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Lecture 1

Basic Definitions

1. Definition of International Trade

International trade is exchange of goods between **countries**.
The trade within a country (within a single customs area) **is not international trade**.

Q: What are services? Aren't they also goods?

A: Yes, services are also goods, therefore we can speak about “visible” trade (trade in goods, merchandise trade, commodity trade) and “invisible” trade (trade in services).

**Remember: “Commodity goods” means all movable property including electricity.
(Eurostat)**

In **economics**, a service is an **economic** activity where an intangible exchange of value occurs.

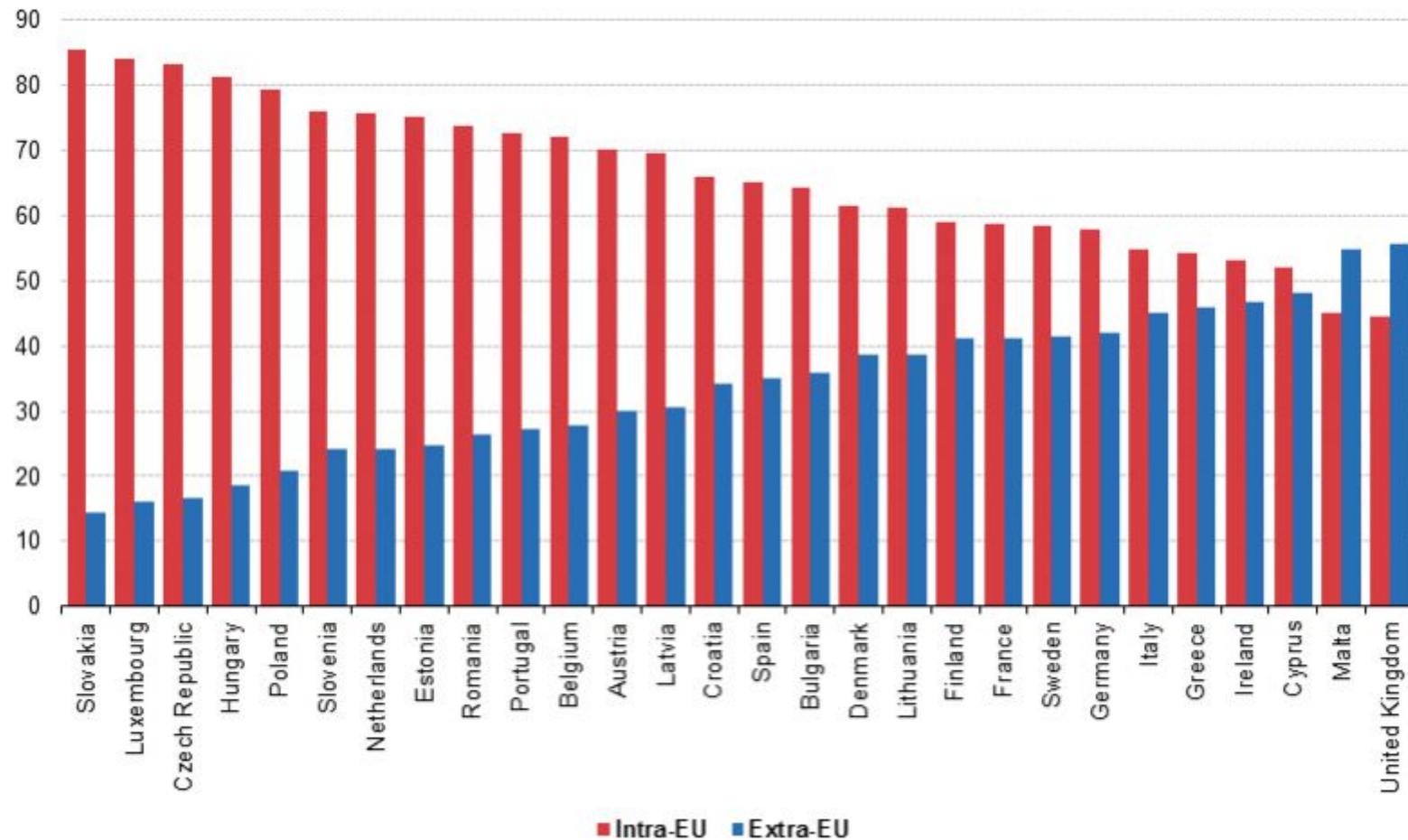
Most modern business theorists see a continuum with pure service on one terminal point and pure commodity good on the other terminal point. Most products fall between these two extremes. For example, a restaurant provides a physical good (the food), but also provides services in the form of ambience, the setting and clearing of the table, etc. And although some utilities actually deliver physical goods — like water utilities which actually deliver water — utilities are usually treated as services.

Q: Is Interstate trade in the USA and Intra-EU trade international trade or domestic trade?

