UNIT 7

The Business Guys

INTERNATIONAL TRADE

## Chapter 24

# International Trade

(Exports and Imports - Visible and Invisible; Balance of Trade/Balance of Payments; Why Countries Trade; Barriers to Trade; Opportunities & Challenges in changing economy; ICT in trade; Government help for Irish Exporters)

Gavin Duffy
www.thebusinessguys.ie

2021 Q3 (A)

Read the information supplied and answer the questions which follow.
*China and 14 Asia-Pacific countries agreed a historic free trade deal in November 2020. Trade barriers continue to impact trade between some countries.*
Outline, using examples, the barriers to free trade used by some countries. (20)
MS: 2 x 7m (2+3+2) 1 x 6m (2+2+2)

Quota
is a physical limit on the number of units of a good that may be imported. Quotas discourage imports, encouraging sales of domestically produced goods.
E.g. The EU has placed a quota on the amount of clothes from China that can be imported into the EU.

Tariff
A tax/charge on the price of goods imported. As a result, imports will be more expensive and they will be less competitive on the domestic market.
E.g. 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.
E.g. The American government 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 lower their prices.
E.g. The EU has subsidised agriculture and aircraft manufacturing in the past protecting them from rival non-EU competition.

Administrative regulations
Such as customs delays, excessive paperwork designed to exclude imports.
E.g. forms that need to filled at customs delaying their travel in to the country.

2018 Q3 (C)

Explain the following terms in relation to international trade:
**Trading bloc** **Tariffs** **Embargoes** **Subsidies**
**MS: 2@6 2@4**

**Trading bloc**

A group of participating countries which allow free trade between them. There is no tariffs or trade barriers in place between them.

**Tariffs**

A tariff is a tax on an import. The effect of the tax is to raise the price of the import and discourage consumption. Example: President Trump is on the verge of securing his first major trade deal, leveraging the threat of tariffs to gain concessions from South Korea on exports of steel.

**Embargos**

Embargo is a total ban on the import of certain goods from certain countries. They are normally motivated by political, economic, moral or environmental reasons. They may be used as a form of protest against another country's practices. Example: UK beef was embargoed across Europe during the 'mad cow' disease epidemic in the 1990's.

**Subsidies**

A subsidy is financial support given by the government to a domestic industry to reduce the cost of production so it can sell its products at lower prices than competition from imports/given directly to firms to encourage production.

**2016 Q3 (C)**

| |
|---|
| Explain the following international trade terms:<br>(i) Open economy (ii) Trading bloc<br>(iii) Protectionism (iv) Deregulation |

(i) An Open Economy is one in which **people including businesses** can **trade** goods and services (i.e. **importing and exporting**) and **borrow** and **lend** in **world financial markets.**

(ii) A group of countries who agree to form a **free trade area** or common market. They **remove trade barriers (tariffs/quotas**…) for goods and services **traded among themselves/member states.**
E.g. **The European Union (EU); The North American Free Trade Agreement (NAFTA).**

(iii) It is **Government actions** and **policies** that **restrict** or restrain **international trade**. It is usually done for **economic reasons** with the intention of **protecting native businesses** and **jobs** from **foreign competition** or for political reasons or for health reasons.
E.g. **tariffs, quotas, administrative barriers (red tape/bureaucracy), embargoes**

(iv) Deregulation is the **removal of trade barriers and any protectionism** measures imposed by governments, **to allow free trade and entry in and out of markets for competitors.**

**2014 Q3 – Short**

| |
|---|
| "The goal of the *World Trade Organisation (WTO)* is to reduce protectionism and allow free trade." Illustrate your understanding of the underlined term. |

**2012 Q9 – Short**

| |
|---|
| Illustrate your understanding of the term *Trading Bloc.* |

**2012 Q3 (B)**

*"Protectionism is a Government policy of placing barriers on free trade."*
Describe, using examples, barriers to free trade between countries. (20 marks)
**MS: 2 @ 7marks (2+3+2) 1@ 6 marks (2+3+1)**

**Quota**

This is a **physical limit** on the number of units of a good that may be **imported or exported** to/from a country**.** Quotas can act to **discourage imports** and **encourage sales of domestically** produced goods.

E.g. The EU has placed a quota on the amount of clothes from China that can be imported into the EU, which will help sales of European produced clothes.

