NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: ENT 322

COURSE TITLE: PRINCIPLES AND PRACTICES OF INTERNATIONAL TRADE

COURSE MATERIAL DEVELOPMENT

ENT 322

PRINCIPLES AND PRACTICES OF INTERNATIONAL TRADE

COURSE GUIDE

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COURSE GUIDE

INTRODUCTION

This course guide tells you the nature of the course the materials you are going to use and how you are expected to use them for meaningful benefits. It is expected that at least two hours should be devoted to the study of every unit. For each course units there are exercises. You are encouraged to do them. They serve as points of reflections, which are necessary for proper understanding of the facts.

At the end of each unit, there are tutor-marked assignments, which you are expected to answer. They serve as revision and continuous assessment. Tutorial lectures will be provided. This is the opportunity you have for a face-to-face contact with your facilitator. Any area you did not understand will be explained during the tutorial classes.

COURSE AIMS

The course aims at exposing you (students) to the necessary information that will add to the student's knowledge on principles and practices of International trade The aim of the course shall be achieved by:

- Defining and explaining international trade
- Examining the nature and scope of international trade.

- Briefly tracing the historical development of international trade
- Discussing the basic concepts and reasons for international trade.
- Examining the comparison between international trade and international business.
- Identifying the prevailing problems of international trade
- Explaining the various forms of international trade

COURSE OBJECTIVES

Upon successful completion of this course, you should be able to: Discuss succinctly the principles and practice of international trade.

MODULE 1

- Define and explain international trade
- Examine the nature and scope of international trade.
- Briefly trace the historical development of international trade
- Examine the issues surrounding the establishment of world trade organization (WTO)
- Discuss the general agreement on tariff and trade (GATT).
- Explain the machinery or mechanism of world trade organization.

- Dilate on the dynamism on the nature of GATT members to WTO environments.
- Elucidate succinctly the major features of WTO agreements.
- Explain the control on WTO by government of importing countries.
- Identify the general agreement on tariff and trade in services (GATT) and
- Examine the world trade organization membership from year 2000 to date.
- Dilate copiously the explanation of the term international trade.
- Examine the various key components of international trade.
- Discuss terms of trade and its features.
- Explain some of the measures of terms of trade.
- Define balance of trade.
- Examine the techniques and economic effects of international trade restrictions.
- Discuss the ill effects of trade to involve;
- Immiserising growth and
- The Dutch Disease technique

MODULE 2

- Define and explain protectionism and liberalization
- Discuss the major developments of liberalization in the 19th century.
- Examine protectionism and liberalization in Europe
- Identify and explain the instruments of international trade protection and promotion.
- Examine the various cases for international trade protection.

MODULE 3

- Enumerate several needed reforms in the GATT-WTO system
- Identify several items in the Third World's strategic agenda for change.
- Describe the kind of preparatory work needed for Third World strategic engagement with the GATT-WTO.
- Discuss some of the external sector activities and international financing.
- Examine the intricacies surrounding foreign exchange market.
- Explain the concept of hybrid exchange rate regimes.
- Identify the essential variable under the alternative exchange rate regimes.
- Examine the bankers' role and traditional vehicle employed
- Discuss the letter of credit instrument.

MODULE 4

- Examine clearly the major types of foreign operations we have.
- Discuss joint ventures as a type of foreign operation.
- Identify the major issues of Nations/Organizations with foreign operations.
- Explain currency risk management in international operations management.
- Discuss financial strategies concept in foreign operations management.
- Dilate copiously types of foreign exchange exposure (risk).
- Define and explain counter trade
- Examine the various types of counter trade and classification of form.
- Highlight the advantages and drawbacks of counter trade.
- Discuss government position towards counter trade.
- Examining the consistency of counter trade with the international trade framework.
- Know how firms are prepared for counter trade.
- Discuss the attitude of international organizations to counter trade.

COURSE MATERIALS

1. Course Guide
2. Study Units
3. Textbooks
4. Assignment File
5. Tutorials

STUDY UNITS

There are sixteen study units into four modules as shown below:

MODULE 1

MODULE 2

MODULE 3

Unit 1: Third World Agenda for Change in Global Trade Regime.

Unit 2: Nature of International Financing and its Vehicles.