A: The Interstate trade in the USA is domestic trade, but the Intra-EU trade (trade between EU Member States) is something between international trade and domestic trade. It is international trade because member states are sovereign countries and have their own fiscal territory and fiscal system – WAT and excises duties.

But it is semi domestic trade because there is a single customs area and the rules for establishing WAT and excises duties are common.

Intra-EU trade in goods compared with extra-EU trade in goods



Q: Does this have something to do with Brexit?

International Product classification:

Standard International Trade Classification (SITC) is a classification of goods used to classify the exports and imports of a country to enable comparing different countries and years. The classification system is maintained by the [United Nations](#). The SITC classification, is currently at revision four, which was promulgated in 2006. **The SITC is recommended only for analytical purposes, not for trade negotiations.**

For trade negotiations is used the **Harmonized Commodity Description and Coding System (HS) of the UN**. It has 21 sections. Each section is divided into chapters. They are **99 chapters (2 digit level)**. Each chapter is divided into **headings (4 digit level)**. Each heading is divided into **subheadings (6 digit level)**.

But EU uses the Combined nomenclature or CN

Q: What is the difference between CN and HS?

The global harmonized system (HS) is a common international system for classifying goods – used for international trade negotiations, and applied by most trading nations. Run by the [World Customs Organization \(WCO\)](#), it uses 6-digits and is used worldwide.

The EU's combined nomenclature (CN) is based on the HS but uses **8-digit codes** for a more detailed categorization – which helps to give clear and detailed information about every product.

REGULATIONS

COMMISSION IMPLEMENTING REGULATION (EU) No 1101/2014

of 16 October 2014

amending Annex I to Council Regulation (EEC) No 2658/87 on the tariff and statistical nomenclature and on the Common Customs Tariff

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EEC) No 2658/87 of 23 July 1987 on the tariff and statistical nomenclature and on the Common Customs Tariff⁽¹⁾, and in particular Articles 9 and 12 thereof,

Whereas:

- (1) Regulation (EEC) No 2658/87 established a goods nomenclature, hereinafter referred to as the 'Combined Nomenclature', to meet, at one and the same time, the requirements of the Common Customs Tariff, the external trade statistics of the Union, and other Union policies concerning the importation or exportation of goods.

CN code	Description	Conventional rate of duty (%)	Supplementary unit
1	2	3	4
0401	Milk and cream, not concentrated nor containing added sugar or other sweetening matter:		
0401 10	– Of a fat content, by weight, not exceeding 1%:		
0401 10 10	-- In immediate packings of a net content not exceeding two litres	13,8 €/100 kg/net	—
0401 10 90	-- Other	12,9 €/100 kg/net	—
0401 20	– Of a fat content, by weight, exceeding 1% but not exceeding 6%:		
	-- Not exceeding 3%:		
0401 20 11	--- In immediate packings of a net content not exceeding two litres	18,8 €/100 kg/net	—
0401 20 19	--- Other	17,9 €/100 kg/net	—
	-- Exceeding 3%:		
0401 20 91	--- In immediate packings of a net content not exceeding two litres	22,7 €/100 kg/net	—
0401 20 99	--- Other	21,8 €/100 kg/net	—
0401 40	– Of a fat content, by weight, exceeding 6% but not exceeding 10%:		
0401 40 10	-- In immediate packings of a net content not exceeding two litres	57,5 €/100 kg/net	—
0401 40 90	-- Other	56,6 €/100 kg/net	—
0401 50	– Of a fat content, by weight, exceeding 10%:		
	-- Not exceeding 21%:		
0401 50 11	--- In immediate packings of a net content not exceeding two litres	57,5 €/100 kg/net	—
0401 50 19	--- Other	56,6 €/100 kg/net	—
	-- Exceeding 21% but not exceeding 45%:		
0401 50 31	--- In immediate packings of a net content not exceeding two litres	110 €/100 kg/net	—
0401 50 39	--- Other	109,1 €/100 kg/net	—
	-- Exceeding 45%:		
0401 50 91	--- In immediate packings of a net content not exceeding two litres	183,7 €/100 kg/net	—
0401 50 99	--- Other	182,8 €/100 kg/net	—

Country classification:

The Geo nomenclature is used for classifying reporting countries and trading partners. Most often are used **two big country groups: developed and developing countries or economies.**

Each year on July 1, the analytical classification of the world's economies based on estimates of gross national income (GNI) per capita for the previous year is revised. As of 1 July 2016, low-income economies are defined as those with a GNI per capita, calculated using the [World Bank Atlas method](#), of \$1,025 or less in 2015; lower middle-income economies are those with a GNI per capita between \$1,026 and \$4,035; upper middle-income economies are those with a GNI per capita between \$4,036 and \$12,475; high-income economies are those with a GNI per capita of \$12,476 or more.

