UNIT 7

24 International trading environment

Learning objectives

In this chapter you will learn about:

1. The benefits of international trade
2. The measurement of international trade

Measuring international trade

'International trade' refers to the buying and selling of goods and services between countries. Ireland is a small open trading economy, meaning that we import and export large quantities of goods and services with few restrictions.

A country's trade is usually measured by comparing the flow of money earned from exports with the flow of money that leaves the country to pay for imports. The difference indicates whether there is an overall net inflow (surplus) of money or a net outflow (deficit) resulting from international trade. A country would seek to have a surplus of exports over imports.

Three measures of international trade

- **Balance of trade** = visible exports – visible imports
- **Balance of invisible trade** = invisible exports – invisible imports
- **Balance of payments** = total exports – total imports

Top Tip!

Ensure you can do calculations for international trade from a given set of figures.

Example

Trading data for 2007 (in millions of euro)

Visible exports	3,420	
Invisible exports	1,840	
Visible imports	2,880	
Invisible imports	2,010	
Balance of trade calculation		
Visible exports	3,420	
Visible imports	-2,880	
Surplus	**540**	
Balance of invisible trade calculation		
Invisible exports	1,840	
Invisible imports	-2,010	
Deficit	-170	
Balance of payments calculation		
Visible exports	3,420	
Invisible exports	+1,840	**5,260**
Visible imports	2,880	
Invisible imports	+2,010	**-4,890**
Surplus		370

The benefits of international trade

Benefits to business

- Large markets
- Economies of scale
- Low prices for raw materials and capital goods
- Quality goods available from different suppliers

Benefits to consumers

- Low prices
- More choice
- Better-quality products

Benefits to the economy

- Can sell surplus production
- Specialisation (home firms can specialise in producing what they are good at and export to other countries)
- Employment
- Higher standards of living

Top Tip!

Ensure you can evaluate the benefits of international trade.

Protectionism

Sometimes governments try to prevent or limit imports coming into the country in order to allow home industries to stay in business. This is called **protectionism**. The methods used to stop foreign products from competing are called **barriers to trade**, such as:

Import taxes

These are monies charged by the government on imports to make the goods dearer and to encourage people to buy home-produced goods. These taxes also bring in revenues for the government.

Subsidies

Subsidies are paid by the government to home producers to allow them to charge lower prices for their products. This will increase exports and reduce the volume of imports from abroad.

Embargoes

The government sometimes bans goods being imported into the country. An embargo may be on one particular product, or on goods from a particular country. Often embargoes are due to concerns about health and safety or for political reasons.

Quotas

Sometimes a country may try to limit the quantity of a particular good that can come into the country. Quotas are often enforced by issuing licences to importers or refusing as the case may be.

Non-tariff barriers

These barriers to importing goods into the country make it difficult for importers. They may have to fill out a lot of paperwork and wait a long time before getting permission to import.

Trends in international trade

- It has become easier over the years to transport goods around the world, thus allowing the growth of trade.
- The new communications systems make it easier and cheaper to do business across the globe.
- The increase in the number of TNCs has added to the growth in international trade.
- Multinational companies are treating the world as one market and selling their products in the same way across many countries.
- New countries are opening up to the idea of international trade, e.g. Eastern European countries, China, India and Pacific Rim countries.
- Over 100 countries have made trade between them much easier through agreements organised by the World Trade Organization.
- Groups of countries in different parts of the world have come together and made agreements to allow free trade between them, e.g. the European Union and the North American Free Trade Area (NAFTA).
- Deregulation means that governments must eliminate artificial barriers to trade, open up state monopolies to competition from abroad and allow foreign companies to compete for state purchasing contracts.

Top Tip!

You should be able to discuss the trends in international trade and how they impact on Ireland or Irish firms.

