

7.1 INTRODUCTION TO INTERNATIONAL TRADING ENVIRONMENT

International trade means one country trading (i.e. exporting and importing) with other countries.

Open economy: economy where there are *no restrictions* of any kind to the free movement of goods and factors of production into and out of the economy i.e. one that engages in international trade.

Ireland is a small open economy.

TERMS:

- *Imports* buying goods/services from abroad
- *Exports* selling goods/services abroad
- *Visible imports* money spent on services e.g. Irish tourists abroad
- *Visible exports* physical goods sold abroad
- *Invisible exports* selling services abroad e.g. foreign tourists in Ireland
- *Balance of Trade* Surplus/Deficit on **Visible** Trade:

- *Balance of Payments* Surplus/Deficit on **all** Trade:

- *Free Trade* No restrictions on trade between countries
e.g. tariffs, quotas, etc

Advantages of free trade to Business:

1. Raw materials for production can be freely imported
2. Allows expansion to occur easily
3. Economies of scale
4. Diversify and reduce risks of over reliance on one market
5. Quality of goods improves

Advantages of free trade to Consumers:

1. Choice/variety
2. Better quality
3. Lower prices

Advantages of free trade for economy:

1. Employment increases
2. International co-operation
3. Earn foreign currency to pay for imports (does not apply in euro area)

➤ ***Protectionism***

Barriers imposed by governments to prevent Free Trade:

- Tariff = _____ e.g. some goods to China
- Quota = limit to the _____ of imports
- e.g. EU quota on bananas from outside EU
- Embargo = total _____ on importation of a product e.g. Beef from UK after BSE
- Rules/Regulations = inspecting imports for health/safety etc to cause delays
- Subsidies = money/grants paid by government to help firms operate in the international market.

Advantages of protectionism:

1. Survival for small business
2. Protect natural cultures from foreign goods etc
3. Protect employment and balance of payments

➤ ***Deregulation*** Taking down barriers to trade and freeing up competition. Normally means increase in competition and lower prices. E.g. Eircom, Taxi

REASONS FOR INTERNATIONAL TRADE:

1. Home market is too small
2. Unavailability of raw materials
3. Economies of scale which decrease costs and increase profits
4. Need for choice and variety
5. Earn foreign currency
6. Economic growth
7. Climatic conditions unsuitable

SIGNIFICANCE OF INTERNATIONAL TRADE FOR IRELAND

(Sample, 2001, 2002, 2007)

Ireland is a small country with limited natural resources and is *dependent on international trade to grow and survive*.

We depend on imports of raw materials to generate finished goods for export and we depend on exports to bring wealth to our economy. Almost two - thirds of Ireland's national income comes from exports by Irish firms.

Pointes to consider:

✓ ***Employment***

Ireland exports more of its produce than any other country in the EU – 70% of goods produced in Ireland are exported to the EU. Two thirds of jobs in the manufacturing sector are export related.

✓ ***Advanced Services Sector***

We have a very *advanced services sector* (tourism, engineering technology and IT) and these services can be traded much more easily.

✓ ***Competition*** – keeps costs low and therefore prices e.g. Dunnes, Lidl, Aldi

✓ ***Billions of customers*** – increased sales and profits

✓ ***Economies of Scale*** – products become cheaper to make

✓ ***Foreign currency*** – pay for foreign products we need to import

✓ ***Food production***

Ireland's *food production companies* need to export as it is one of our biggest industries and we *overproduce* for this economy.

CHANGING NATURE OF THE INTERNATIONAL ECONOMY (2000)

The main changes that have taken place in the world economy over recent years that affect Irish business are as follows:

1. WORLD TRADE ORGANISATION (WTO)

Established in 1995 to *reduce or eliminate global barriers* to free trade. It replaced the ***General Agreement on Tariffs of Trade*** (known as GATT). The aim of the organisation is to *open up the world to free trade* and allow businesses to expand globally (worldwide).

Aims:

- Deregulation – process of removing all government rules and regulations (barriers)
- Reduce Protectionism – allow competition
- Solve economic disputes between countries
- Eventually create worldwide free trade area.

2. TRANSNATIONALS

These companies have a head office in one country and branches or factories in a number of other locations e.g. Lidl, Dell, Zara.

They contribute to the economic success of the country they locate in and Ireland is no exception. However, they have little loyalty and can re-locate to lower cost locations at will. E.g. Dell moved from Limerick to Poland to avail of lower wage costs.