31 countries are low-income economies

58 countries are lower middle-income economies

56 countries are upper middle-income economies (China, Russia, Bulgaria, Turkey, etc)

78 countries are high-income economies. Half of them are very small countries like Lichtenstein or San Marino.

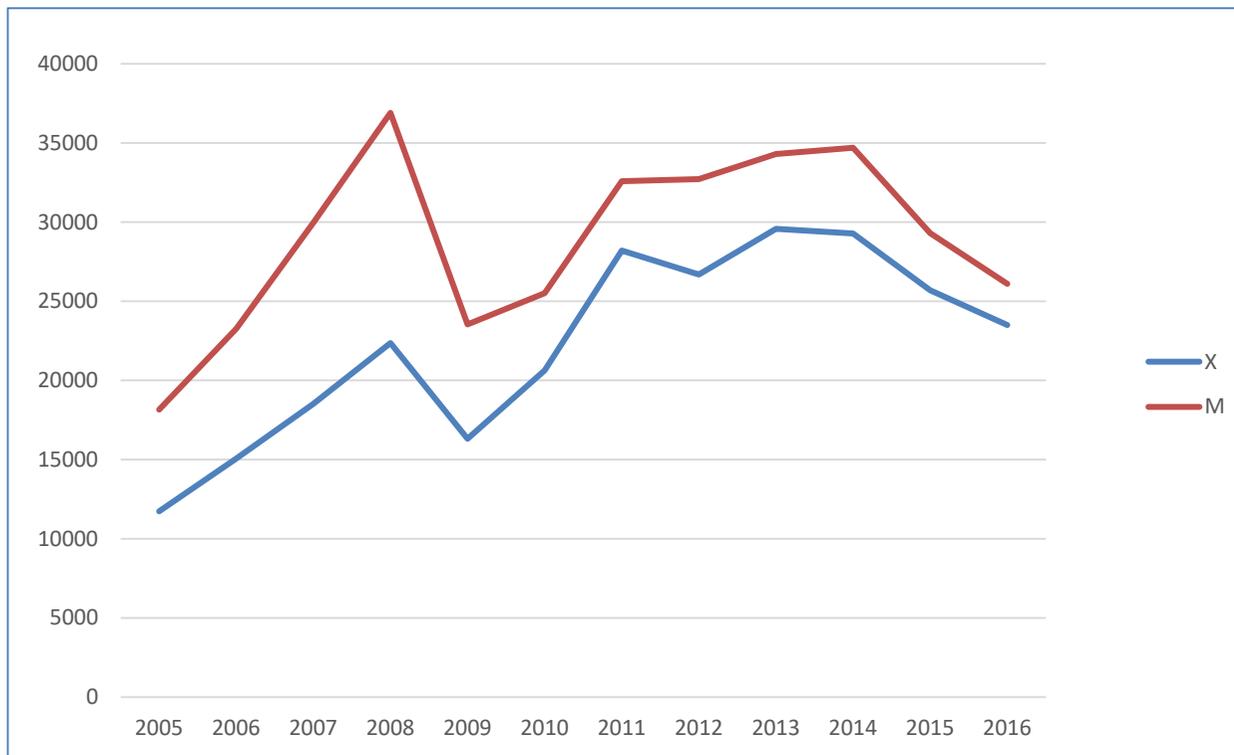
Therefore, it can be said that the developed countries are actually about 40. They almost coincide with the OECD member states

Basic Foreign Trade Indicators

Trade Volume = exports (x) + imports (m)

A country has Trade Surplus if $x - m > 0$

A country has Trade Deficit if $x - m < 0$



**Bulgaria's total
merchandise trade**

**(2005 – 2016),
US dollar at current
prices (Millions)**

X prices FOB

M prices CIF

Source: WTO

<http://stat.wto.org/StatisticalProgram/WSDBViewData.aspx?Language=E>

INCOTERMS 2015

International Commercial Terms ('Incoterms') are internationally recognized standard trade terms used in sales contracts. They're used to make sure buyer and seller know:

- Who is responsible for the cost of transporting the goods, including insurance, taxes and duties
- Where the goods should be picked up from and transported to
- Who is responsible for the goods at each step during transportation

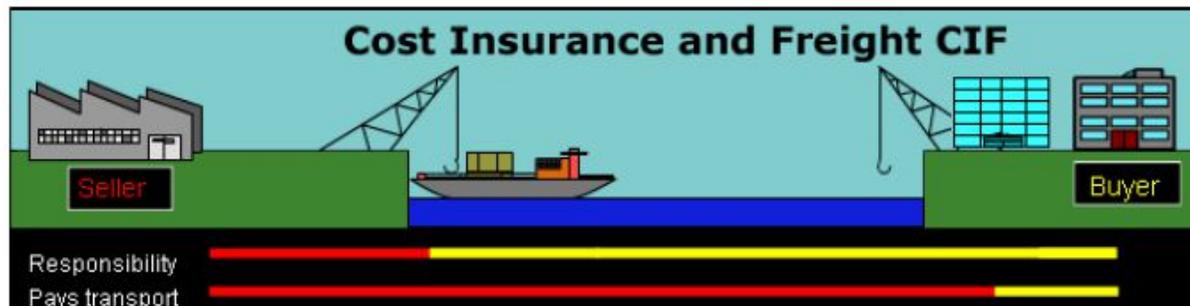
FOB ('Free on Board')

