INTERNATIONAL TRADE

Sources of International Trade Origin
External Commerce and Monetary Policy
Coordination and Integration of the World Market

Sources of International Trade Origin

- An impulse of individual countries to participate in the international trade is an effort to increase production efficiency by means of specialization and division of labor, and thus raise their standard of living.
- International trade
  - is the exchange of goods and services across international boundaries or territories
  - in most countries, it represents a significant share of GDP
  - while international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries

Origins of International Trade

- Origins of international trade are:
  - Natural and climatic conditions (e.g. kiwi can be produced only in particular part of world)
  - Absolute advantage possibility (i.e. it’s cheaper to produce particular good in country A then in country B)
  - No country as a producer can satisfy all requirements of itself as a consumer
  - Differences in consumers’ preferences of different countries (e.g. snails breeding in Czech Republic)

External Commerce and Monetary Policy

- International trade is a field influenced by external commerce and monetary policy. The government wants to:
  - take out market barriers, market failures and to secure social aspects

    x
  - protect domestic firms from stronger foreign competitors

- The government uses various instruments of its external commerce and monetary policy (ECMP) by which flows of goods, services and capital that cross country's border can be regulated.

Goals of ECMP

- 1st goal: Long-term equilibrium of the balance of payments
  - Every movement of goods, services and capital is reflected in the country's balance of payments.
  - Government authorities usually want all the flows in and out of the country to be balanced in long-term perspective.
- 2nd goal: Regulation of the exchange rate
  - Flows of goods and services are influenced significantly by the exchange rate.
- Final goals are sufficient employment and price stability in the country
- Government authorities can act on the market in order to regulate markets of goods, services and production factors across the country's borders. There are direct and indirect instruments.

Direct and Indirect Instruments

- Direct instruments are:
  - *Quotas* – limits of maximum amount of goods that can be imported over certain period (usually one year); government can also prohibit import of some commodity (zero quota) or define quota as a percentual ration of domestic production
  - *Duty (customs duty)* – kind of tax paid to the state for export or import of some commodity
  - *Export subventions* – government can support export by means of subsidizing exporters, usually in terms of reduction or deduction of the tax
  - *Hidden obstruction of import* – regulation of export / import licenses (e.g. product certificates that the imported good must have)

- Indirect instruments are:
  - *Foreign exchange market interventions* – the central bank purchases foreign currencies for national currency or vice versa in order to influence the exchange rate
  - *Monetary and fiscal policy actions* – by which equilibrium of balance of payments is influenced

Coordination and Integration of the World Market

- Coordination of economic policies in individual countries is a form to meet requirements for developing cooperation. The basic for cooperation is an agreement between individual countries that comprises conditions of interchange of merchandises, labor power etc.

- Economic integration is a term used to describe how different aspects between economies are integrated. It’s the highest contemporary form of cooperation. The basics of this theory were written by the Hungarian Economist Béla Balassa in the 1960s. As economic integration increases, the barriers of trade between markets diminish.

- The most integrated economy today, between independent nations, is the European Union and its euro zone.

Coordination and Integration of the World Market

- Microeconomic integration (on the level of firm)
  - Information exchange between firms
  - Common service and consulting
  - Agreements of specialization and cooperation
  - Common projects of firms
  - Common research and development
  - Fusions

- Macroeconomic integration (on the level of countries)
  - Free trade zone (member countries abolish quotas and tariffs in mutual exchange)
  - Custom unions (common custom policy of member countries towards non-member countries)
  - Common market (free motion of goods, services and production factors between national market)
  - Economic union (harmonization of national economic policies)
  - Full economic integration (unification of monetary, fiscal and social policy)

Trade Blocks

- There are a lot of trade blocks in the world. It is possible that a country is member of two (or more) different blocs. Most active regional blocks are:
  - European Union (EU)
  - European Free Trade Association (EFTA)
  - Caribbean Community (CARICOM)
  - Economic Community of West African States (ECOWAS)
  - Economic and Monetary Community of Central Africa (CEMAC)
  - East African Community (EAC)
  - South American Community of Nations (CSN)
  - Gulf Cooperation Council (GCC)
  - Southern African Customs Union (SACU)
  - Common Market for Eastern and Southern Africa (COMESA)

- The European Union (EU) is a supranational and intergovernmental union of 27 independent, democratic member states. The European Union is the world's largest confederation of independent states, established under that name in 1992 by the Treaty on European Union (the Maastricht Treaty).

- The European Free Trade Association (EFTA) was established on May 3, 1960 as an alternative for European states that were not allowed or did not wish to join the European Community

- The Caribbean Community and Common Market or CARICOM was established by the Treaty of Chaguaramas which came into effect on August 1, 1973. The first four signatories were Barbados, Jamaica, Guyana and Trinidad and Tobago.

- The Economic Community of West African States (ECOWAS) is a regional group initially of sixteen countries, founded on May 28, 1975 when sixteen West African countries signed the Treaty of Lagos. Its mission is to promote economic integration. In 2000 Mauritania withdrew its membership from ECOWAS.

