

International Business notes



International Trading Environment

International Trade refers to businesses buying (importing) and selling (exporting) products and services across national boundaries. The Irish international environment has a significant impact on Irish business.

International Trade

International Trade has grown significantly in recent decades and has impacted on Irish businesses and the Irish economy in a number of ways which we will look at. (2/3 of Irish wealth is generated from international trade).

A combination of the following factors has meant that international trade has always been a necessity.

- A small indigenous population
- A lack of essential raw material
- A growing desire for a varied supply of goods and services
- Climate
- Social and historical connections abroad
- The drive for growth

Significance / Benefits of International trade for Ireland

1. Economic Growth

International trade allows, in small countries, like Ireland, with small home markets, export enabled growth in the economy to take place. It provides foreign markets for produce that cannot be sold at home

2. Choice and Variety

A wider range of goods and services are available for consumption as a result of free trade and this gives rise to a higher standard of living.

3. Increased World Output

The economic output of the world increases because each country dedicates itself to producing those commodities in which it is efficient. E.g. food production in Ireland. This is called 'The Law of Comparative Advantage'. Ireland has a competitive advantage as a food producer.

4. Increased Efficiency

There is an increase in efficiency in production and therefore lower prices for the consumer. Trade increases competition. By encouraging competition, there is far less risk of dominant firms taking over the market.

5. International Cooperation

It leads to better international relations between trading countries. The fostering of links between countries lessens the possibility of war.

6. Development of Human Resources

The further training and development of the Irish workforce to meet the challenges of the new market situation is stimulating e.g. technology, language and marketing skill development in the population.

Ireland as an Open Economy:

An open economy is one in which imports and exports form a large proportion of total economic activity. Ireland has an 'open economy' because our economy is significantly dependent on foreign trade.

Because Ireland has limited natural resources, we are reliant on importing raw materials and capital goods (e.g.; equipment and machinery) and finished goods for Irish consumers. In order to pay for our imports, we need to export other products and services.

Importing is the buying of goods or services from abroad to be used in the home market. They can be classified as Visible Imports and Invisible Imports.

- **Visible Imports** are physical goods bought from foreign countries. E.g.; tangible goods such as cars, fruit, oil.
- **Invisible Imports** are the services that are bought from other countries. E.g.; Holidaying abroad, Loans from foreign banks. A foreign country receives the money.

Exporting is the production of goods and services and selling them abroad. They too can be classified as Visible Exports and Invisible Exports.

- **Visible Exports** are physical goods that are sold to other countries. E.g.; beef, computers, medicines.
- **Invisible Exports** are services that are sold to other foreign countries. E.g.; German people holidaying in Ireland, French people using Irish financial services, Americans using Ryanair to fly from New York to Bristol.

Measurement of International Trade

International Trade is measured by:

- Balance of Trade
- Balance of Invisible Trade
- Balance of Payments

These measurements show the country's economic performance.

1. Balance of Trade: is the relationship between visible exports and visible imports. The Balance of Trade refers to goods only. If exports are greater than imports, there is a *surplus* in the Balance of Trade. If exports are less than imports, there is a *deficit* in the Balance of Trade.

$$\text{Visible Exports minus Visible Imports} = \text{Balance of Trade}$$

2. Balance of Invisible Trade: is the relationship between invisible exports and invisible imports, i.e.; between service exports and service imports. It measures the extent of services exported and services imported.

$$\text{Invisible Exports minus Invisible Imports} = \text{Balance of Invisible Trade}$$

3. Balance of Payments: is a statement that summarises the flows of money into and out of a country, for both current and capital purposes over a yearly period. It measures the difference between Total Exports (Visible and Invisible) and Total Imports (Visible and Invisible). It is a measure of economic performance in terms of all trade.

$$\text{Total Exports minus Total Imports} = \text{Balance of Payments}$$

Balance of Trade and Balance of Payments

BALANCE OF TRADE = VISIBLE EXPORTS - VISIBLE IMPORTS
Is the difference between visible exports and visible imports.

- Visible exports are *physical goods* sold to other countries (e.g. Baileys Irish Cream, Beef exported to the UK)
- Visible imports are *physical goods* bought from other countries (e.g. cars from Japan, wine from France)
- There is a balance of trade surplus if visible exports are greater than visible imports
- There is a balance of trade deficit if visible exports are less than visible imports

BALANCE OF PAYMENTS (BOP) = TOTAL EXPORTS - TOTAL IMPORTS
It is the total amount of money entering and leaving a country during the course of a year

- Total exports = visible + invisible exports (i.e. services sold to other countries, e.g. foreign tourists visiting Ireland, EU grants, etc)
- Total Imports = visible + invisible imports (i.e. services bought from other countries, e.g. Irish tourists going abroad on holidays, repayment of foreign loans, etc.)
- There is a Balance of Payments surplus if total exports are greater than total imports.
- There is a Balance of Payments deficit if total exports are less than total imports

Scan the QR code below to see a recent infographic from the CSO in relation to trade, write down any key findings from the image in relation to exports and imports