The seller must get the goods ready for export and load them onto the specified ship. The buyer and seller share the costs and risks when the goods are on board. This term is not used for goods transported in containers by more than one mode of transport (FCA is usually used for this).



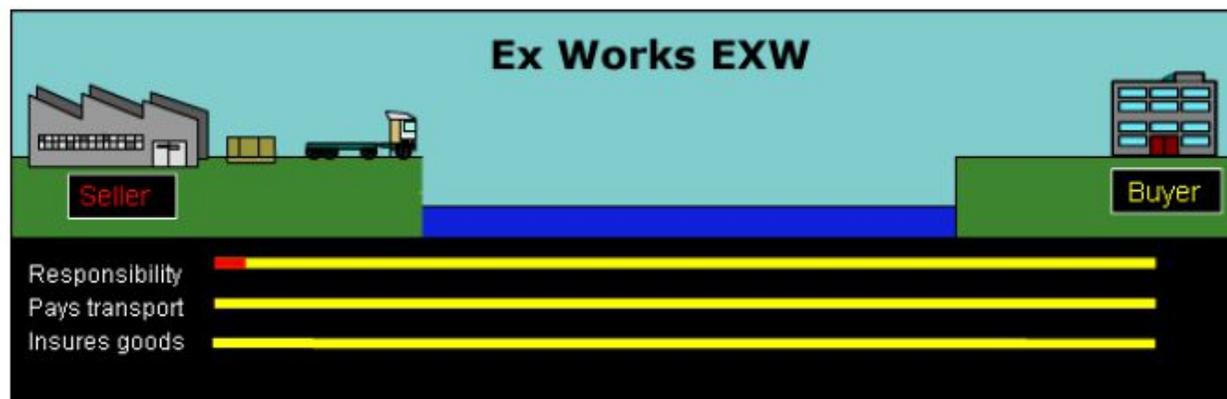
CIF ('Cost, Insurance and Freight')

The seller must pay the costs of bringing the goods to the specified port. They also pay for insurance. The buyer is responsible for risks when the goods are loaded onto the ship.