**Tariff**

This is a **tax** on the **price of goods imported**. As a result **imports will be more expensive** and they will be less competitive on the domestic market.

E.g. A tax placed on New Zealand beef will make is less competitive in the domestic market.

**Embargo**

This is a **total ban on the import of goods from one particular country**. It is often done for **political reasons**.

E.g. 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 by **lowering their average cost per unit**.

E.g. The EU has subsidised agriculture and aircraft manufacturing in the past protecting them from rival non EU competition.

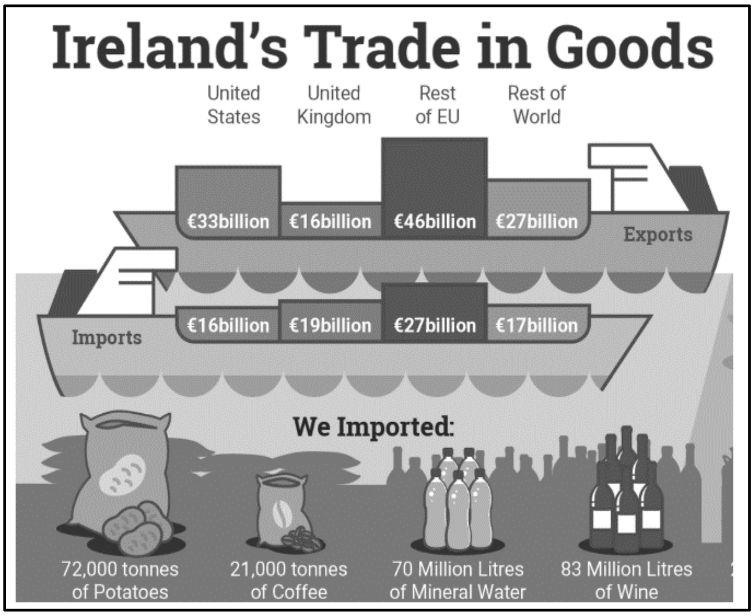
***Other: Administrative regulations e.g. customs delays, excessive paperwork, red tape used to slow down access to the market.***

**2010 Q8 – Short**

Distinguish between *Quota* & *Tariff* as **barriers** to free trade between countries.

**2019 – Short Q**

Read the following infographic and answer the questions which follow.




(i) Rest of EU

(ii) Total Visible Exports – Total Visible Imports

€122bn - €79bn = €43bn surplus

(iii) Coffee or wine

(iv) Climate – we can't grow coffee due to unsuitable weather

**2021 Short – Q6**

(i) Explain the term **invisible imports**.

(ii) Outline the impact of a **decrease** in invisible imports on the Balance of Payments.

**MS: (i) 5m (3+2) (ii) 5m (3+2)**

**(i)** Invisible imports refer to **services** that are purchased by Irish consumers or businesses from **foreign** based businesses. Money flows out of Ireland when services are imported.

**(ii)** A decrease in invisible imports leads to **less money leaving the economy.** This can have a positive impact on the Balance of payments. i.e. a decrease in invisible imports might help to **achieve a balance of payments surplus** *or* could help **reduce a balance of payments deficit**.

2013 Q3 (A)

(i) Explain the terms 'Balance of Trade' and 'Balance of Payments'.

(ii) Calculate the Balance of Payments figures for both years from the above data.

(iii) Illustrate what is meant by the term 'invisible exports' with reference to the Irish economy. (20 marks)

| | Balance of Trade | Balance of Invisible Trade |
|---|---|---|
| | €m | €m |
| Quarter 2, 2012 | 10,004 | (6,769) deficit |
| Quarter 2, 2011 | 9,660 | (9,192) deficit |

**MS: 2 explanations @ 5 marks (3+2); 6 figures @ 1 mark each; 4 marks (2 + 2)**

The Balance of Trade is the difference between visible exports and visible imports. i.e. **Visible Exports – Visible Imports**

**If Visible Exports > Visible Imports = Surplus**

**If Visible Exports < Visible Imports = Deficit**

Visible exports are **physical goods sent out** of the country and **money comes in** e.g. Butter exported to China, Beef exported to Scotland.

Visible imports are **physical goods coming in** to the country and **money goes out** e.g. Wine from Chile, leather shoes from Spain.

