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Theoretical Part Topics

- Introduction to International Trade
- Trade Barrier & Imperfect Competition
- Trade Body, Trade Law and Product introduction
- World Apparel Market and BDG RMG Sector
- Market and Demand Analysis
- World Market analysis and Potentialities
- Introduction to Marketing and Export Promotion
- Communication Strategy
- Process of Export and Import

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Some Basic Concept

- GDP
- GNP
- Growth Rate
- Exchange rate
- Terms of Trade
- Monetary Policy
- Fiscal Policy
- Unemployment rate
- Age structure
- Population Size
- Purchasing Power Parity (PPP)
- Country's Trade Openness

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Intro. to Int. Trade (Cont.)

International trade is the exchange of goods and services across the international boarders or territories of the world. This exchange gives rise to a world economy, in which prices, or supply and demand, affect and are affected by global events.

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Intro. to Int. Trade (Cont.)

INTERNATIONAL TRADE

GLOBALIZATION
OUTSOURCING
TARIFF
PRICING
LAW
IMPORT
COST
ORIGIN
CUSTOMS
EXCHANGE RATE
INSURANCE
FREIGHT
DOCUMENTS

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Why Countries Trade?

Trade of a commodity can be executed due to this reasons.

1. The country can't produce or its production level is not enough.

   The rationale is very clear for such kind of trade. For exmp. UK imports Banana from Brazil ; China imports copper.

2. The country has capability of producing goods but still imports of that goods.

   This kind of trade is of greater interest because it accounts for a majority of world trade today.

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For 2nd Reasons -

The reasons for importing this category of product generally fall into three classifications

1. The imported goods may be cheaper than those produced domestically;
2. A greater variety of goods may be made available through imports;
3. The imported goods may offer advantages other than lower prices over domestic production – better quality or design, higher status (eg prestige labelling), technical features, etc.

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Absolute Advantage

The principle of **absolute advantage** refers to the ability of a party (an individual, or firm, or country) to produce more number of a good product or service than competitors, using the same amount of resources. For instance -

Absolute advantage in case of two countries and two goods

Country / Goods	Bangladesh	China
Clothing	20	10
Food	30	40

In terms of absolute advantage, Bangladesh is superior than China in producing Clothing and China is superior than Bangladesh in producing food.

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Recardian theory: Comparative Advantage

In international economics, source of comparative advantage is a controversial issue. British economist David Ricardo (1772-1823) explained in his Ricardian theory that comparative advantage occurs due to technological difference. Though, two countries may have same opportunity in a specific factor of production, the country enjoys comparative advantage which has greater productivity that means technological difference.

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Comparative Advantage

Comparative advantage in case of two countries and two goods:

Goods \ Country	Bangladesh	China
Clothing	20	30
Food	10	50

Here, Bangladesh has comparative advantage in producing clothing where as China has comparative advantage in producing food.

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Revealed Comparative Advantage (RCA)

The Balassa index considers revealed comparative advantage with respect to total world trade.

The formula of RCA calculation is as follows

$$RCA_{iw}^{k} = \left(\frac{X_{iw}^{k}}{X_{iw}}\right) \div \left(\frac{X_{ww}^{k}}{X_{ww}}\right)$$

Where x_{iw}^{k}= Country i's export of good k to world

X_{iw}=Country i's total export to world

x_{ww}^{k}=World export of good k to world

X_{ww}=Total world export to world

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RCA Explaination(Continued)

RCA of Bangladesh Knitwear 2013(Million US$)

product code	Total Export Value of Knitwear of BD ***(E_{ij})***	Total export of BD ***($\sum E_j$)***	World Export of Knitwear *(E_{iw})*	world total export of all goods ***($\sum E_w$)***	RCA
61	13.16	30.99	223.37	17974.40	34.17

A comparative advantage is "revealed" if RCA>1. If RCA is less than unity, the country is said to have a comparative disadvantage in the commodity or industry.