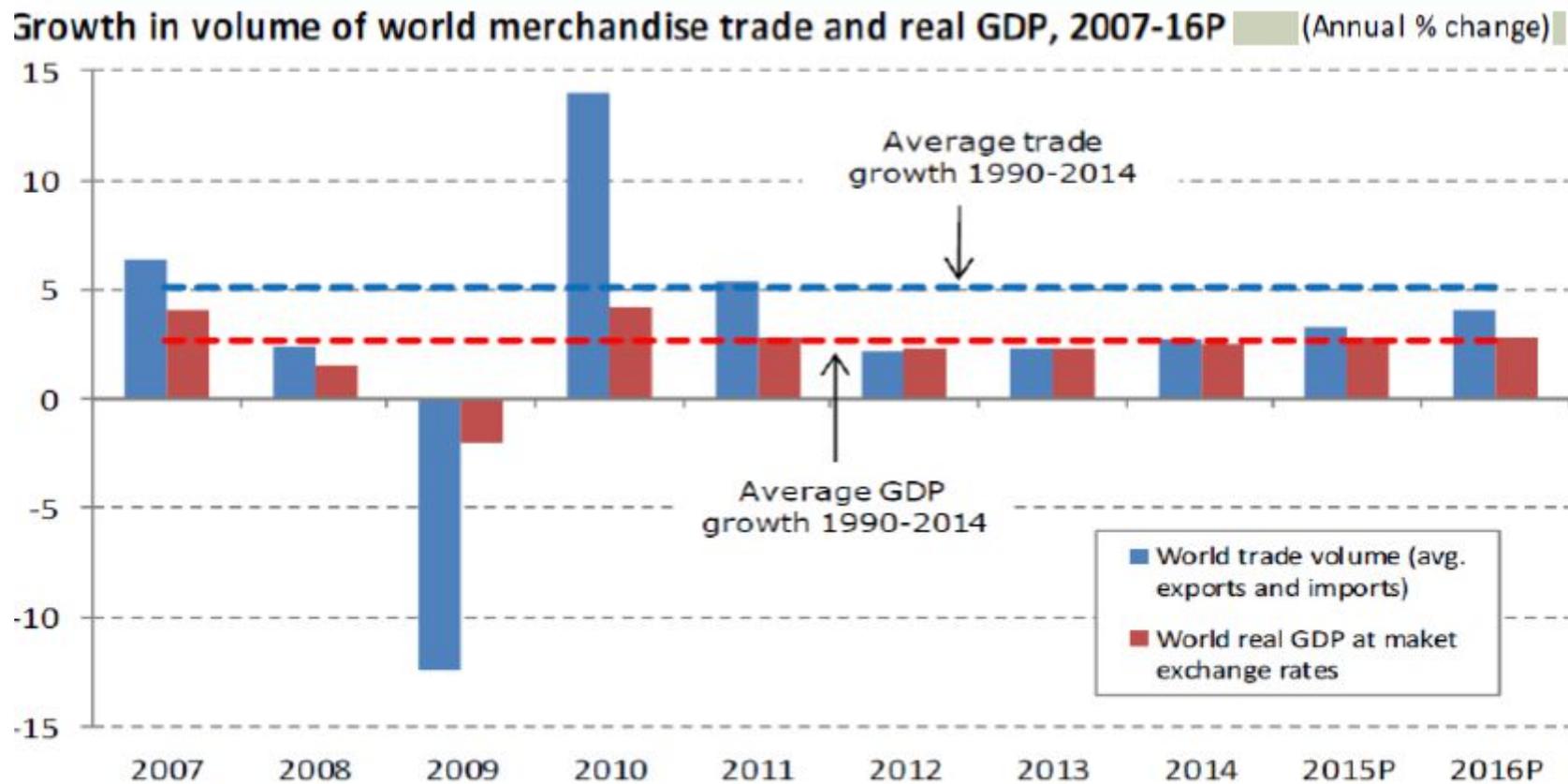


EXW ('Ex Works')

The seller makes the goods available to be collected at their premises and the buyer is responsible for all other risks, transportation costs, taxes and duties from that point onwards. This term is commonly used when quoting a price.



