International Trade

In today's global yet complex society, countries trade with each other but it is not always a simple process. There are many rules, regulations and restrictions in dealing with different countries. Some of these difficulties are explained in the following sections.

To better understand international trade, one first has to look at two important key words:

Import vs. Export

Both import and export are two main activities of a country's international trade.

Import appears, when domestic companies buy goods abroad and bring them to a domestic country for sale.

The common reason for importing goods is to meet demand on goods, which cannot be produced domestically at an affordable price or at all. The first occurs, when domestic technology, know how or resources are obsolete or expensive. The second occurs, when the given product or service is not possible to produce domestically because of lack skills, resources or technology.

The level of imports directly depends on the exchange rate of local currency. If the local currency is strong - which means that you buy more foreign currency and at the same time more foreign goods, the import level increases. If your local currency is weak, then the import level decreases.

Export appears when the domestic companies sell their products or services abroad.
There are several reasons, why companies decide to export their output. First, they may want to enter geographically new markets and thus expand and internationalize. Second, it is possible that by exporting, companies are meeting the demand of those who live abroad because there is no domestic demand for their products or services. Export is also a great way to diminish supply surplus and thus make production more efficient.

The level of exports are strictly connected with the exchange rate of local currency. If it is weak - which means that someone with strong foreign currency may buy more of your domestic currency and at the same time your domestic goods, then the export level increases. If your local currency is strong, then the export level decreases.

So, in summary:
Both export and import are main activities of national trade. If export increases import than we have trade surplus, if opposite, than we have trade deficit.

Source: http://www.softschools.com/difference/import_vs_export/403/

Typical Foreign Currency Exchange Rates

	Instrument	Rate	Sell	Buy	High	Low	Change	Chg %
	USDJPY	82.152	82.152	82.182	82.202	82.023	-0.213	-0.26%
	USDCHF	0.92840	0.92840	0.92880	0.93019	0.92872	0.00112	0.12%
	USDHUF	215.63	215.63	216.38	216.87	216.38	-1.10	-0.51%
	USDMXN	12.9548	12.9548	12.9648	12.9728	12.9637	0.0048	0.04%
	USDPLN	3.1599	3.1599	3.1644	3.1702	3.1630	-0.0058	-0.18%
	USDSEK	6.6462	6.6462	6.6512	6.6541	6.6448	0.0275	0.42%
	USDSGD	1.22076	1.22076	1.22157	1.22246	1.22154	-0.00059	-0.05%
	USDZAR	8.7875	8.7875	8.7995	8.8305	8.7920	-0.0737	-0.83%
	USDDKK	5.7534	5.7534	5.7554	5.7644	5.7546	0.0075	0.13%
	USDCAD	0.99164	0.99164	0.99204	0.99261	0.99181	-0.00080	-0.08%
	USDNOK	5.6638	5.6638	5.6688	5.6695	5.6651	0.0088	0.16%
	USDILS	3.8283	3.8283	3.8343	3.8396	3.8290	-0.0458	-1.18%
	USDTRY	1.7878	1.7878	1.7898	1.7907	1.7897	-0.0050	-0.28%

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Note that banks and currency exchanges make their profits between the Buy and Sell rates

Percentage Contribution to US Trade Deficit

AREA/YEAR	1980	1990	2000	2006
EU	**-64.58%**	**-1.76%**	**12.69%**	**14.34%**
Canada	**5.70%**	**8.81%**	**12.14%**	**8.96%**
Mexico	**-10.17%**	**2.17%**	**5.64%**	**8.03%**
China	**-10.84%**	**9.38%**	**18.47%**	**27.81%**
Japan	**41.04%**	**38.16%**	**18.31%**	**10.85%**
OPEC	**162.41%**	**22.75%**	**10.88%**	**12.68%**

Note: The columns do not total 100% because some countries and regions are not included in the table. Source: US Department of Commerce, Bureau of Economic Analysis and author's calculation.

What is a 'Tariff?'

A tariff is a tax imposed on imported goods and services.

Tariffs are used to restrict imports by increasing the price of goods and services purchased from overseas and making them less attractive to consumers. A specific tariff is levied as a fixed fee based on the type of item, for example, $1,000 on any car. An ad-valorem tariff is levied based on the item's value, for example, 10% of the car's value.

