## CHAPTER 8: INTERNATIONAL TRADE/ FOREIGN TRADE

This is trade carried out across the boundaries of a country.

Or; this is the buying and selling of goods and services between countries.

International trade involves the physical transfer of goods from one country to another.

**Regional trade.** This is the trade among countries that are geographically close together, especially on the same continent.

Hence, these three words international trade, foreign trade and regional trade can be used interchangeably.

**TYPES OF INTERNATIONAL TRADE**

1. **Import trade.** This is the buying of goods from another country.

**Note. Imports** are goods bought from outside the country and brought into the country.

**2. Export trade.** This is the selling of goods to another country.

**Note. Exports** are goods sold to traders outside the country.

**BILATERAL TRADE, MULTILATERAL TRADE AND ENTREPOT TRADE**

**Bi-lateral trade**. This refers to trade between only two countries.

Or; this is where a country has a great part of her foreign trade with only one country.

**Multi-lateral trade**. This is a form of trade among many countries.

Or; this is where a country trades with a number of countries, buying from some and selling to others.

**Entrepot trade**. This is the re-exportation of goods that were previously imported.

Or; this is a form of transport where imports are re-exported.

For example, a number of commodities exported to East African countries like Uganda, Rwanda and Burundi are first imported into Kenya via Mombasa.

The imports are housed in bonded warehouses and then sent to their final destination by road, rail or by occasionally by sea.

The best example here is petroleum products. Kenya imports these products for her own use as well as for re-export to neighboring countries. The foreign exchange from this re-export comes to Kenya, thereby cutting down her imports bill.

**WHY INTERNATIONAL TRADE IS CARRIED OUT**

1. To obtain goods or services which a country cannot produce at home because of the need to specialize.
2. To achieve and maintain good international relationships with other countries.
3. To dispose of the surplus/excess goods a country is producing.
4. To promote international specialization where countries specialize in production and exportation of commodities where they have the greatest comparative cost advantage.
5. To solve or assist in times of crisis or disasters, natural calamities like famine floods, etc.
6. In order to acquire better technology and skilled labour from more developed countries.
7. To raise government revenue through taxes imposed on imports and exports.
8. To promote competition which encourages production of better quality goods?
9. Differences in geographical conditions/climate hence countries produce different items which calls for international interdependence.
10. Differences in the availability of natural resources like soils, minerals, etc. which calls for international interdependence.
11. Differences in the level of industrial development hence, some goods are uneconomic to produce in some countries but others can produce them efficiently.

**ADVANTAGES INTERNATIONAL OF TRADE**

**1.** It enables obtain goods or services which a country cannot produce at home because of the need to specialize.

2. It enables promotes international understanding as people move across borders.

3. It enables a country to dispose of the surplus/excess goods a country is producing.

4. It allows citizens of a country to enjoy a variety of goods.

5. It encourages a country to specialize in production of a commodity she does better.

6. It promotes peace among countries as they depend on one another for goods and services.

7. It promotes competition between local and foreign industries hence quality products are realized.

8. It encourages exploitation of idle resources.

9. It is a source of government revenue through taxation.

10. It creates more employment opportunities for the locals.

11. It is a source of foreign exchange to the country.

**DISADVANTAGES OF INTERNATIONAL TRADE**

1. It leads to exhaustion of resources in a bid to increase output for export.

2. It discourages growth of local industries as goods imported from developed countries out-compete the locally manufactured ones.

3. Foreign trade may lead to importation of harmful goods like cigarettes, drugs which may affect the health of the residents of the importing country.

4. It encourages dependence of one country on another or others which hinders self-sufficiency/reliance.

5. Developed countries gain at the expense of developing countries due to differences in level of technology and industrial development which leads to trade imbalances.

6. It results into imported inflation especially when goods are imported from countries suffering from inflation.

7. Foreign trade may lead to conflict/war as different countries compete with each other in finding out new markets and sources of raw materials for their industries.

8. It encourages over specialization which may be disastrous for a country that relies heavily on the export of one commodity only, especially during price fluctuations and unexpected fall in demand for such a commodity.

