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Lecture 1

Introduction

1. Definitions

International trade is exchange of goods between countries.
The trade within a country (within a customs area) is domestic trade.

Q&A

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.

2015 world trade in commodities (Merchandise trade) was $33.2 Trillion and in commercial services "only" $9,4 Trillion

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 trade between EU Member States international trade or domestic trade?

A: The Intra-EU trade 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.

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

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

In 2013, with the exception of three Member States (Greece, Malta and the United Kingdom), the greater proportion of a Member State's total trade in goods was with partners within the EU-28. But there is a relatively large variation among Member States in this proportion, ranging in 2013 from almost 83% of Slovakia's total exports of goods directed to other EU Member States to under 43% of Malta's total goods exports.

In line with the decrease seen overall for the EU-28, all but one Member State experienced a decrease in the proportion of its total worldwide trade in goods with partners in the EU-28 since 2002. Five Member States saw a decrease in this proportion of over 10 percentage points with the largest decrease for the United Kingdom (down almost 18 percentage points).

Q: Does this have some impact on Brexit?

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).

EU uses the Combined nomenclature or CN

Q: **What is the difference between CN and HS?**

The global **harmonised 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 Organisation (WCO), it uses 6-digits and is used worldwide.

The EU's **combined nomenclature (CN)** is based on the HD but uses 8–digit codes for a more detailed categorisation – 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.

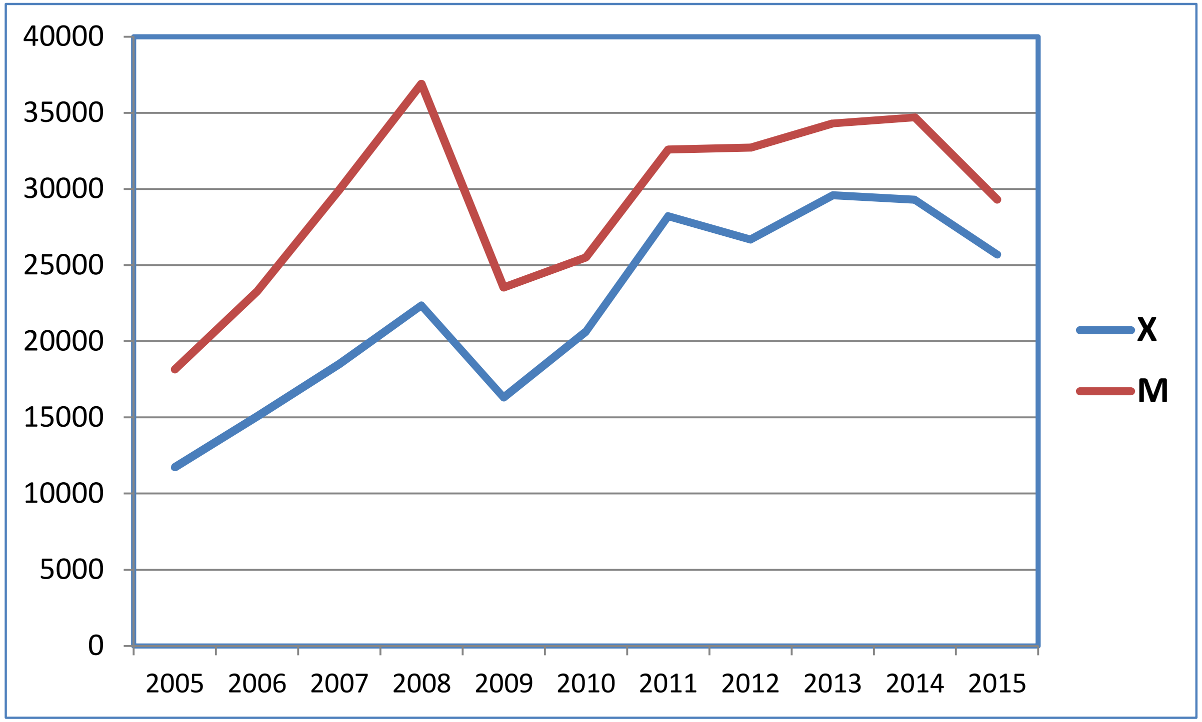
CN code	Description	Conventional rate of duty (%)	Supplementary unit
1	2	3	4
0401	**Milk and cream, not concentrated nor containing added sugar or other sweetening matter:**		
0401 10	**– Of a fat content, by weight, not exceeding 1 %:**		
0401 10 10	– – In immediate packings of a net content not exceeding 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	—