The Balance of Payments is **Total Exports (Visible & Invisible) minus Total Imports (Visible & Invisible)** (the difference between them)

Total Exports > Total Imports = Surplus; Total Exports < Total Imports = Deficit

It includes the Balance of Trade plus the Balance of Invisible trade.

Invisible exports e.g. American tourists holidaying in Ireland.

Invisible imports e.g. Irish people holidaying in Spain.

(ii) Balance of Payments = Balance of Trade plus the Balance of Invisible trade

**Quarter 2 2012 BOP = €10,004m + (€6,769m) = €3,235m surplus**

**Quarter 2 2011 BOP = €9,660m + (€9,192m) = €468m surplus**

(iii) The **purchase** of an **Irish service** by a **foreigner**.

Invisible exports are **Irish services sold** to **foreigners** by **Irish firms**. Money comes in to Ireland from Irish services sold abroad to foreign customers.

**2016 Q7 – Short**

(a) Complete the missing figures in the three unshaded areas of the table below.

| Visible Exports (€bn) | Visible Imports (€bn) | Balance of Trade (€bn) |
|---|---|---|
| €70 | €105 | €35 deficit |
| €90 | €65 | €25 surplus |
| €80 | €110 | €30 deficit |

(b) Explain the term invisible exports and provide one example with reference to the Irish economy. – Answered 2013 Q3 (A) (iii)

**2011 Q5 – Short**

(a) Illustrate what is meant by the term 'invisible imports', with reference to the Irish economy.

(b) Using the following data, calculate (i) Balance of Trade (ii) Balance of Payments.

*Visible Exports €50bn* *Invisible Imports €40bn*

*Visible Imports €30bn* *Invisible Exports €35bn*

State in **each** case whether it is a surplus or deficit. (Show your workings.)

**MS: (a) 4 marks (2+2) (b) 6 marks - Stating "surplus" or "deficit" 1m**

Invisible imports are **foreign services purchased by Irish customers** e.g. financial services provided by foreign firms or **Irish residents holidaying abroad.**

**Balance of Trade = Visible Exports - Visible Imports**
**= €50bn - €30bn = €20bn surplus**

**Balance of Invisible Trade = Invisible exports – Invisible Imports**
**= €35bn - €40bn = (€5bn) deficit**

**Balance of Payments = Balance of Trade + Balance of Invisible Trade**
**= €20bn + (€5bn) = €15bn surplus**

**2017 Q3 (A)**

| |
|---|
| Invisible Exports: €101,750 m Invisible Imports: €109,376 m<br>Total Exports: €194,366 m Total Imports: €171,534 m<br>(i) Calculate the Balance of Trade using the figures above. (Show your workings.)<br>(ii) Define the term tariff and explain the possible effect on the Irish economy if the UK Government was to impose a tariff on Irish goods in the future. (25m) |

(i) Visible Exports = Total Exports – Invisible Exports
Visible Exports = 194,366m – 101,750m
**Visible Exports = €92,616m**

Visible Imports = Total Imports – Invisible Imports
Visible Imports = 171,534m – 109,376m
**Visible Imports = €62,158m**

Balance of Trade = Visible Exports - Visible Imports
Balance of Trade = €92,616m - €62,158m
**Balance of Trade = €30,458m SURPLUS (Exports > Imports)**

(ii) **Tariff**

This is a **tax** on the **price of goods imported**. As a result **imports will be more expensive** and they will be less competitive on the domestic market.

E.g. A tax placed Irish goods e.g. Irish beef, will make them more expensive against domestically produced beef in the UK. This could reduce demand for Irish exports to the UK, leading to reduced profits, lower demand for jobs (redundancies) and mean Irish firms may have to look to other markets (other countries in the EU where we have no tariffs) to export to instead of the UK.