9. It poses a danger of starvation where a country depends for her food mainly on foreign countries and there outbreaks a war in the exporting countries.

10. It encourages unnecessary trade retaliations as countries try to revenge against some undesirable gestures from trading partners.

**INTERNATIONAL TRADE RESTRICTIONS**

These refer to the measures a country takes to control her imports so as to some extent reduce the disadvantages of international trade and to protect her home industries from competition with imported goods.

**TOOLS/METHODS/TECHNIQUES/WAYS/STEPS OF RESTRICTING INTERNATIONAL TRADE**

1. **Imposing heavy import tariffs/duties/taxes.** This is where the government imposes taxes on imported goods and services which increases the price of such goods and therefore it becomes economical to buy the locally made goods.

**2. Fixing import quotas.** This is where a country decides upon the maximum quantity of a certain good to be imported in a given period such that any trader who wishes to import a commodity has to seek permission from relevant authorities. This permission is given in form of an import license by the Ministry of trade and industry and the central bank. A country would not issue import licenses in excess of the predetermined quota.

**3. Imposing total bam/embargo.** This is where a country bans/completely stops the importation of a particular type of good so as to protect home industries.

**4. Exchange control.** This is where the government restricts the amount of foreign currencies to be purchased by domestic traders or the purchase of the domestic currency by the foreigners so as to control import trade.

**5. Giving subsidies to local producers.** This lowers the production costs of local producers as well as the prices for the locally manufactured goods hence making them cheaper than the imported ones. Subsidies can be in form of money, machines or equipment.

**6. Devaluation.** This is where the government deliberately lowers the value of a local currency in relation to the foreign currency. It makes exports cheaper while imports become expensive.

**7. Quality control measures.** These are tools put to inspect the goods being imported so that poor quality goods are not allowed into the country.

**8. Advanced payments on imports.** This is where government may demand importers to pay import duty before the goods are brought into the country.

**WHY INTERNATIONAL TRADE IS RESTRICTED**

1. To protect infant industries against competition from developed countries so that they can achieve significant economies of scale.
2. To protect consumers in the domestic country from consumption of undesirable/harmful goods.
3. To raise government revenue through imposing taxes on imported goods.
4. To guard against imported inflation by controlling the volume of imports coming from counties affected by inflation.
5. To retaliate against some undesirable gestures from trading partners.

6. To attain self-reliance by reducing over dependence on other countries for survival in form of imports.
7. To create more employment opportunities for the locals through protecting local industries.
8. To reduce balance of payments problem through restricting imports and reducing expenditure on them.
9. To encourage exploitation of the local resources so as to increase local production.
10. To guard against dumping where manufacturers export products to other countries at prices below those charged in the home.

**Note.**

**Dumping.** This is the selling of goods abroad at a give-away price i.e. selling of goods to other countries at prices below those charged in the home.

**ADVANTAGES OF TRADE RESTRICTIONS**

**1.** It protects infant industries against competition from developed countries so that they can achieve significant economies of scale.
2. It protects consumers in the domestic country from consumption of undesirable/harmful goods.
3. It leads to increase in government revenue through imposing taxes on imported goods.
4. It protects against imported inflation by controlling the volume of imports coming from counties affected by inflation.
5. It encourages self-reliance by reducing over dependence on other countries for survival in form of imports.
6. It creates more employment opportunities for the locals through protecting local industries.

7. It improves on the balance of payments problem through restricting imports and reducing expenditure on them.

8. It encourages exploitation of the local resources so as to increase local production.

9. It discourages dumping of poor quality or duplicate goods into the country.

**DISADVANTAGES OF TRADE RESTRICTIONS**

1. It leads to limited variety of goods in the country which limits consumer choice.
2. It makes local firms inefficient due to absence of competition.
3. It encourages monopoly power among local producers thereby leading to overcharging of consumers.
4. It reduces on international friendship/understandings between countries.
5. Trade restriction in form of subsidies increases government expenditure.
6. It encourages trade malpractices like smuggling of goods.
7. It limits inflow of foreign resources like technology, skilled labour, capital, etc.