<u>Country classification:</u> The Geonomenclature is used for classifying reporting countries and trading partners. Most often are used two big country groups: developed and developing countries or economies.

<u>Trade Volume</u> = exports (x) + imports (m)

<u>Trade Surplus</u> = x-m>0

<u>Trade Deficit</u> = x-m< 0



Bulgaria's total merchandise trade

(2005 – 2015),
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')

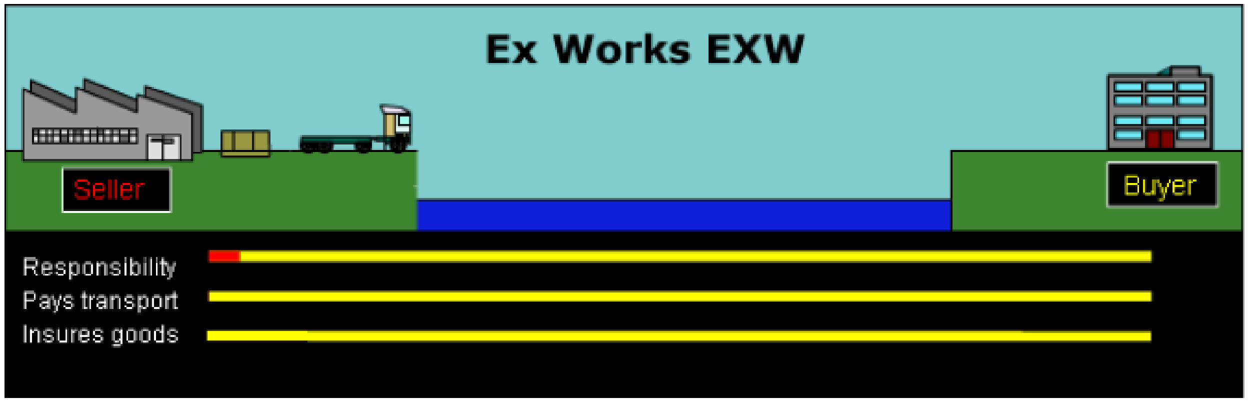
The seller must get the goods ready for export and load them onto the specified ship. The buyer and seller share the costs and risks when the goods are on board. This term is not used for goods transported in containers by more than one mode of transport (FCA is usually used for this).

CIF ('Cost, Insurance and Freight')