The World Trade Organization

- Set up to **promote free trade** worldwide by removing barriers to trade
- Works to **eliminate special trading advantages** arranged between countries
- Helps to **resolve trading disputes** between countries
- Tries to protect the **intellectual property** rights of companies that have registered patents for designs and inventions
- Tries to get countries and trading blocs to **remove subsidies to agricultural products**
- Tries to promote **free trade in services**

Opportunities of international trade for Ireland

- Ireland has an advantage, since **English** is the most common language used in international trade.
- The **euro currency** which makes foreign trade easier for Irish firms.
- Ireland's **'green' image** as an unspoiled and unpolluted country makes it easier to export our food and tourism products.
- Due to Ireland's **EU membership**, Irish firms have free access to trade with the other member countries of the EU.
- **World-class manufacturing:** Ireland has a reputation for exporting products of a very high standard.
- There are a number of **semi-state bodies** in Ireland that are effective in assisting Irish firms to export their products, e.g. Bord Bia (food) and Fáilte Ireland (tourism).
- Many **TNCs** are attracted to set up in Ireland and they export the majority of their output, thus enhancing Ireland's balance of payments.
- Irish firms can make trading connections with the **Irish diaspora** that is present in many countries around the world.

Challenges of international trade for Ireland

- It is difficult to **compete** with manufacturers from many other countries on price and quality.
- It is difficult to compete for exports to Europe because of the **high cost of transport** compared to other EU countries.
- It is relatively **expensive to produce goods** in Ireland, which makes it difficult to compete on price with goods from other countries, particularly ones where wage levels are low.
- It can be very difficult to communicate effectively because of **cultural and language differences** in countries we are trading with.
- Trading with countries with different **currencies** can be difficult as currency values can fluctuate, causing the cost of goods to change even though the actual price remains the same.
- It can be difficult to get **payment** for goods from foreign countries, particularly if there is a dispute of any kind. Taking legal action can be difficult and expensive between countries.

Top Tip!

Ensure that you can explain the opportunities and challenges of international trade.

Exam question

1 Describe, using examples, barriers to free trade between countries.

(2012, 20 marks)

Sample answer

Quota

A quota is a physical restriction/limit on the number of units of a good that may be imported/exported. Quotas discourage imports.

Example: The EU has placed a quota on the amount of clothes from China that can be imported into the EU.

Tariff

This is a tax on the value/price of goods imported. As a result imports will be more expensive and they will be less competitive on the domestic market. **Example:** A tax, duty or tariff on New Zealand beef.

Embargo

This is a total ban on the import of goods from one particular country. It is often done for political reasons. **Example:** EU countries placed a blanket embargo on the import of UK beef because of the high levels of BSE in the UK.

Subsidies

These are grants and payments made by national governments to domestic firms to help them with their day-to-day operating costs, allowing them to become more competitive/to give them a price advantage over imports. **Example:** The EU has subsidised agriculture and aircraft manufacturing in the past, thereby protecting them from rival non-EU competition.

Marking scheme

- Three barriers: 2 x 7 marks *(7 = 2 + 3 + 2)* and 1 x 6 marks *(6 = 2 + 3 + 1)*
  - name barrier (2) + explanation (3) + example (1 or 2)

Questions

Higher Level long questions

1 Draw up (a) the balance of trade (b) the balance of invisible trade and (c) the balance of payments from the following figures.

Imports: visible €520 million; invisible €62 million

Exports: visible €510 million; invisible €97 million.

2 Discuss now the changing nature of the international economy affects Irish exporters. *(2011, 20 marks)*

3

(i) Explain what is meant by the term 'open economy'.

(ii) Illustrate your understanding of the terms, 'balance of trade' and 'balance of payments'. *(2010, 20 marks)*

Key-points!

- How to measure international trade
- The role of the World Trade Organization
- Opportunities and challenges of international trade for Ireland

Key-definitions!

balance of invisible trade: A calculation of international trade, which compares income from exports of services with the costs of imports of services.

balance of payments: A calculation of international trade, which compares the income from exports of goods and services with the amount paid for imports of goods and services.

embargo: A government ban on the importation of particular goods or all goods from a particular country.

exchange rates: The values at which one currency can be exchanged for another in international trading, e.g. €1.00 = $1.18.

free trade: Refers to countries or groups of countries who buy and sell goods and services with other countries without imposing barriers to trade.

international trade: The buying and selling of goods and services between different countries around the world.

protectionism: In international trade, this refers to countries blocking importsby using barriers to trade such as import taxes or subsidies to home producers.

subsidies: Payments given by the government to home producers of products so that they can compete on price with imported goods in their home market or in markets abroad when they export their products.