**WAYS OF IMPROVING EXPORT TRADE (EXPORTS)**

**1. Export Compensation.** This is where an exporter is entitled to claim a certain percentage of the value of his exports from the government. This enables such an exporter to charge less for his goods to importers, thereby making his products more attractive to them.

**2. Customs Drawback.** This is where a manufacturer is refunded fully or partially the customs duty he had paid on importation or a raw material that is used to manufacture finished goods for export.

**3. Government Agencies.** These are bodies or organizations set up by governments to help their exporters in finding new markets for their products. They arrange exhibitions in foreign countries to attract customers, provide useful information and education to local businessmen by organizing courses and seminars.

**TERMS OF TRADE**

This is the ratio of a country's export prices to its import prices.

Or; this is the value of a country's exports relative to that of its imports.

**Favorable terms of trade.** This is where the export prices of a country rise faster than its import prices.

**Unfavorable terms of trade.** This is where the prices of a country's imports rise faster than its export prices.

**Visible trade.** This is the exchange of goods between countries. It consists of the import and export of goods.

**Invisible trade.** This is the exchange of services between nations/countries. It consists of the import and export of services.

Examples of such services include; tourism, banking, insurance, etc. For example, the profits/earnings made by foreign banks in Uganda are invisible imports for Uganda and they are invisible exports for states owning the foreign banks in Uganda.

**Balance of trade.** This is the difference between the value of visible exports and visible imports of a country.

**A favorable balance of trade.** This is where a country exports more goods than she imports during a given year.

**An unfavorable balance of trade.** This is where a country's imports exceed its exports during a given year.

**Balance of payments.** This is to the difference between total receipts for both visible and invisible exports and total payments for both visible and invisible imports of a country for a given year.

**Favorable balance of payments.** This is where a country's total receipts from exports exceed its total expenditure on imports.

**Unfavorable balance of payments.** This is when a country's total expenditure on imports exceeds its total receipts from exports.

**INTERNMEDIARIES/MIDDLEMEN IN INTERNATIONAL TRADE**

These are specialized traders who assist businessmen in acquiring raw materials, semi-finished goods or finished goods from countries abroad.

They include;

1. **Import Merchants.** These are traders who buy goods from a broad in their own name and sell them locally. They resemble wholesalers. Their profit consists of the difference between the cost and selling price of goods imported.

**2. Import Brokers.** These are people who do not buy or sell goods themselves but arrange deals between buyers and sellers. They possess expert knowledge of technical details and offer their services for a fee called brokerage which is calculated as a percentage of the cost of the goods bought through them.

**3. Import Commission Agents.** These are people who import goods at overseas sellers risk and are paid on a commission basis. They are sent consignments by overseas sellers and they use their knowledge of local market conditions in selling the goods at best prices. They deduct their commission from the proceeds of sale and remit the difference. They don't take any risks and goods remain unsold, they can return them at the exporter's expense.

**TYPES OF IMPORT COMMISSION AGENTS**

**1. Del-credere agent.** This is a middleman who guarantees payment to his overseas suppliers.

He guarantees the collection of debts from his clients, and if any client fails to pay, he undertakes to pay the amount due himself.

A del-credere agent is paid an extra commission called del-credere commission, for providing the guarantee.

**2. Forwarding agent.** This agent engaged in collection, shipment and delivery of goods. Forwarding agents transport and deliver goods on behalf of overseas sellers e.g. Inter-freight Uganda Limited.

**DOCUMENTS USED IN INTERNATIONAL TRADE**

**1. Bill of Lading.** This is a document containing the details of goods loaded into the ship, the terms and conditions under which the goods have been accepted by the shipper and the shipping charges.

**Contents of the Bill of Lading**

i) Name and address of the buyer.

ii) Name of the ship.

iii) Port of destination.

iv) Nature of goods being loaded onto the ship.

v) Shipping terms and conditions.

vi) Shipping charges.

When the Bill of Lading is signed by the Captain of the ship, it becomes evidence of the receipt of goods by the shipper.