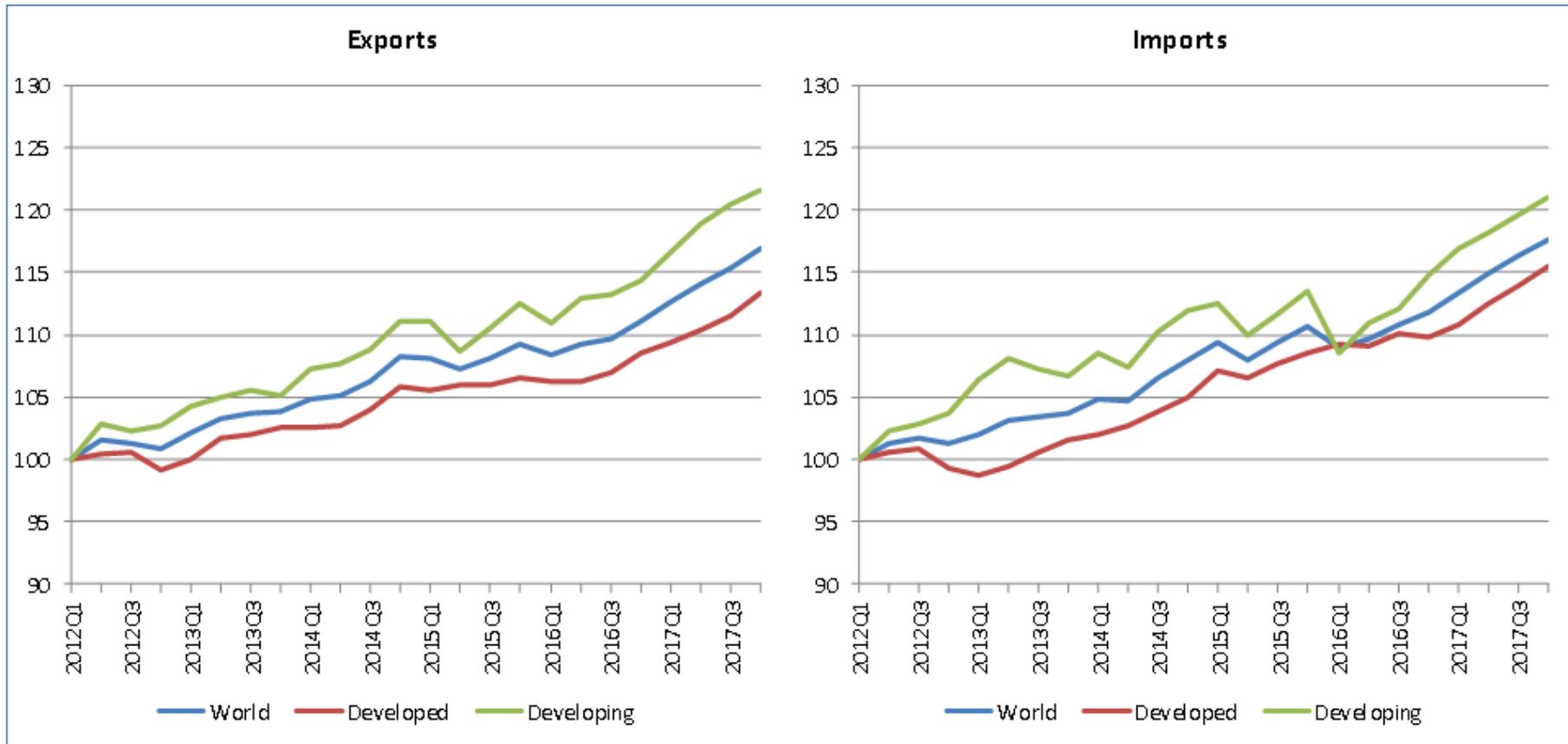
2. Importance of foreign trade



Average world trade growth 1990-2014 is almost twice bigger as average world GDP growth in the same period.

This shows that international trade is an important tool for globalization.

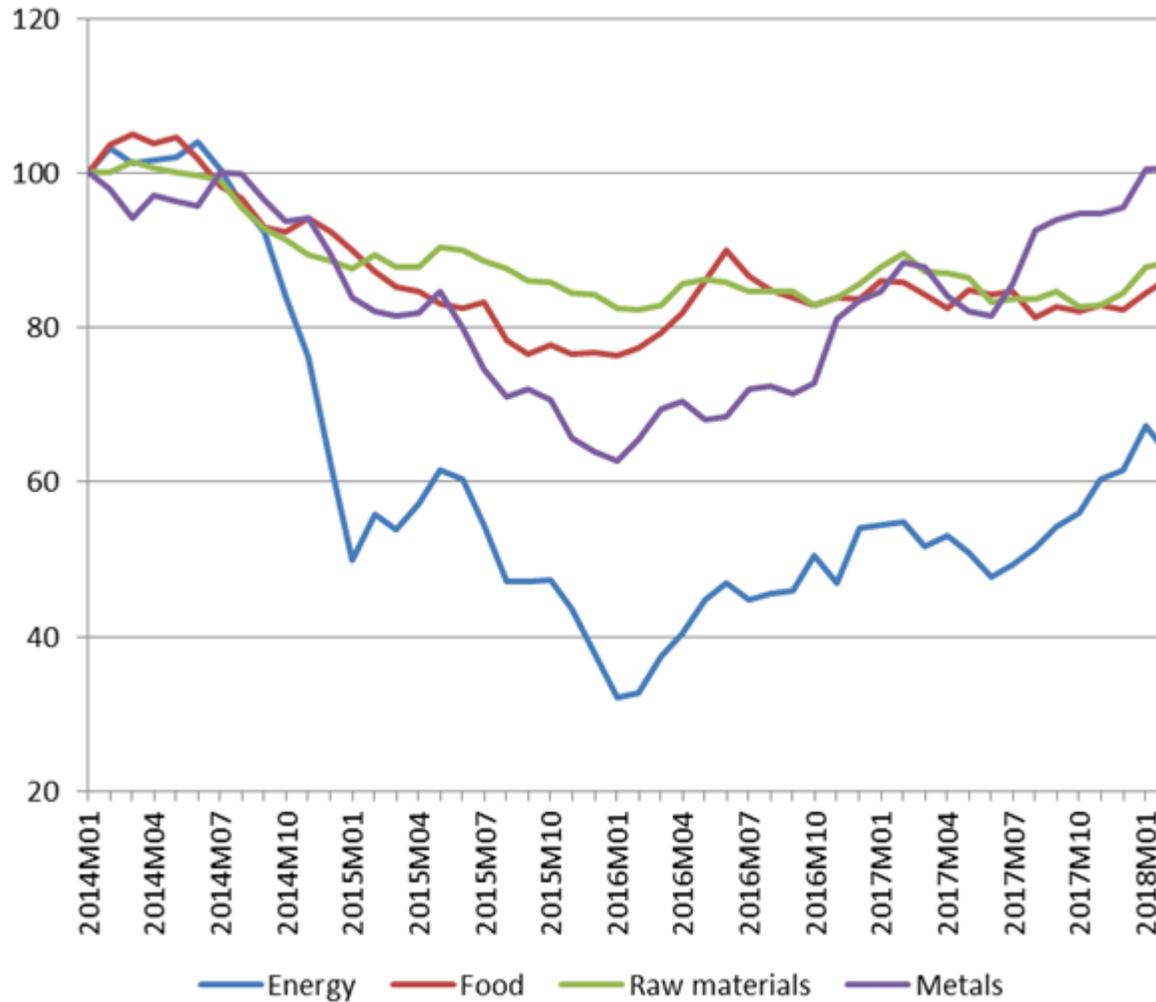
World merchandise exports and imports by level of development, 2012Q1-2017Q4