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Other Trade Theory

- **Heckscher-Ohlin Model:**

  A country with much capital compared to labor will have a comparative advantage in capital intensive goods and a country with much labor compared to capital will have a comparative advantage in labor intensive goods.
- **Stolper-Samuelson Theorem:**

  International trade will increase the incomes of some resources and lower the incomes of other resources within each country.
- **Factor Price Equalization theorem**
- **Rybczynski theorem.**

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Balance of Payment

Balance of Payment (BoP) is a statement of accounts of a country of all economic transactions that it engages in with the rest of the world. Transactions include trade in goods, services, and financial instruments and each transaction is noted either as a credit (+) or a debit (-) item. In general

$$\text{BoP} = \text{Current Account} + \text{Capital Account} + \text{Balancing Item}$$

where Balancing Item is simply an amount that accounts for any statistical errors.

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Terms of Trade

A country's *terms of trade* measures a country's export prices in relation to its import prices, and is expressed as:

$$Terms\ of\ Trade = \frac{\text{Index of Export price}}{\text{Index of Import price}} \times 100$$

When the terms of trade rise above 100 they are said to be *improving* and when they fall below 100 they are said to be *worsening*. This is an indicator of competitiveness.

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Terms of Trade (cont.)

(Base: FY96=100)

Year	Export price index	Import price index	Commodity terms of trade
FY00	120.3	136.2	88.4
FY01	123.2	146.4	84.1
FY02	126.2	157.8	80.0
FY03	135.2	164.2	82.4
FY04	139.6	170.0	82.1
FY05	142.4	176.7	80.6
FY06	149.3	183.1	81.5
FY07	165.7	232.5	71.3
FY08	171.3	241.2	71.0
FY09	178.2	248.3	71.8
FY10	188.9	262.4	72.0
FY11	208.5	294.6	70.8
FY12	225.6	321.0	70.3
FY13	242.9	345.6	70.3

Source: Bangladesh Bureau of Statistics.
* estimated.

So , Using the Data of FY 2013 from the table, we have

$$ToT = \frac{242.9}{345.6} \times 100$$

$$= 70.3$$

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Trade openness

Trade openness is a measure of the value of total trade (export + import) as a percentage of GDP.

It shows the importance of international trade in the overall economy. It can give an indication of the degree to which an economy is open to trade. However it largely determined by factors like tariffs, non-tariffs barriers, foreign exchange, non trade policies and structure of national economies. Mathematically

$$\text{Trade Openness} = \frac{\sum_{s} X_{ds} + \sum_{s} M_{sd}}{GDP_d} \times 100$$

Where d is the country under study, s is the set of all other countries , X is total bilateral exports, M is total bilateral imports and GDP is Gross Domestic Product.

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Monetary and Fiscal Policy

These two policy measures has significant impact on international Trade.

Monetary Policy which is adopted by Central Bank of a country. For instance, Bangladesh Bank promulgates half yearly monetary policy on regular basis.

Fiscal Policy is adopted by Government of a country. It is basically an account of income and expanse of govt. i.e. govt. budget. A government can also reduce spending power more directly by means of higher taxation, hire-purchase controls, etc.

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Foreign Exchange Regime

Foreign exchange market is a market where foreign currencies are exchanged by govt., exporters, importers, financial institutions, tourists, currency speculators, and anybody who wants to engage in international trade.

Exchange rate is the rate at which one currency can be exchanged for another usually expressed as the value of the one in terms of the other. For instance,

A dollar can be exchange with TK 80. So,

$$\text{exchange rate of dollar (e)} = \frac{\text{Taka}}{\text{Dollar}}$$

$$e = \frac{1}{80} = 0.0125$$

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Types of Exchange rate

The followings are the types of exchange rate regime

- Flexible or Floating Exchange Rate Regime
- Managed Floating Exchange Rate Regime
- Fixed or "Pegged" Exchange Rate Regime

Other things that should keep in mind:

- ✓ Appreciation is the Strengthening of one currency against another
- ✓ Depreciation is the weakening of one currency against another.
- ✓ Exchange Rate appreciation would lead to trade deficit.
- ✓ Exchange Rate depreciation would lead to trade surplus.

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Reference

For further study

"Principal of Economics"

Greg Mankiw.

"International Trade Theory and Policy"

Miltiades *Chacholiades.*

"International Trade: Theory and Policy"

Paul R. Krugman.

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Any ?

Thank You

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