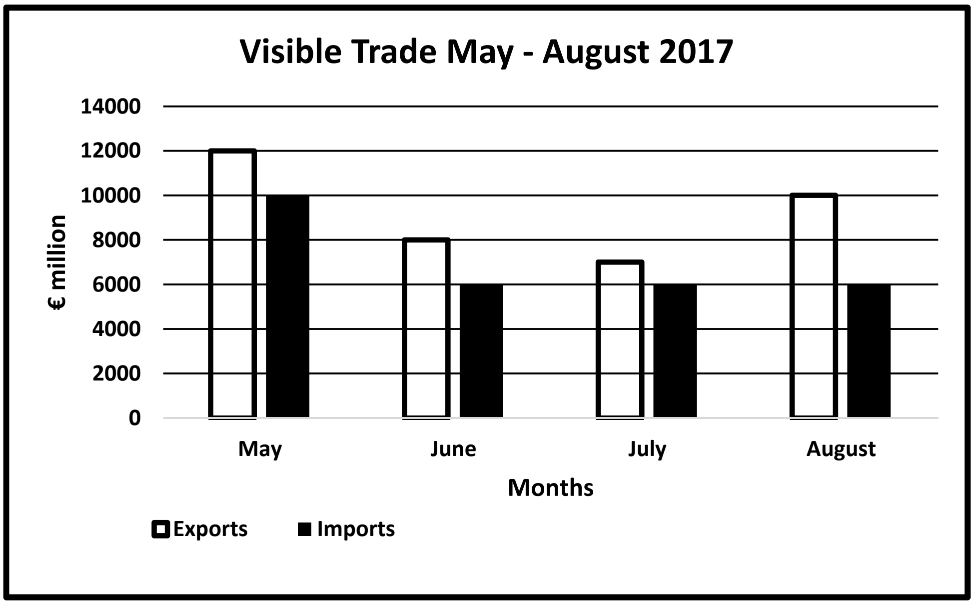
**2010 Q3 (A)**

| |
|---|
| *Ireland is ranked the third most globalised nation behind Singapore and Hong Kong.*<br>(i) Explain what is meant by the term 'Open Economy'.<br>(ii) Illustrate your understanding of the terms, 'Balance of Trade' **and** 'Balance of Payments'. (20 marks) |

*Question 2010 Q3 (A) answered in 2016 & 2013 on previous pages*

**2018 Q5 - Short**

Study the bar chart below, which illustrates a country's visible trade from May to August 2017.




(i) Name the month which had the highest level of visible exports.
(ii) Name the month which had the largest **balance of trade**.
(iii) Explain the term **import substitution.**
**MS: (i) 2m (ii) 2m (iii) (3+3)**

(i) May
(ii) August
(iii) Import substitution refers to a trade policy which replaces imports with domestically produced goods/services. Irish manufacturers producing goods that were previously imported.

**2020 Q3 (A)** Read the information supplied and answer the questions which follow

**Ireland's International Trade - Quarter 2, 2019**


**www.cso.ie**

**(i)** Explain the terms **'Balance of Trade'** and **'Balance of Payments'**
**(ii)** Calculate the Balance of Payments figure from the above data. Show your workings.
**(iii)** Illustrate what is meant by the term tariff. (20)
**MS: (i) 2 x 4m (2+2) (ii) 8@1m (iii) 4(2+2)**

**(i)** Balance of Trade refers to the difference between the **value of the visible exports**, (physical goods produced by businesses based in Ireland and sold to foreign customers abroad) and the **value of the visible imports** (physical goods that are purchased by Irish consumers from businesses based in foreign geographic locations)
Balance of Payments refers to the difference between **Total Exports (Visible & Invisible) and Total Imports (Visible & Invisible).**
The difference between the total amount of money that comes into a country as a direct result of exporting and the total amount of money leaving a country a result of importing.

**(ii)** Total Exports – Total Imports
(55 + 53) € 108bn
(27 + 86) € 113bn
**Deficit** of €5bn

**(iii)** A tariff is a trade barrier that imposes a **tax/duty on goods imported from outside a trading area.**
It **increases the price of that product** to encourage consumers to purchase goods from domestic producers.
E.g. The European Union places a tariff on goods that are imported from USA.

**2018 Q3 (A)**

Read the information supplied and answer the question which follows.

*"Ireland has failed to collect €13 billion in tax due from Apple."*
***www.rte.ie***

Evaluate the opportunities **and** challenges for the Irish economy of foreign multinationals (MNCs) locating in Ireland, providing examples to support your answer. (20 marks)
**MS: 3@6(3+3) Must provide an example specific to the Irish economy for full marks.**

**Opportunities**

**Direct employment.** Employ highly skilled graduates, right up to PhD level which prevents a 'brain drain' from the country. Many of these graduates are engaged in R&D, an important area in multinational businesses.

