INTERNATIONAL TRADE

CHAPTER 1: INTRODUCTION

PREVIEW

- **What is international trade?**
- **What are international trade activities?**
- **Why do nations trade?**

What is international trade?

- The exchange across national borders of goods and services
- In a broader sense: includes the exchange of resources
- Small and large, developing and developed countries reply on trade
- A branch of international economics:

- What are other branches/ activities of international economics?

- What are differences of international trade to domestic trade?

What is international trade?

Main differences

- Subjects: different nations => different laws
- Objects: across nations => government controls and trade barriers
- Use of different moneys => BOP and exchange rate
- Diversified market
- Transportation: more complicated with a lot of custom procedures, insurance

=> International trade is more complicated

What are international trade activities

- Import and export of visible goods
- Import and export of invisible goods
- International processing
- Re-export
- Switch trade
- On-the-spot export and import

What are international trade activities

International processing

- Processing for foreign companies
- Hiring foreign companies to process
- For example: Vietnam imports leather for shoe production from a Taiwanese company and embroider from a Korean company. Then the Vietnamese company makes finished shoes and export them to the Japanese company?

What are international trade activities

Re-export: To export again what has been imported but is not processed domestically => diversified

- IBM exports 100 computers to its branch in Vietnam to attend an exhibition. Then all the computers are exported back to IBM?
- A branch of a Chinese shoe companies in Vietnam imports 100 pairs of shoes, and then export back to its headquarter 100 processed pairs of shoes?
- TBD company of Vietnam export 1000 TV imported from Japan to Lao?

What are international trade activities

- Vietnam policy: Good temporarily imported for re-export decree: 12/2006/QĐ-CP or Decision 1311-1988-QĐBTM, Decision 0123/1999/QĐ-BTM
- http://www.dncustóm.gov.vn/Phong_GSQL/hang_tntx.html
- Buy goods from one countries to sell in another, conduct custom procedures on importation into Vietnam and custom procedures on exportation from Vietnam without processing goods domestically

What are international trade activities

- Vietnam: temporarily import for re-export
- The followings are not considered as temporarily import for re-export and regulated by particular policies

- Goods temporarily imported for attending trade fair, exhibition, or machinery fix according to a contract and then goods are re-exported

- Goods temporarily imported for domestics use and then exported after a period of time

What are international trade activities

- Goods which are temporarily imported into Vietnam for re-export shall <u>only be permitted to be circulated in Vietnam for 120 days</u> => can be extended=> the duration of any one extension shall not exceed 30 days and there shall be no more than two extensions permitted
- Article 12, chapter III of Decree 12/2006/NĐ-CP dated 23/01/2006 "*Goods temporarily imported for re-export shall be subject to customs procedures on importation into Vietnam and shall be subject to customs supervision for the entire period until their re-exportation from Vietnam*".

What are international trade activities

Switch trade

- Goods are transported from one country to another via a third country
- Example: Canada exports lumber to Mexico

- Buying and selling activities

- Other services: transportation, warehouse, bonded warehouse

- Switch trade: Decree 12/2006/ND-CP, Decision 1064/TM-CP, Circular 194/2010/TT-BTC)
- Switch trade is to buy goods from a country (export country) to sell to another country (import country) without doing the import procedures into Vietnam and export procedures out of Vietnam
- Compare with re-export?

What are international trade activities

- Switch trade can be undertaken in **3 forms**

- Goods are transported directly from export country to import country without passing the border gates of Vietnam

- Goods are transported from export country to import country via the border gates of Vietnam

- Goods are transported to Vietnam where first temporarily stored in “bonded warehouse” and then transported to import country

What are international trade activities

On-the-spot exports (imports)

- Selling goods and services for foreigners in domestic market
- Goods exported or imported on the spot are goods which are produced in Vietnam, sold to foreigner traders, however, the goods are not exported out of Vietnam territory but delivered to other domestic enterprises as assigned by foreign traders
- Export enterprise on the spot is enterprise assigned by foreign traders to deliver goods. Import enterprise on the spot is enterprise that receives goods from on-the-spot export enterprises as assigned by foreign trader
- Advantages on-the-spot export is to save costs: transportation, packing, insuran

Why do nations trade?

- Profit: Price differences
- Diversified consumption tastes

- The US: consumes Japanese automobiles
- Vietnam: imports rice from Thailand and Japan

- Differences in resource endowment

- Natural resources
- Human Resources
- Technology

- Reach economics of scale

Gain from trade

1. When countries sell goods and services to each other, this exchange is almost always to their mutual benefit

- Norwegian could buy oranges through international trade that they otherwise would have a difficult time producing
- The producer of the oranges receives income that it can use to buy the things that it desires

Gain from trade

2. How could a country that is the most (least) efficient producer of everything gain from trade? (chapter 3)

- Using a finite amount of resources, countries can produce what they are most productive at (compared to their other production choices)
- Then trade those products for goods and services that they want to consume.

Gain from trade

In particular:

- Export goods whose production makes relatively heavy use of resources that are locally abundant
- Import goods whose production makes heavy use of resources that are locally scarce

⇒Countries can specialize in production, while consuming many goods and services through trade (chapter 5)

⇒When countries specialize in production, they may also be more efficient due to a large scale production

Gain from trade

3. International migration and international borrowing and lending are also forms of mutually beneficial trade

- The first a trade of labor for goods and services (Chapter 4)
- The second a trade of current goods for the promise of future goods (Chapter 6).

Gain from trade

4. International exchanges of risky assets such as stocks and bonds can benefit all countries (Chapter 21)

- Diversify its wealth
- Reduce the variability of its income

The effect of government policies on trade

Policy makers affect the amount of trade through:

- Tariffs: a tax on imports and exports
- Quotas: a quantity restriction on imports or exports
- Export subsidies: a payment to producers that export
- Other regulations (e.g. product specifications) that exclude foreign products from the market, but still allow domestic products

The effect of government policy on trade

- Economists have developed a simple yet powerful analytical framework for determining the effects of government policies that affect international trade (chapter 9 and 10)

- Which policy should it use for restrict trade?

- How much should it restrict trade?

- What are the costs if foreign governments respond likewise?

Chapter review

1. What is international trade?

- Concept of international trade
- Differences between international trade and domestic trade

2. What is international trade activities?

- Import and export of visible goods/ invisible goods
- International processing
- Temporarily import for re-export
- Switch trade
- On-the-spot export/import

3. Reason for trading

REFERENCES

- Krugman, P. R. (2008). International economics: Theory and policy, 8/E. Pearson Education India.

A ROAD MAP OF THE TEXTBOOK

International trade topics

- International trade theories (chapters 2 – 7)
- International trade policy (chapters 8-11)

International finance topics

- Exchange rates and open economy macroeconomics (chapters 12-17)
- International macroeconomic policy (chapters 18-22)