Unit 7: Chapter 24

INTERNATIONAL TRADE

Learning Outcomes from this chapter

On completion, you should be able to:

- Outline what an open economy is
- Explain what trading blocs are and the benefits of being a part of one
- Distinguish between different types of imports and exports
- Calculate the balance of trade and balance of payments
- Illustrate different barriers to trade between countries
- Discuss the reasons a government would engage in protectionism
- Explain the effects of barriers to trade being imposed on the Irish economy
- Discuss the opportunities and challenges of the changing nature of the global economy

Open economy

A country that engages in international trade, exporting (selling) goods and services to other countries and importing (buying in) goods and services from other countries

Terms in international trade

Trading bloc	Group of countries that allow free trade among them
Free trade area	Members trade freely with reduced/no tariffs or barriers
Customs union	Members trade freely and impose common tariffs on non-members
Deregulation	Reduction or elimination of legal barriers that prevent entry into a market

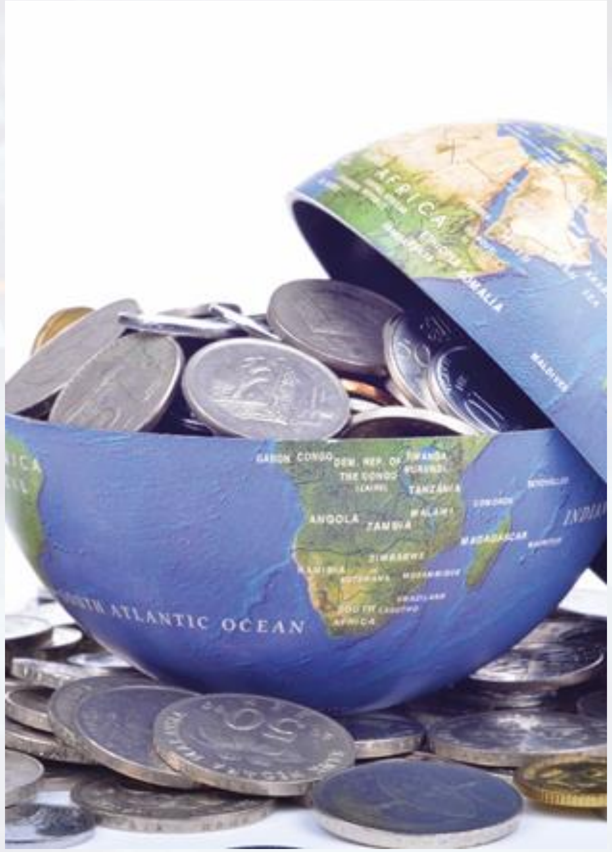
Elements of trade

Visible exports	Purchase of Irish goods by a foreigner
Invisible exports	Purchase of an Irish service by a foreigner
Visible imports	Purchase of foreign goods by someone in Ireland
Invisible imports	Purchase of a foreign service by someone in Ireland

Balance of trade

The difference between visible exports and visible imports

Visible exports > Visible imports = Balance of trade **surplus**
Visible exports < Visible imports = Balance of trade **deficit**



Balance of payments

The difference between total exports (visible exports + invisible exports) and total imports (visible imports + invisible imports)

Total exports > Total imports = Balance of payments **surplus**
Total exports < Total imports = Balance of payments **deficit**

Protectionism

Actions taken by a government to protect their home industries by restricting foreign competition, using barriers to trade

Barrier	***Explanation***
Tariff	Tax on an import to raise the price and discourage consumption
Embargo	A total ban on importing a certain type of product from a given country
Quota	A physical limit on the number of units of a certain good that can be imported
Subsidies	Grants/payments from a government to a producer to lower operating costs
Administrative regulations	Slow down imported goods (e.g. customs delays, excessive paperwork for imports)

Impact on Irish businesses of changing trends in international trade

Trend	*Explanation*
Currency fluctuations	Weaker currencies in trade partners can lower demand for goods.
MNCs locating in Ireland	Ireland's skilled workforce and low corporation tax (12.5%) has attracted many large MNCs (e.g. Facebook, Google, Pfizer).
Protectionism	Brexit may lead to customs checks, import duties and administrative delays.
Emerging markets	China, India, Brazil, Russia and Turkey are transitioning from being developing economies to becoming developed economies.
Newer EU member states	Czech Republic, Hungary and Slovakia economies are growing, with lower wages and costs than those of Irish businesses.

Opportunities and challenges for Irish business trading with non-EU countries

Opportunities	Challenges
Improvements in technology/ICT	Globalisation allows lower-cost countries to compete
Emerging markets to export to	Currency/exchange rate fluctuations (e.g. could make Irish exports more expensive)
Diversification in new markets reduces overall risk	Language and cultural differences need to be considered when adapting goods/services
Ireland's image as a 'green' country	