**Functions/uses of the Bill of Lading**

i) It is a receipt for the goods by the shipper.

ii) It is a contract of carriage.

iii) It is a document of title to the goods, i.e. a person named on this document can claim the goods.

**Note.** A seller usually gets the Bill of Lading from the shipping company and sends it to the buyer along with his invoice and insurance certificate to enable him to receive the goods when the ship docks at the port of destination.

2. **Certificate of Origin.** This is a document that specifies the country of origin of the goods being sold. It helps customs officers to calculate correctly the customs duty on such goods.

**3. Indent.** An indent is a request to the agent to place an order on behalf of the importer with an appropriate exporter.

**Note.** An indent may either be open or a closed indent.

**i) Closed indent**

This is an order by the importer placed with an agent to purchase goods from a named exporter. It is a request where the importer or buyer specifies the exporter from whom to buy the goods.

**ii) Open indent**

This is where the importer simply sends the order to an agent without specifying the supplier or manufacturer of the goods i.e. the agent is free to buy goods from any exporter.

**4. Proforma Invoice.** This is a document sent by the seller to the buyer if payment for the goods is required before delivery.

It serves the same purpose as an invoice except that it does not hold the receivers address liable to pay and it does not debit the receivers account like what an invoice does.

**5. Freight Note.** This is a document drawn by the shipping company indicating the charge for shipping the goods.

It is forwarded to the exporter who pays the amount and gets it receipted.

**6. Letter of Credit.** This is a means by which an importer obtains credit and the exporter gets an assurance of payment of amounts due to him.

**7. Letter of Hypothecation.** This is a letter from an exporter to his bank, authoring the bank to sell goods being exported for the best price it can get, if the bank cannot obtain payment on a bill of exchange.

**8. Consular Invoice.** This is an invoice/document that has been seen and signed by the consulate or embassy of the country to which the goods are being exported.

It helps the consul to sort out undesirable goods.

**9. Bill of exchange.** This is an "unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a stated future date, a sum of money to a certain period or to the order of that person or to bearer".

**10. Bill of site.** This is a document to the customs officials when full description of the goods is available so as to allow the goods to be loaded.

**11. Charter party.** This is an agreement signed between the owner of the ship (shipper) and the trader when the trader hires the ship for a given period of time. It gives the chartering businessman (trader) full control over the ship for the period of contract.

**12. Airway bill.** This is a contract between the importer and the airline company for the goods transported by air.

**13. Shipping note.** This is a document issued by the shipping company to the seller giving details and conditions of carriage.

**14. Weight note.** This is a document showing the quantity of goods delivered at the dock and person responsible for all the cost.

It helps to determine the dock charges.

**15. Freight note.** This is a document showing the cost of transport from one port to another.

**16. Calling forward note.** This is a document that informs the exporter (seller) the date and time by which the goods should be at the dock ready for loading on to a particular ship.

**TERMS OF SALE IN FOREIGN TRADE**

There are a lot of expenses involved in any import transaction. Some of these expenses may be paid by seller and included in the price quoted to the buyer.

It is important that an exporter clearly indicates what, if any expenses are included in price and what are to be paid by the seller himself.

These are;

**1. Ex-works/Ex-factory/Loco.** This means that the price quoted includes only the cost of goods as they leave the factory (works), and all other expenses are to be paid by the buyer.

2. **Free on Rail (F.O.R).** This means that charges for carriage to the nearest railway station from the seller's factory are included, but railway freight is not included.

**3. Delivered Docks (D.D).** This means that the price quoted includes the cost of carriage to the docks.

**Note. Docks** are places where ships wait for cargo.

**4. Free Alongside Ship (F.A.S).** This means that the price quoted includes the cost of carriage to the docks, dock handling charges and dock dues, but not loading expenses.

**5. Free on Board (F.O.B).** This means that the price quoted includes the cost of carriage to the docks, dock handling charges, dock dues and also loading expenses.

**6. Cost and Freight (C. & F).** This means that the price quoted includes the cost of carriage to the docks, dock handling charge, dock dues, loading expenses and also the shipping freight charges.