**Tax revenue for the Government** e.g. transnationals pay 12.5% corporation tax on their profits. This low rate of corporation tax is a key Government strategy in attracting FDI.

**Positive spin-off effects** for the local economy and local indigenous firms. They source their inputs from domestic companies where possible, thereby increasing employment in those firms. They mentor Irish firms to bring this about. Local taxis, catering firms, cleaners, security firms, local pubs and restaurants all benefit from the presence of a multinational in their locality.

**Enhance Ireland's reputation** and acts as a catalyst for further FDI. As companies such as Intel and Google have a major presence here, it can be inferred that Ireland is a good place to do business (international goodwill).

**Bring a knowledge base and a business expertise** to Ireland in terms of management systems and organisational culture. The latest technology is introduced based on research carried out in other countries, thereby requiring less Irish expenditure on R&D. Irish managers gain experience and learn from these foreign business executives.

Irish employees of foreign multinationals **learn the best business practices** and technologies. This makes it easy for 'would be entrepreneurs' to set up their own businesses, thereby promoting an entrepreneurial spirit.

**Positive impact on the Balance of Trade** - They bring their own business plans and ready-made export markets.

**Challenges**

Excellent high-tech companies have easy access to international markets. Some FDI companies are considered **footloose** having no loyalty to Ireland. They may leave immediately if operating costs are lower elsewhere.

**Repatriation of profits**, which means wealth leaves the Irish economy.

**Tax avoidance schemes** such as those operated by Apple mean the actual tax gain for the country is much less than expected.

**Brexit.** The decision of the United Kingdom to leave the European Union will mean that the UK are free to 'outbid' Ireland to attract multinationals. Once it is outside the EU, Britain would have even more leeway to offer special deals to multinationals in the hope they would invest in the UK.

**New US Trade rules** may attract multinationals back to the US resulting in a threat to the Irish model of economic development.

**Huge dependence on a small number of multinational companies** and should one leave there would be a major fall in tax revenue for the government.

**Domestic firm closures**-unable to compete with large multinationals.

**Less competition** which could result in **higher prices**.

**Evaluation**
In my opinion, MNCs will benefit from being in Ireland, having access to our great labour force, especially if it was an MNC looking to locate in the Finance, IT and Pharmaceuticals industries. It allows access to the EU trading block also, removing tariffs / customs, for an American MNC.

**2013 Q3 (B)**

Discuss the opportunities and challenges for large indigenous companies, such as Kerry Group plc, in exporting to non-EU countries. (20 marks)

**MS: 2 opportunities @ 5 marks (2+3) 2 challenges @ 5 marks (2+3) Must be to non-EU countries, highlighting the importance of reading the question asked, and then answering it!**

**Opportunities:**

1. Changes in **Information Communications Technology** have had a positive impact on Irish exporters making **communications easier and instantaneous worldwide**. The internet allows Irish exporters like Kerry Group PLC to **market their goods** e.g. whey protein internationally **through google ads, facebook ads etc**… in non-EU countries.

**2.** The opening of **new emerging markets** like **China** has **created new opportunities for Irish exporters**, especially in the food and drinks area where we have a big advantage e.g. grassfed butter from Kerry Group PLC is very popular in China, **where Ireland's green image acts as its USP**.

***Others: Diversification; Economies of Scale***

**Challenges**

**3.** Irish exporting companies will have to become more **efficient and invest in R&D** in order to provide products with a unique selling point (USP) to survive the **competitive threat from global companies** who may be able to **offer lower prices** than Irish based businesses.

Kerry Group recently invested €100 million in a new R&D facility in Ireland to serve customers in EMEA (Europe, Middle East & Africa).

**4.** They will have the challenge of dealing with **Exchange Rate Fluctuations.** If the Euro (€) **strengthens** against non EU currencies like the US dollar ($), Irish exports become more **expensive**, most likely leading to a **decline** in sales for Kerry Group in these very important international markets.

***Others: Custom Duties; Language/Cultural Differences; Distribution***

**2011 Q3 (A)** *A significant improvement in export performance is critical to the recovery of the Irish economy.* Discuss how the changing nature of the international economy affects Irish exporters. (20m) **(V similar to Q above)**