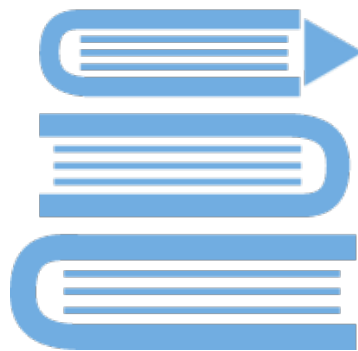


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International trade

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International trade refers to the buying (importing) and selling (exporting) of goods and services between different countries. Ireland has an open economy, this is an economy which engages in international trade.

Imports

Imports are goods or services bought from other countries. These imports can either be visible or invisible.

Visible imports are physical goods such as shoes, clothes, phones.

Invisible imports are services provided to Irish customers from foreign firms e.g. banking or insurance.

Ireland must import because we are a small country that does not have the resources to produce all of the goods that we need e.g. oil, machinery etc. Consumers also want a wide variety of goods when shopping which means we must import.

Exports

Exports are goods or services sold by Irish companies abroad. Exporting brings in foreign currency which is necessary for importing.

Visible exports are physical goods such as potatoes, meat, pharmaceuticals.

Invisible exports are services that can be sold to foreign customers such as holidays in Ireland to foreigners.

Ireland needs to export so firms can avail of economies of scale and increase employment for Irish firms.

Measuring International Trade

A country's trade can be measured by comparing the flow of money into the country (exports) with the flow of money out of the country (imports). It is ideal that there is more money coming into a country than there is leaving.

The balance of payments is used to measure international trade for a country.

Balance of trade = visible exports - visible imports

Balance of invisible trade = invisible exports - invisible imports

Balance of payments = total exports - total imports

So, the balance of payments is made up of the balance of trade and the balance of invisible trade.

Benefits of free international trade for Ireland

Free trade is when there are no restrictions between countries when trading e.g. trade barriers, quotas etc.

For businesses:

- Access to raw materials which wouldn't usually be available.
- Increase sales through exporting to larger markets than Ireland.
- Spreads business risk as exporting to many different countries means that you won't be reliant on a single economy.
- Economies of scale.

For consumers:

- Better choice.
- Better quality products due to more competition.
- Lower prices.

For the economy:

- Exporting generates more jobs in Ireland.
- Ireland gets to earn foreign currency from exports.
- Improves relations with foreign countries.
- Specialisation: an economy can focus on doing what they do best e.g. Ireland's meat industry.

Protectionism

Protectionism is when governments try to prevent or limit imports coming into their country. It is the prevention of free trade.

Reasons for protectionism:

- **Promote growth** for new firms so they don't get cut off from cheaper foreign firms.
- **Protect essential industries** such as steel, transport etc from cheaper foreign competition.
- **Protect employment** in the home country as often cheap exports destroy industries with high wages etc.
- **Improve balance of payments.**

Methods of protectionism:

- **Tariffs** are a tax on an imported good. This makes foreign goods less competitive.
- **Quotas** are a limit on the quantity of a specific good which can import to a country. It aims to promote the sales of a domestic version
- **An Embargo** is when a government bans the importation or exportation of specified goods. Usually for health, political or safety reasons.
- **Subsidies:** this is when a home government gives businesses in a particular industry money to help cover their running costs and keep their prices competitive against foreign competition.
- **Rules and regulations:** This is when a government erects complicated barriers to make it very difficult to export a good into their country. It may be a lot of paperwork or needing to get permission.

Trends in International Trade

Over the last 50 years, much has changed in terms of international trade. It has expanded rapidly due to several factors:

- **Improvements in transport and ICT:** Modern air and shipping facilities has made it much cheaper and easier to transport goods all over the world. Also, with things like the internet it has become much easier to communicate globally with different stakeholders.
- **New trading blocs:** A trading bloc is a group of countries who come together and remove protectionist barriers allowing for free trade amongst themselves. e.g. the EU and the North American Free Trade Agreement.
- **New Markets:** Eastern Europe and the Pacific Rim region are now fast growing economies which were never really active before on an international level.
- **Businesses relocating production to cheaper areas** Companies moving to Japan and China are common to avail of cheap labour, lower taxes and lax regulation.
- **Increasing power of the World Trade Organisation** The governments now have less control of international trade as the WTO make trade rules. The WTO is in charge of setting the rules of international trade for its member states, which is now over 150 countries. It aims to reduce protectionism and enable free trade amongst all while getting rid of special trading advantages certain

countries had.

- **Globalisation** Many companies now are beginning to treat the world as one market and selling their products the same way in each country. Globalisation is the viewpoint of the world as one single interconnected marketplace.

Opportunities in International trade for Ireland

Despite being a small economy on the edge of Europe Ireland still, has some advantages over other countries.

- EU membership which gives free access to a huge market.
- Euro currency makes trading within the EU very easy. Reduces the risk of fluctuations and currency collapse.
- An educated workforce with plenty of good cheap schools.
- The English language allows us to communicate easily in the language of business.
- Low corporation tax attracts MNC's to Ireland and they export from Ireland.
- Good government assistance such as the IDA and local enterprise office often help small exporting businesses.

Challenges in International trade for Ireland

Although there are many benefits to Ireland in international trade there are also some challenges and difficulties.

- High costs. Labour is very expensive in Ireland due to a high standard of living and transport is very high due to being an island on the edge of Europe.
- Lack of economies of scale due to a small domestic population. It makes it difficult to compete against larger firms.
- Foreign languages: although we have English it is still essential to be able to speak foreign languages to sell to that particular country. Irelands population is not great on an international level in terms of the amount of foreign language we can speak.
- The Cultural difference between countries often presents difficulties.
- Exchange rates and volatile currency can make it quite difficult to trade with the pound and the dollar or other foreign currencies.
- Difficulties in collecting payment from foreign countries due to different laws or culture.