3. GLOBALISATION

Global businesses e.g. Coca-Cola operate throughout the entire world treating the whole world as one big market. Global business *presents opportunities* (buying raw materials from Irish businesses - ↑sales/profits) and *threats* (increased competition may wipe small Irish businesses out). Irish firms must strive to continually change and adapt (adopt TQM approach).

4. TECHNOLOGY

Communication worldwide is now so fast – allows management to run a company efficiently, make decisions and reduce time and costs. Small Irish firms can *engage in international trade* by selling products via websites without having to set up shops all over the world.

5. DEVELOPMENT OF TRADING BLOCS

Trading Bloc – a group of countries that organise a free trade area to reduce or eliminate barriers to trade. They still impose tariffs on non-members.

Examples:

EU – European Union

NAFTA – North American Free Trade Agreement – comprises USA, Mexico and Canada

APEC – _____

6. NEW MARKETS

The *Pacific Rim* is the fastest growing economic region in the world – includes Japan, China, Singapore and Thailand among others. They are particularly strong in electronics and cars. Ireland will find it difficult to compete with such countries.

OPPORTUNITIES FOR IRISH BUSINESS IN INTERNATIONAL TRADE

(Sample, 1999, 2002, 2004, 2005, 2007, 2009)

1. **Membership of EU** – free access to 500 million consumers - ↑ sales/profits
2. **Economies of Scale** – achieved as a result of making enough products to satisfy international demand - ↓ costs
3. **Language** – Ireland is mainly English speaking which is the international business language – can engage more easily in business abroad.
4. **WTO** – has made it easier for firms to trade – costs are therefore decreased.
5. **Developments in IT** has made travel and communications for Irish firms easier
6. **Educated Workers** – Ireland has one of the highest education levels in the world and this makes us attractive for foreign investment.
7. **Green Image** – attractive for tourism and our food products sell well abroad.
8. **Location** – our location makes it easy for foreign firms to assess EU.

CHALLENGES FACING IRISH BUSINESS IN INTERNATIONAL TRADE

(Sample, 1999, 2002, 2005, 2009)

1. **Competition** – from global companies mean only companies with highest standards and quality will survive e.g. TQM approach.
2. **Wage Costs** – wages in Ireland are high resulting in increased cost of production and reduced competitiveness. Ireland finds it almost impossible to compete with low-wage economies.
3. **Foreign Language** – language differences create difficulties when carrying out market research, designing packaging and choosing brand names.
4. **Exchange Rate** – fluctuations with non-euro countries e.g. Dollar – if euro increases in value, the price of Irish products in non-euro countries increases so ↓ sales and our exports fall.
5. **Culture** – different countries have different tastes and customs and firms have to make adjustments to allow for such differences e.g. Revlon tried to launch perfume in Brazil that smelled of camellia flowers. It didn't realise that camellias are funeral flowers in Brazil and hence, the perfume was not a success.
6. **Distribution** – Ireland is an island (one of 3 in EU) located on the periphery of Europe. Transporting goods is more difficult and more expensive for Irish businesses.

7. **Payment Problems** – collecting debts from customers in other countries is more difficult than at home.
8. **Political Instability** – wars, terrorism etc will make it difficult to carry on business e.g. Iraq

GOVERNMENT HELP FOR EXPORTING FIRMS IN IRELAND

Enterprise Ireland – provides market research, grants and training courses.

Provide information and advice on:

1. How to identify new market opportunities abroad
2. The trade regulations applying in different countries
3. How to overcome difficulties facing exporters e.g. documentation, payment, and language barriers.

The Department of Enterprise, Trade and Employment – provides advice on the documents and regulations needed in international trade.

Banks – provide loans and other services

Diplomatic Services

1. Promotes Ireland abroad to maintain and increase Irish exports
2. Lobbies foreign governments and companies to trade with Ireland. E.g. BSE in UK, many countries banned Irish beef. Ireland's ambassadors and diplomats abroad convinced foreign governments to re-open markets to Irish farmers, as Ireland was not affected.
3. Gives advice and information on foreign countries
4. Helps organise trade fairs

ROLE OF ICT IN INTERNATIONAL TRADE

New Information and Communications Technology (ICT) has made it easier and cheaper for business to engage in international trade.

- ↑ **Sales** – e-commerce – selling over internet
- **Advertising** – products viewed globally
- **Faster and cheaper communications** – e-mails to customers, suppliers and customers
- **Decision-making** – Web allows managers to access vast collections of information about foreign countries, markets and opportunities.
- **Reduced costs** – video conferencing – no need for foreign travel – reduces time and costs