Governments may impose tariffs to raise revenue or to protect domestic industries – particularly nascent ones – from foreign competition. By making foreign-produced goods more expensive, tariffs can make domestic-produced ones more attractive. By protecting these industries, governments can also protect jobs. Tariffs can also be used as an extension of foreign policy: imposing tariffs on a trading partner's main exports is a way to exert economic leverage.

Tariffs can have unintended side-effects, however. They can make domestic industries less efficient by reducing competition. They can hurt domestic consumers, since a lack of competition tends to push up prices. They can generate tensions by favoring certain industries over others, as well as certain regions over others: tariffs designed to benefit manufacturers in cities may hurt consumers in rural areas, who do not benefit from the policy and are likely to pay more for manufactured goods. Finally, an attempt to pressure a rival country using tariffs can devolve into an unproductive cycle of retaliation, known as a trade war.

Source and a short video explaining this can be found at:
https://www.investopedia.com/terms/t/tariff.asp

In the United States, the U.S. Congress sets the tariffs.

Tariffs work by increasing the price of the import. Those higher prices give an advantage to domestic products within the same market. They are used to protect a nation's industry.

But tariffs are a barrier to international trade. Other countries retaliate and impose their own tariffs. Over time, tariffs reduce business for all countries.

On average, tariffs are around 5 percent. Countries charge different tariff rates depending on the industry they are protecting. They also charge sales taxes, local taxes, and extra customs fees. Governments collect this at the time of customs clearance.

Countries waive tariffs when they have free trade agreements with each other. The United States has trade agreements with more than 20 countries. Smart U.S. businesses target their exports to these countries. They use trade agreements to execute an intelligent market entry strategy. Their foreign customers pay less for U.S. exports because they are tariff-free.

The Harmonized Tariff Schedule lists the specific tariffs for all 99 categories of U.S. imports. It's called "harmonized" because it's based on the International Harmonized System. It allows countries to classify trade goods uniformly between them. The system describes 5,300 items or most of the world's trade goods. The International Trade Commission publishes the Schedule.

The HTS is a guide. The U.S. Customs and Border Protection is the final authority that determines the tariff. It is the only agency that can provide legal advice. It also helps in determining the classification of your import. *[Follow the red links above for more details]*

Source: https://www.thebalance.com/tariff-pros-cons-and-examples-3305967

FREE TRADE AGREEMENTS (FTA's)

Free Trade Agreements (FTAs) have proved to be one of the best ways to open up foreign markets to U.S. exporters. Trade Agreements reduce barriers to U.S. exports, and protect U.S. interests and enhance the rule of law in the FTA partner country. The reduction of trade barriers and the creation of a more stable and transparent trading and investment environment make it easier and cheaper for U.S. companies to export their products and services to trading partner markets. In 2015, 47 percent of U.S. goods exports went to FTA partner countries. U.S. merchandise exports to the 20 FTA partners with agreements in force totaled $710 billion. The United States also enjoyed a trade surplus in manufactured goods with our FTA partners totaling $12 billion in 2015.

With which countries does the United States have an FTA?

Australia

Chile

Bahrain

Colombia

DR-CAFTA: Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, & Nicaragua

Israel

Korea

Jordan

Morocco

NAFTA: Canada & Mexico

Oman

Peru

Panama

Singapore

Source: https://www.trade.gov/fta/

What is a Trade War?

A trade war is when a nation imposes tariffs or quotas on imports and foreign countries retaliate with similar forms of trade protectionism. As it escalates, a trade war reduces international trade.

A trade war starts when a nation attempts to protect a domestic industry and create jobs. In the short run, it may work. But in the long run, a trade war costs jobs and depresses economic growth for all countries involved. It also triggers inflation when tariffs increase the prices of imported goods.

https://www.thebalance.com/trade-wars-definition-how-it-affects-you-4159973

How do you pay for those Imports and Exporters?

The table below shows some of the most common methods available and the risks involved.

Figure 1.1. Payment Risk Diagram

https://www.advancedontrade.com/2014/01/payment-methods-in-international-trade_26.html