - can be used to obtain payment or a written promise before the merchandise is released to the importer

How Does an International Trade Transaction Work?

A Typical International Trade Transaction



Where Can U.S. Firms Get Export Assistance?

1. Financing aid is available from the Export-Import Bank (Ex-Im Bank)
   - an independent agency of the U.S. government
     - provides financing aid to facilitate exports, imports, and the exchange of commodities between the U.S. and other countries
     - achieves its goals though loan and loan guarantee programs

Where Can U.S. Firms Get Export Assistance?

2. Export credit insurance is available from the Foreign Credit Insurance Association (FCIA)
   - provides coverage against commercial risks and political risks
     - protects exporters against the risk that the importer will default on payment

What Is Countertrade?

- Countertrade - a range of barter-like agreements that facilitate the trade of goods and services for other goods and services when they cannot be traded for money
  - emerged as a means purchasing imports during the1960s when the USSR and the Communist states of Eastern Europe had nonconvertible currencies
  - grew in popularity in the 1980s among many developing nations that lacked the foreign exchange reserves required to purchase necessary imports
  - notable increase after the 1997 Asian financial crisis