**7. Cost, Insurance and Freight (C.I.F).** This includes all expenses mentioned above and also insurance premiums to cover the goods against marine risks.

**8. Loaded.** This means that the price quoted includes all costs to the port of destination, plus unloading charges.

**9. In-Bond.** This means that the price quoted includes the cost of handling into a bonded warehouse.

**10. Duty Paid.** This means that the price quoted, in addition to all the above expenses, includes the payment of any customs duty.

**11. Free of expense (Franco).** This means that the price quoted includes all charges up to and including delivery of the goods to the premises of the buyer.

**PROBLEMS FACED IN INTERNATIONAL TRADE/ FACTORS THAT LIMIT INTERNATIONAL TRADE**

1. Differences in currencies. Countries have different currencies with different values which makes trade between them difficult.
2. Long distances. The distances involved in international trade are far greater than those in home trade and this leads to high transport costs.
3. A lot of documents are involved where goods may not be allowed into another country without certain documents for instance certificate of origin.
4. Trade barriers applied by countries. These limit the movement of goods across national boundaries.
5. High level of risks involved for example damage, of goods in transit, loss of goods on the way, etc.
6. Differences in measurements where different countries have different weight and measures causing a problem to the traders.

7. Cultural differences leading to varying tastes and preferences from one country to another. This limits market for particular goods.

8. Language barriers or differences due very many languages existing in the world hence making communication in foreign trade difficult.

9. Political instabilities in form of wars within or between boundaries which make foreign trade difficult.

**WAYS/MEASURES OF PROMOTING REGIONAL/INTERNATIONAL TRADE IN UGANDA**

1. Removing of trade barriers and restrictions for instance through trade liberalization, reduction of tariffs, etc.
2. Easing the movement of people across boarders for example by issuing East African passports.
3. Easing foreign exchange purchase through Forex Bureaus local and international banks.
4. Holding and participating in international trade fairs and exhibitions and shows.
5. Promoting national peace, security and stability in the region.
6. Establishing and promoting export and import promotion agencies to promote trade e.g. Uganda National Chamber of Commerce and Industry.
7. Exchanging trade delegations from partner/friendly trading countries.
8. Improving transport and communication facilities in the region.
9. Encouraging exportation of many non-traditional exports to ensure variety.
10. Forming and promoting of economic groupings like East African Community, COMESA, etc.

**ECONOMIC INTEGRATION/TRADE COOPERATION**

This is where countries in a particular region agree to reduce customs duties across their national boundaries or remove the duties completely to allow or encourage trade among themselves.

It is aimed at encouraging trade among the member states and at the same time discourage trade with non-member states.

**CONDITIONS NECESSARY FOR SUCCESSFUL ECONOMIC INTEGRATION**

1. The member states must be relatively at the same level of development so as to avoid superiority and inferiority complex.
2. The member states must share common boundaries i.e. the countries must be in a given region e.g. East African countries.
3. The member states must have same political ideologies to avoid political differences e.g. capitalistic ideologies, socialistic ideologies, etc.
4. The member countries must produce different goods if trade in the area is to succeed.
5. The countries in the region must preferably have the same size of population or same geographical size.

**FORMS/STAGES/LEVELS OF ECONOMIC INTEGRATION**

**1. Preferential trade area (PTA).** This is the stage where member states agree to lower taxes across there national boundaries but charge high taxes on goods coming from non-member states.

**2. Free trade area.** This is where member states agree to remove all taxes/tariffs across their national boundaries i.e. they allow free movement of goods across their national boundaries but each member state maintains its own tariff against non-member states.

**3. Customs union.** This is the stage where member states agree to remove all taxes among themselves like in free trade area but they agree to charge a common tariff barrier against non-member states.

**4. Common market.** This is a trade cooperation where member states agree to remove all tariffs among themselves, charge a common tariff against non-member states and in addition, the member states allow free movement of factors of production in the region e.g. COMESA.