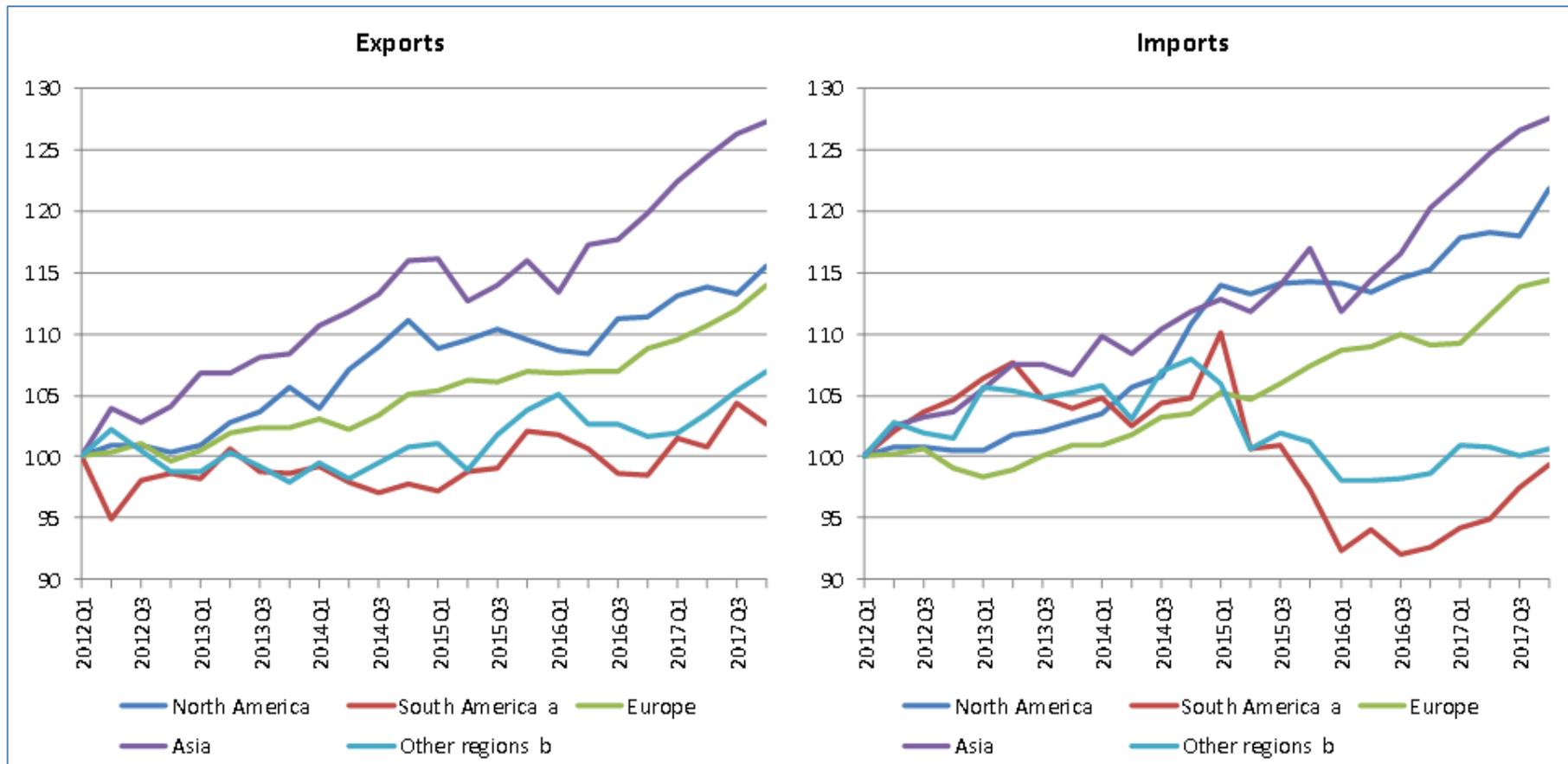
Volume of merchandise trade is bigger in developing/emerging countries. This is an argument in favor of trade liberalization as instrument for economic development. Best example is China.