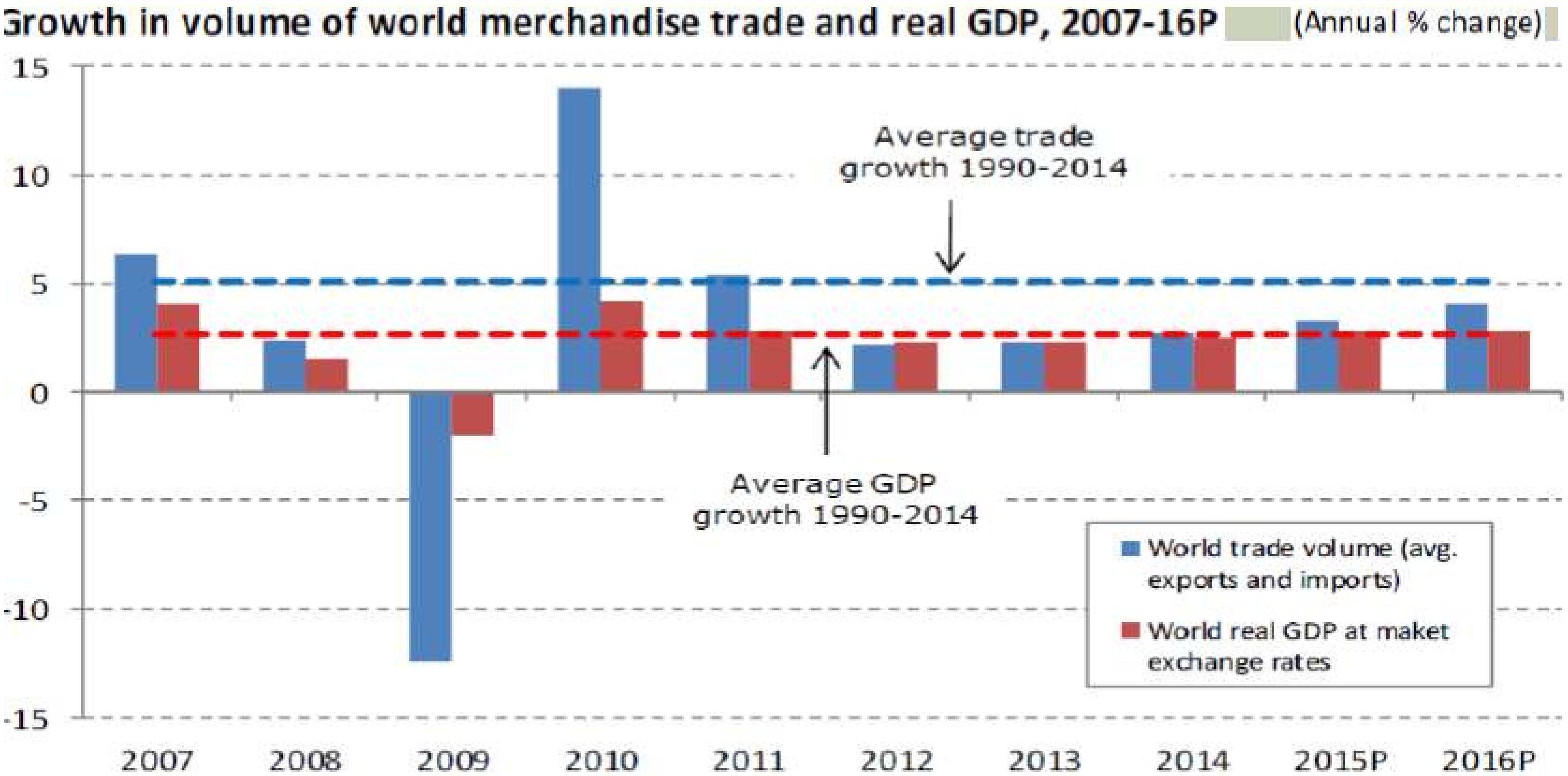
The seller must pay the costs of bringing the goods to the specified port. They also pay for insurance. The buyer is responsible for risks when the goods are loaded onto the ship.

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.

