INTERNATIONAL BUSINESS MANAGEMENT

SPECIFICS OF TRADE IN INTERNATIONAL ENVIRONMENT

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3. Specifics of Trade in International Environment

3.1 Basic Characteristic of International Trade

3.2 Theory of Absolute Advantage

3.3 Theory of Comparative Advantage

3.4 Theory of Reciprocal Demand

3.5 Barriers to International Trade

3.1 The Basic Characteristic of International Trade

- The explanation of this two points mentioned below is the basis of the problem.
    - which commodities should be traded among themselves and why;
    - advantages of international trade for all participants.

- Three basic theories:
    - The Theory of Absolute Advantage;
    - The Theory of Comparative Advantage;
    - The Theory of Reciprocal Demand.

3.2 The Theory of Absolute Advantage

- Fundamental: Treating the Nature and Origin of the Richness of Nations (Adam Smith, 1776);
- Richness comes from the availability of products, not from the accumulation of capital.
- The availability of products is enabled by two basic advantages:
    - natural benefits;
    - obtained benefits.
- Presumption, that international market should be realised without intervention.
- Countries import products production of which are more expensive at home.

3.3 The Theory of Comparative Advantage

- Fundamental: Principles of Political Economy and Taxation (David Ricardo, 1817);
- It follows and complements the Theory of Absolute Advantage.
- International trade is profitable even if the state has an absolute advantage in all products with which this state can trade.

3.3 The Theory of Comparative Advantage

- Questions to muse:

- Why is the standard of living in Luxembourg higher than the standard of living in India?
- What role does technological advancement play in this?
- Does this fact also apply to the other areas than the standard of living (warfare, heavy industry …)?

3.4 Theory of Reciprocal Demand

- Fundamental: Political Economy Principles (John Stuart Mill, 1848).
- Costs are not fixed to the final price.
- The final price arises from a clash of demand and supply.

3.5 Barriers to International Trade

Types of barriers to expansion of foreign trade entities:

1) mercantilism;
2) many-sided instruments;
3) autonomous instruments.

3.5 Barriers to International Trade

ad 2) Many-sided Instruments:

a) bilateral;

b) multirateral:

- International organisation;
- international integration group.

- These are business contracts, directives and agreements mainly.

3.5 Barriers to International Trade

ad 3) Autonomous Instruments:

a) tariff;

b) non-tariff.

- They correspond with the unilateral interests of one particular state.
- It is an effort to prevent/reduce the entry of foreign business entities into the domestic market.

3.5 Barriers to International Trade

Customs duties are divided according to many criteria, especially by the following three:

a) function (anti-dumping, greenhouse, recciprocal, negotiating, prohibitive, etc.);
b) direction of movement of goods (import and export);
c) the way of withdrawal (percentage and specific).

3.5 Barriers to International Trade

- Entry barriers must be analysed before the expansion.
- Entry barriers are part of the expansion strategy.

Thank You for Your Attention