

Exports and Imports

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Chapter Objective:

This chapter discusses the microstructure of international trade.

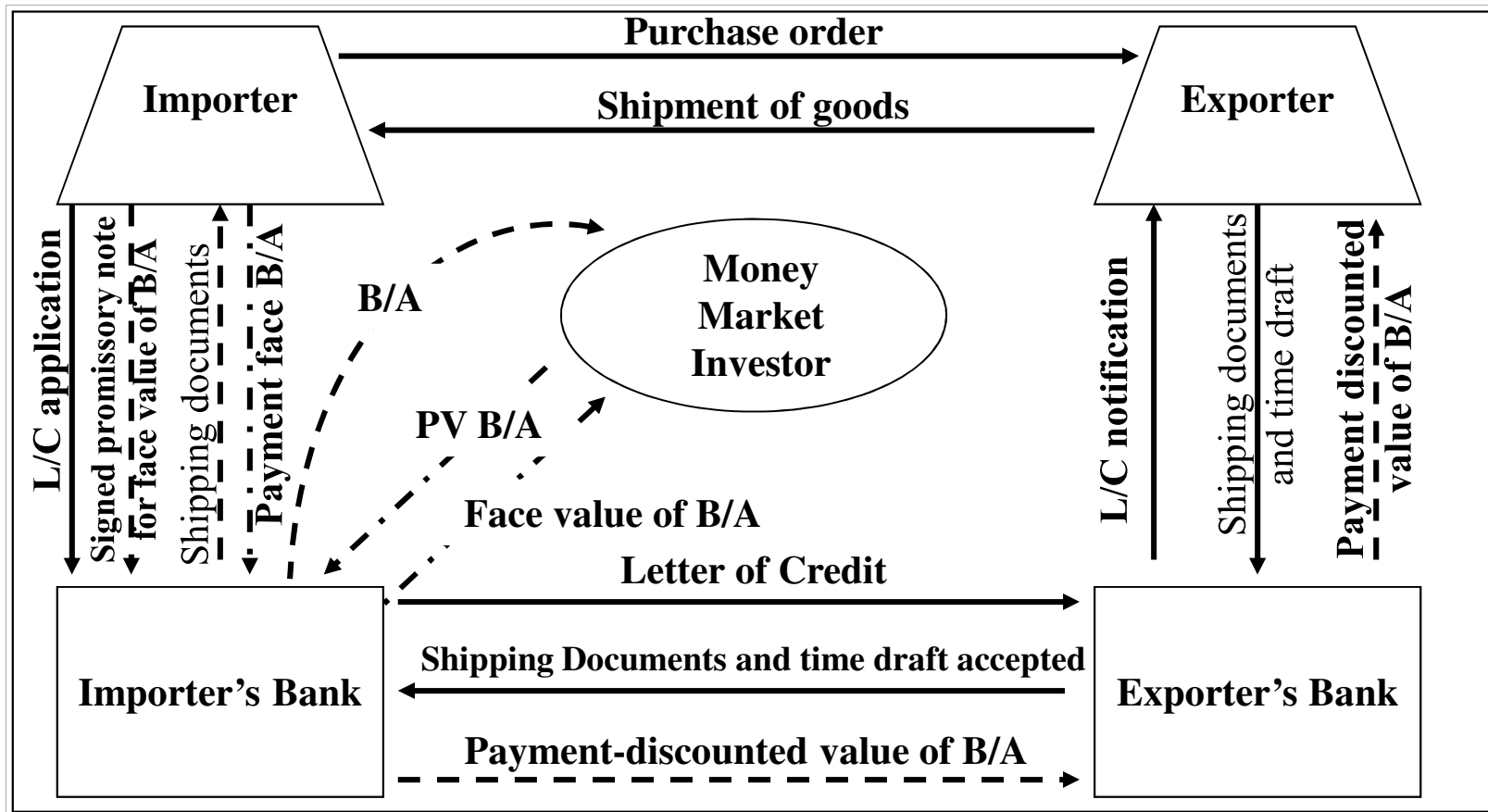
Chapter Outline

- A Typical Foreign Exchange Transaction
- Forfaiting
- Government Assistance in Exporting
 - The Export-Import Bank and Affiliated Organizations
- Countertrade
 - Forms of Countertrade
 - Generalizations about Countertrade

A Typical Foreign Exchange Transaction

- Over the years, (centuries, really) an elaborate process has evolved for handling exports and imports.
- Figure 19.1 illustrates this process

Process of a Typical Foreign Trade Transaction



Forfaiting

- Forfaiting is a type of medium-term financing used to finance the sale of capital goods.
- It involves the sale of *promissory notes* signed by the importer *in favor of* the exporter.
- The forfait, usually a bank, buys the notes at a discount from face value from the exporter.
- The exporter gets paid and does not have to carry the financing.

Government Assistance in Exporting

- For political reasons (having to do with mercantilism), most developed countries offer competitive assistance to domestic exporters.
- This assistance often takes the form of subsidized credit that can be extended to exporters.
- Also credit insurance programs that guarantee financing extended by private financial institutions are common.

The Export-Import Bank and Affiliated Organizations

- In 1934 the Eximbank of the United States was founded as an independent government agency to facilitate and finance U.S. export trade.
- Eximbank's purpose is to provide financing in situations where private financial institutions are unable or unwilling to because:
 1. The loan maturity is too long.
 2. The amount of the loan is too large.
 3. The loan risk is too great.
 4. The importing firm has difficulty in obtaining hard currency.

Countertrade

- Countertrade is an umbrella term used to describe many different types of transactions each in “which the seller provides a buyer with goods or services and promises in return to purchase goods or services from the buyer”.
- Countertrade may or may not involve the use of currency, as in barter.

Forms of Countertrade

- Barter
 - The direct exchange of goods between traders. Barter requires *a double coincidence of wants*.
- A clearinghouse arrangement is a form of barter in which the traders agree to buy a certain amount of goods from each other.
 - They set up accounts with each other that are debited and credited as needed. At the maturity of the arrangement, the parties settle up in cash or merchandise.
- A switch trade is the purchase by a third party of one country's clearing agreement balance for hard currency.

Forms of Countertrade

- A *buy-back transaction* involves a technology transfer via the sale of a manufacturing plant.
 - The seller of the plant agrees to buy back some of the output of the plant once it is constructed.
- A *counterpurchase trade agreement* is similar to a buy-back transaction, but differs in that
 - The output that the seller of the plant agrees to buy is unrelated to the plant.
- An *offset transaction* can be viewed as a counterpurchase trade agreement involving the aerospace/defense industry.

Disadvantages of Countertrade

- It is inefficient.
- Some claim that such transactions tamper with the fundamental operation of free markets, and therefore resources will be used inefficiently.
- Transactions that do not make use of money represent a huge step backwards in economic development.

Advantages of Countertrade

- Countertrade conserves cash and hard currency.
- Advantages also include the improvement of trade imbalances, the maintenance of export prices, enhanced economic development, increased employment, technology transfer, market expansion, increased profitability, less costly sourcing of supply reduction of surplus goods from inventory, and the development of marketing expertise.

Generalizations about Countertrade

- There are advantages and disadvantages associated with countertrade.
- It can benefit both parties and in some circumstances is the only trade possible.
- Whether countertrade transactions are good or bad for the global economy, it appears certain that they will increase in the near future as world trade increases.

End Chapter Nineteen