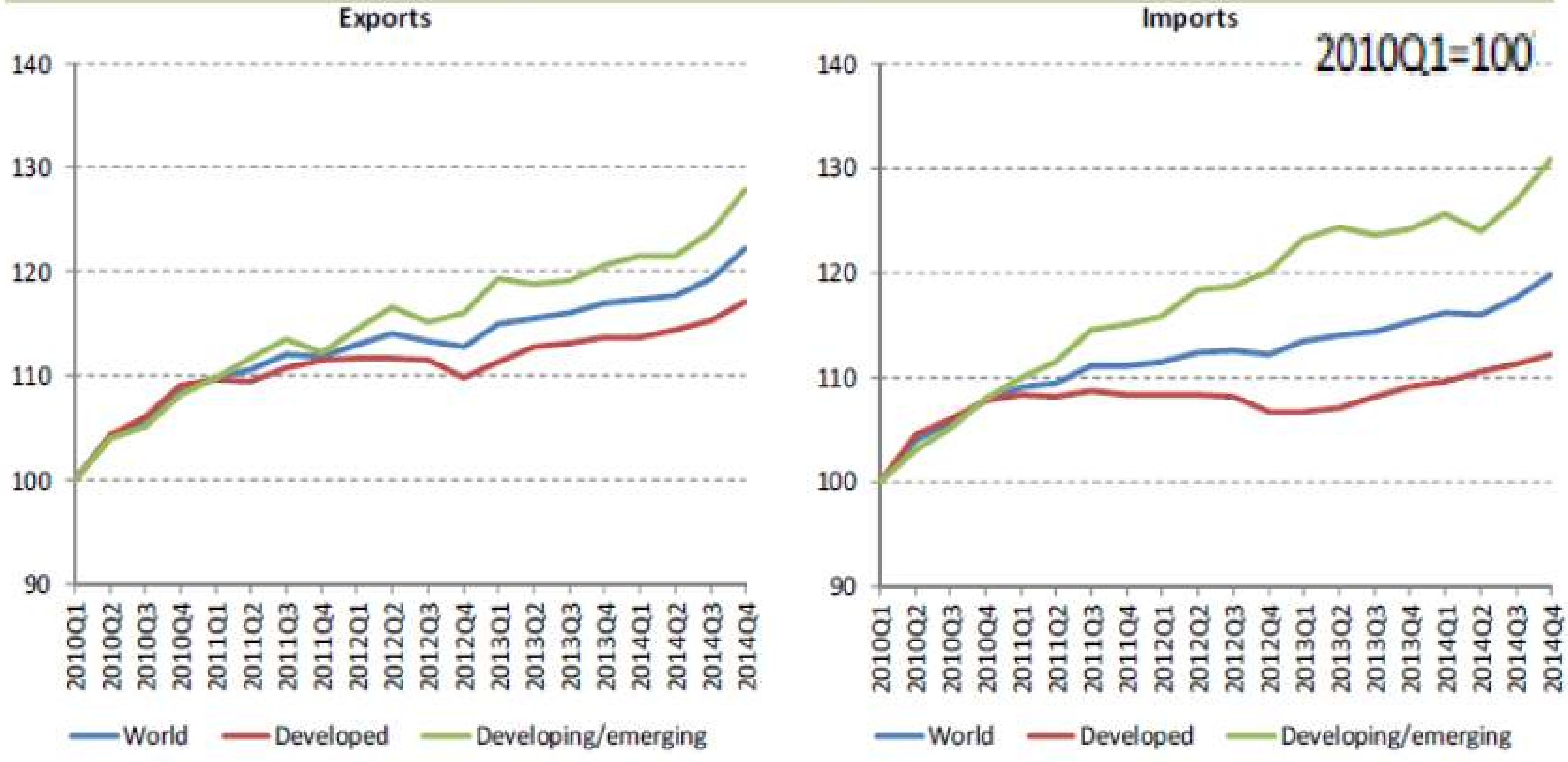


2. Importance



Average world trade growth 1990-2014 is almost twice bigger as average word GDP growth in the same period.
This shows that international trade is an important tool for globalization.