**5. Economic community.** This is the stage of economic integration which has all the features of a common market and in addition, the member states have joint ownership of certain enterprises, joint or same economic policies.

**6. Economic union.** This stage has all the features of economic community and in addition, there is adoption of one currency in the region e.g. European Union.

**ADVANTAGES OF ECONOMIC INTEGRATION**

1. It encourages trade creation where countries are able to move away from high cost trade with non-member states and begin to trade at low cost within the region
2. It creates more employment opportunities in the region when countries establish a common market.
3. It creates regional peace or friendship among the member states as it brings about political cooperation and mutual understating among member states.
4. It enables member states to sell off their surplus or excess output in the region i.e. it acts as a vent for surplus.
5. It leads to increased volume and variety of goods in the region hence improved standards of living.
6. It stimulates the establishment and development of industries in the region as it encourages competition.
7. It increases the bargaining power of the member states i.e. it enables member states to bargain for higher prices for their exports in the world market.
8. It leads to access to foreign aid from international organizations like World Bank, IMF and from developed countries.
9. It allows joint research and collection of information at low cost i.e. it allows sharing of skilled labour and capital.

10. It encourages competition between member countries thereby resulting into better quality goods and services in the region.

**DISADVANTAGES OF ECONOMIC INTEGRATION**

1. It leads to loss of revenue to the government as tariffs are reduced or removed completely.
2. It leads to trade diversion effect where member states lose the opportunity of trading at low cost with non-member sates and they are forced to trade among themselves at high cost.
3. It leads to surplus or over flooding of the market in the region especially where countries in the region are producing similar products.
4. It leads to loss of political identity where regional political ideas are adopted.
5. Member states are forced to buy poor quality goods within the region and less opportunity of buying goods from the non-member sates.
6. Free movement of goods across national boundaries of the member states makes the local industry to be out competed.
7. It encourages uneven distribution of benefits or industries which leads to uneven development in the region.
8. It loss of skilled labour to other countries, especially developed countries in the region.
9. Member states sometimes act in the interest of all and therefore, the national interests are not satisfied.
10. The movement of goods may be in one direction leaving other member states with limited goods.

**FACTORS LIMITING THE DEVELOPMENT OF ECONOMIC INTEGRATION**

1. Differences in the levels of development between or among countries.

2. Differences in political ideologies e.g. capitalistic ideologies against socialistic ideologies.

3. Differences in culture, religion, beliefs, etc.

4. Differences in population or geographical sizes of countries.

5. The desire to earn revenue by the countries in the region.

6. Lack of one or common currency among the countries in the region.

7. Language barriers or differences due very many languages existing in the world hence making communication in the region difficult.

8. Political instabilities in form of wars within or between boundaries which make trade difficult.

9. Poor transport and communication facilities in some countries which makes movement difficult.

**ACTIVITIES FOR THE LEARNERS (15$^{TH}$/APRIL/2020)**

1.(a) Define these terms as used in international trade;

(i). Foreign trade.

(ii). Import trade.

(iii). Export trade.

(iv). Entrepot trade.

(v). Customs draw –back.

(vi). Multilateral trade.

1.(b) Distinguish between the following;

(i). Terms of trade and balance of trade.

(ii). Balance of payments' surplus and balance of payments' deficit.

(iii). Dumping and trade restriction.

(iv). Consular invoice and a certificate of origin.

(v). A letter of credit and a letter of hypothecation.

(vi). Franco and in-bond.

2. (a) Identify the benefits of Uganda’s participation in trade with other countries.

(b) What are the problems realized by your country’s involvement in foreign trade.

3. (a) Why should your country continue to participate in trade with a developed country like Japan.

(b) Give reasons why Uganda should continue to control her trade with other countries.

4. (a) Define international trade restriction.

(b) Explain the dangers of restricting regional trade by your country.

(c) Identify the methods used by your country to control her trade with other countries.

5. (a) What is an economic integration?

(b) Briefly explain the challenges experienced by the East African Community (EAC).

***GOD BLESS YOU AS YOU GUARD YOUR SELVES A WAY FROM COVID 19***