3. Recent dynamics

Prices of primary commodities, Jan. 2014 - Feb. 2018
Indices, January 2014=100

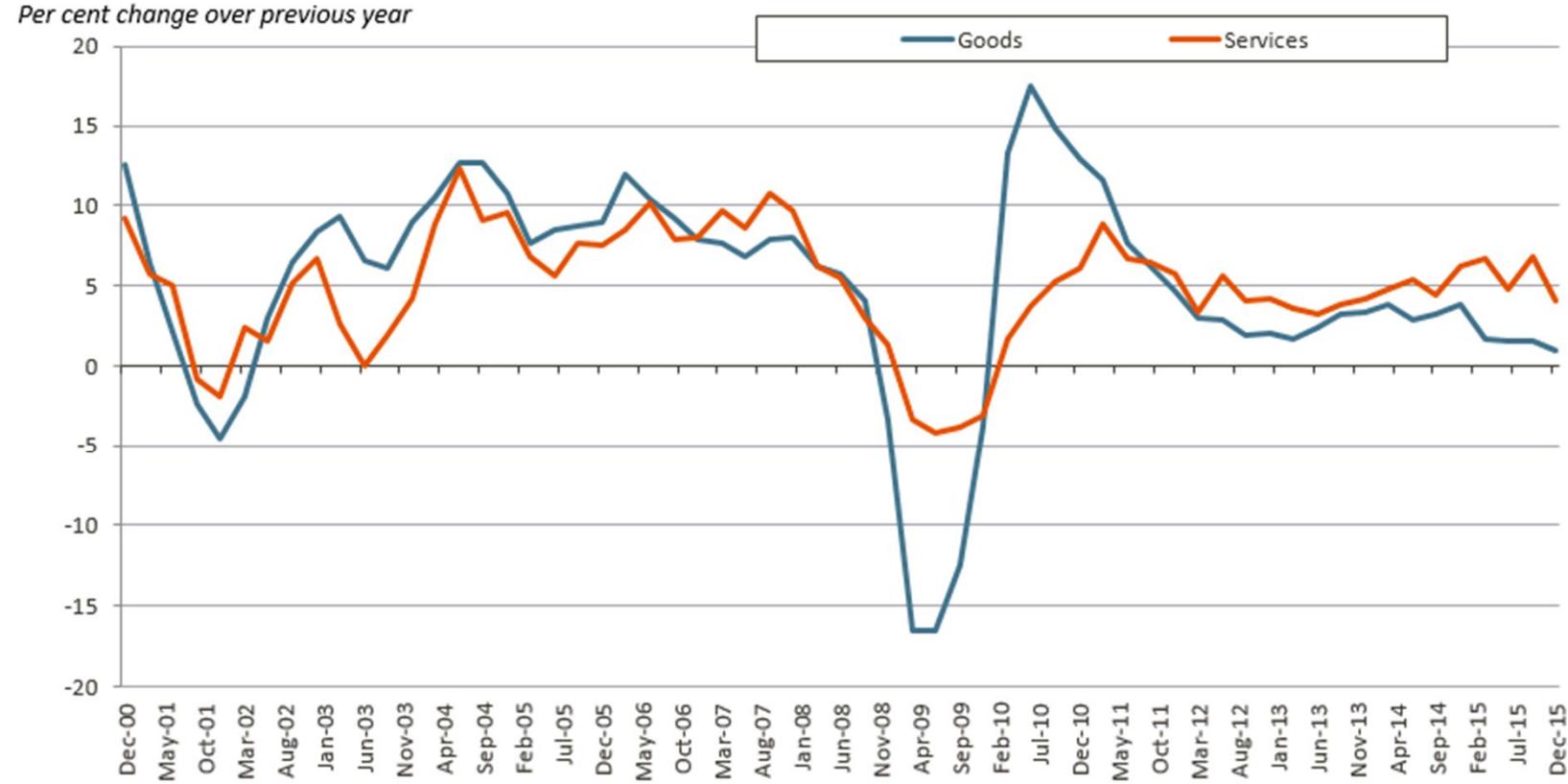


Merchandise exports and imports by region, 2012Q1-2017Q4



World export volumes: Goods vs Services

Growth in volume of world exports of goods and services



Source: Data provided by Oxford Economics

2018 top 20 exporting countries

Rank	Country	Exports (Billion \$)
1	China	2,216
2	United States	1,553
3	Germany	1,434
4	Japan	688.9
5	Korea, South	577.4
6	Netherlands	555.6
7	France	549.9
8	Hong Kong	537.8
9	Italy	496.3
10	United Kingdom	441.2
11	Canada	423.5
12	Mexico	409.8
13	Singapore	396.8
14	Russia	353
15	Taiwan	349.8
16	Spain	313.7
17	Switzerland	313.5
18	United Arab Emirates	308.5
19	India	304.1
20	Belgium	300.8

Who is the champion?

China leads the way with \$2.22 trillion in exports per year, but the country also has a sizable population of nearly 1.4 billion (it makes only about \$1,600 exported goods per person).

The US is the world's second largest exporter in terms of absolute value. The country exported \$1.55 trillion in goods in 2018, about \$4,800 per person.

Although Germany ranks third it sends a whopping \$1.43 trillion of goods abroad every year despite only having 83 million people. That's an astounding \$18,000 per person in exports.