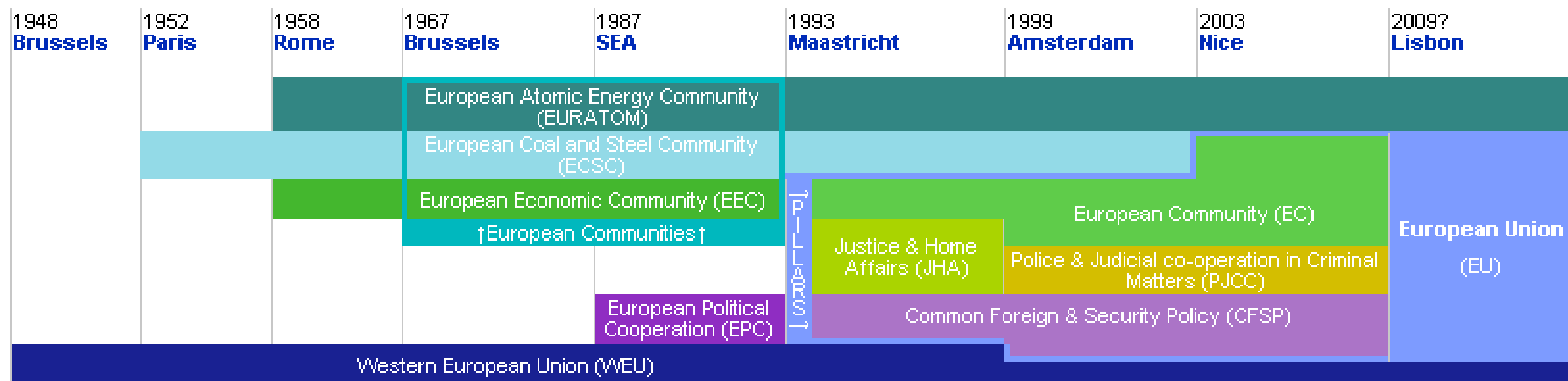
Economic and Monetary Community of Central Africa

- The Economic and Monetary Community of Central Africa (or CEMAC from its name in French, *Communauté Économique et Monétaire de l'Afrique Centrale*) is an organization of states of Central Africa established to promote economic integration among countries that share a common currency, the CFA franc.

History of Integration in Europe

- 1952 European Coal and Steel Community (France, West Germany, Italy, Belgium, Luxembourg and the Netherlands to pool the steel and coal resources of its member-states)
- 1957 European Community (with founding members (France, West Germany, Italy, Belgium, Luxembourg)
- 1957 EURATOM (European Atomic Energy Community) - to create a specialist market for atomic energy and distribute it through the Community and to develop nuclear energy and sell surplus to non-Community States
- 1960 EFTA (European Free Trade Association) - an alternative for European states that were not allowed or did not wish to join the European Community
- 1992 European Union (supranational and intergovernmental union of 27 independent, democratic member states. The European Union is the world's largest confederation of independent states, established under that name in 1992 by the Treaty on European Union (the Maastricht Treaty).; May 1st 2004 – Czech Republic is accepted as a member state)

History of Integration in Europe



European Union Enlargement

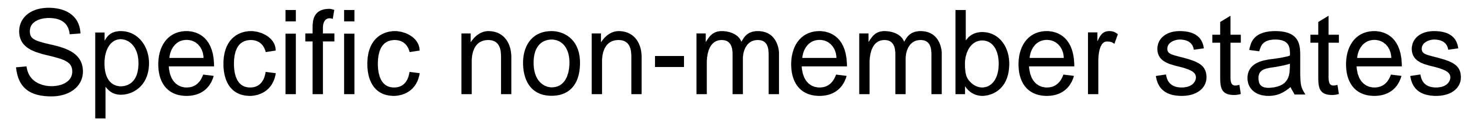
- Member States:
  - Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom
- Candidate Countries:
  - Croatia, Iceland, The Republic of Macedonia, Turkey
- Potential Candidate Countries:
  - Albania, Bosnia and Hercegovina, Montenegro, Serbia

European Union Enlargement

- To join the EU, a country must meet the Copenhagen criteria, defined at the 1993 Copenhagen European Council. These require:
  - a stable democracy which respects human rights and the rule of law;
  - a functioning market economy capable of competition within the EU;
  - and the acceptance of the obligations of membership, including EU law.

- Evaluation of a country's fulfillment of the criteria is the responsibility of the European Council.

- Till 2009 the framework did not specify how a country could exit the Union (although Greenland, a Territory of Denmark, withdrew in 1985). The Lisbon Treaty now provides a clause dealing with how a member leaves the EU.



Specific non-member states

- Four Western European countries that have chosen not to join the EU have partly committed to the EU's economy and regulations:
  - Iceland, Liechtenstein, and Norway are a part of the single market through the European Economic Area,
  - and Switzerland has similar ties through bilateral treaties.
- The relationships of the European microstates Andorra, Monaco, San Marino, and Vatican City include the use of the euro and other co-operation.

EU Exclusive Competence

- to make directives and conclude international agreements when provided for in a Union legislative act
  - the customs union
  - the establishing of the competition rules necessary for the functioning of the internal market
  - monetary policy for the Member States whose currency is the euro
  - the conservation of marine biological resources under the common fisheries policy
  - common commercial policy

- **EU shared competence** (Member States cannot exercise competence in areas where the Union has done so) – transport, energy, …
- **EU supporting competence** (The Union can carry out actions to support, coordinate or supplement Member States' actions) – industry, tourism, …