Volume of merchandise exports and imports by level of development, 2010Q1-2014Q4

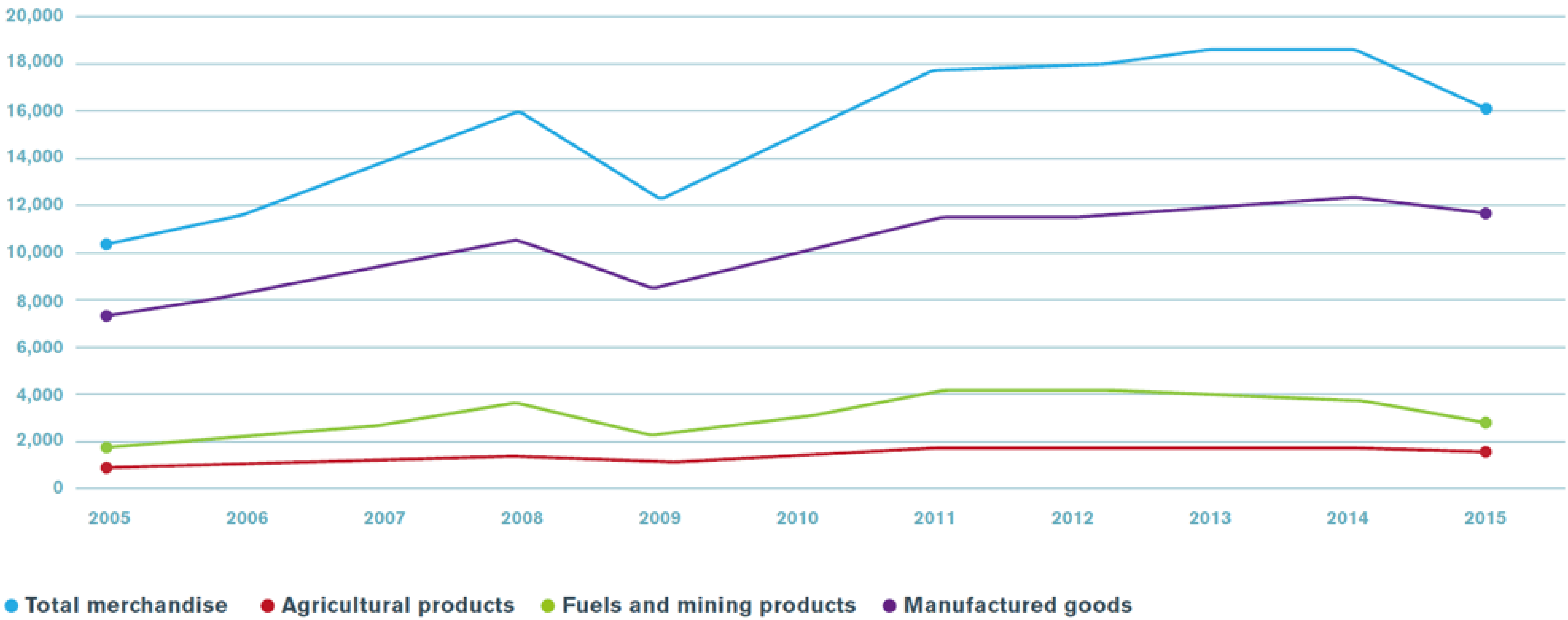


Source: WTO and UNCTAD Secretariats.

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

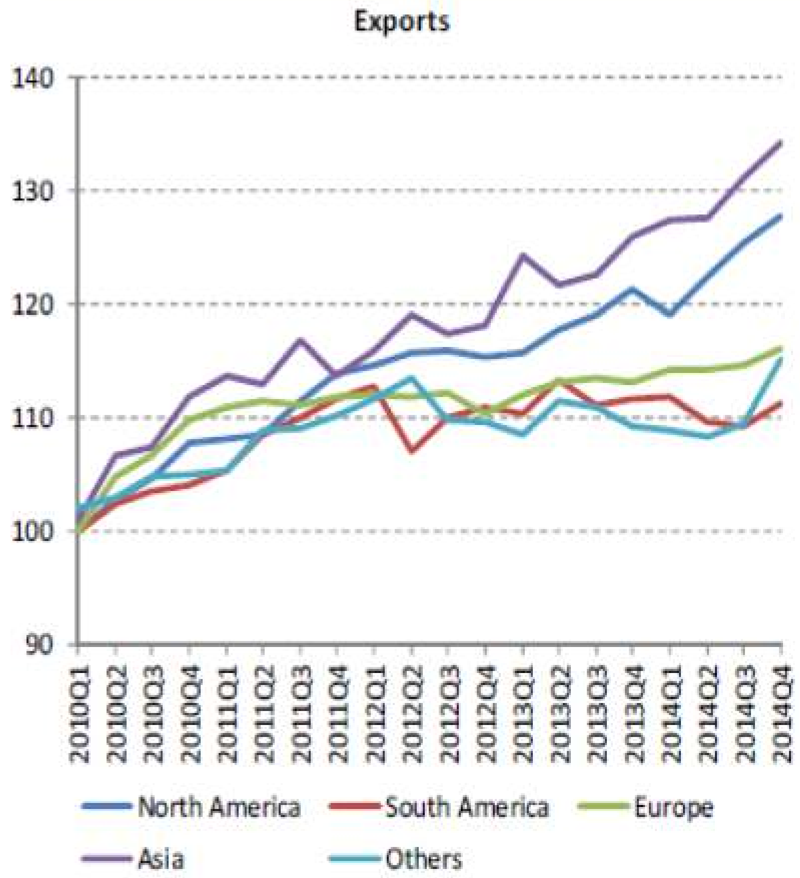
Chart 4.1:
World merchandise exports, 2005-2015

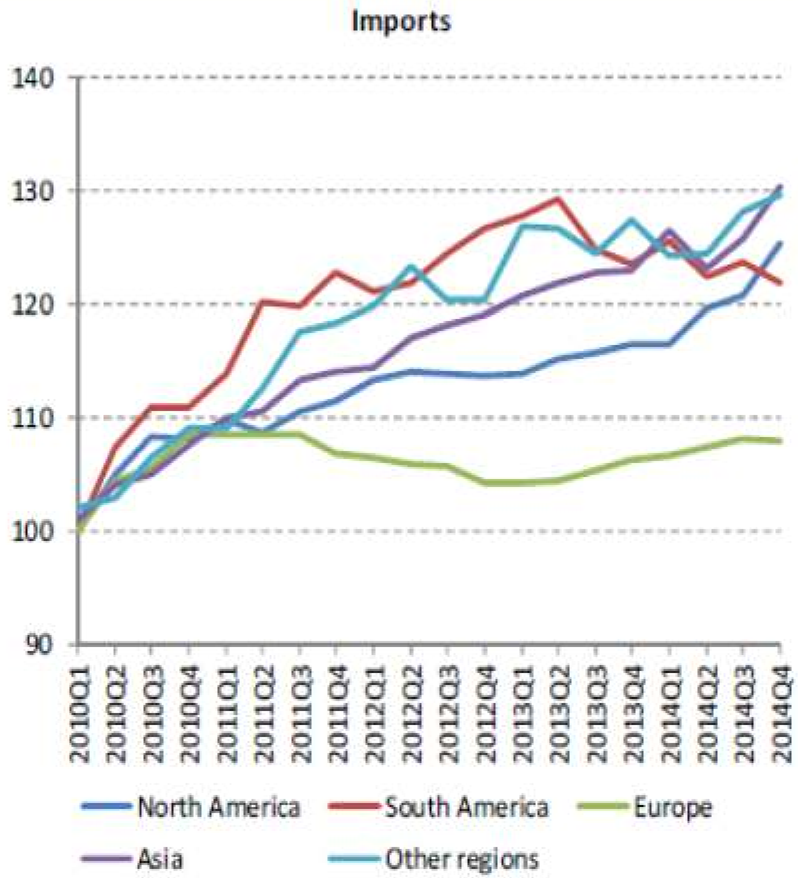


Source: WTO Secretariat.

Volume of merchandise exports and imports by region, 2010Q1-2014Q4

(Seasonally adjusted volume indices, 2010Q1=100)





World export volumes: Goods vs Services

Q: Why in recent years trade in services is better performing as trade in commodities?