Unit 3: International Financial Institution

Unit 4: Regulation of International Trade

MODULE 4

Unit One: Management of Foreign Operations And International Trade

Unit Two: Strategies of Firms in International Trade

Unit Three: Economic Cooperation and International Trade

Unit Four: Trade Policies and Economic Depression

For each study unit, which you are expected to spend at least three hours, there are specific objectives. At the end of each unit, measure what you have learnt against the objectives. If there is any deviation go back to the contents of the unit. There are textbooks, which you may go for additional information.

The exercise in each unit have to be attempted to ensure that you are following the ideas being presented. In addition, there are tutor-marked assignments. You are entreated to attempt them, as some of them will form part of the continuous assessment.

ASSIGNMENT FILE

There will be four (4) assignments, which will cover the following areas:

MODULE 1

Introduction to International Trade, Dynamics of World Trade, Basic Components of International Trade , Theories of International Trade(1,2,3 & 4)

MODULE 2

Background To Professionalism And Liberalization, Global Trade Regime, Free Trade Rhetoric and Protectionism Reality in WTO , Trade Liberalism and Restrictions on Migration of Third World Labour (1,2,3 & 4).

MODULE 3

Third World Agenda for Change in Global Trade Regime., Nature of International Financing and its Vehicles, International Financial Institution , Regulation of International Trade (1,2,3 & 4).

MODULE 4

Management of Foreign Operations And International Trade , Strategies of Firms in International Trade, Economic Cooperation and International Trade, Trade Policies and Economic Depression(1,2,3 & 4).

PRESENTATION SCHEDULE

This concerns date for tutorials, submission of assignment to be sent to you in due course.

ASSESSMENT

This will be in two forms:

1. The continuous assessment which will be based on 30%.
2. The final semester examination after you have completed the material 70%.

TUTOR-MARKED ASSIGNMENTS

There is TMA at the end of each unit and you are to submit the four. Each of them is 10%.

As soon as you complete your assignment, sent it immediately to the tutor. The best three (3) will be selected for continuous assessment purpose.

FINAL EXAMINATION AND GRADING

The final examination of ENT428 will be of two-hour duration and have a value of 70% of the total course grade. The examination will consist of questions which reflect the type of self-testing, practice exercises and tutor-marked problems you have come across. All areas of the course will be assessed.

You are advised to revise the entire course after studying the last unit before you sit for the examination. You will find it useful to review your tutor-marked assignments and the comments of your tutor on them before the final examination.

COURSE REVIEW

This table brings together the units, the number of weeks you should take to complete them, and the assignments that follow them.

	TITLE OF THE WORK	WEEKS ACTIVITY	ASSESSMENT
UNIT	MODULE 1		END OF UNIT
ONE TWO THREE	Introduction to International Trade Dynamics of World Trade Basic Components of International Trade	1 1 1 1	1ST Assignment

FOUR	Theories of International Trade		
UNIT	**MODULE 2**		**END OF UNIT**
ONE	Background To Professionalism And Liberalization	1	
TWO	Global Trade Regime	1	
THREE	Free Trade Rhetoric and Protectionism Reality in WTO	1	2ND Assignment
FOUR	Trade Liberalism and Restrictions on Migration of Third World Labour	1	
UNIT	**MODULE 3**		**END OF UNIT**
ONE	Third World Agenda for Change in Global Trade Regime.	1	
TWO	Nature of International Financing and its Vehicles.	1	
THREE	International Financial Institution	1	3RD Assignment
FOUR	Regulation of International Trade	1	

UNIT	MODULE 4		END OF UNIT
ONE	Management of Foreign Operations And International Trade	1	
TWO	Strategies of Firms in International Trade	1	4TH Assignment
THREE	Economic Cooperation and International Trade	1	
FOUR	Trade Policies and Economic Depression	1	
	REVISION	1	
	Total	**17**	

How to get the most from this course

In distance learning the study units replace the university lecturer. This is one of the greatest advantages of distance learning; you can read and work through specially designed study materials at your pace, and at a time and place that suit you best.

Think of it as reading the lecture instead of listening to a lecturer. In the same way that a lecturer might set you some reading to do, the study units tell you when to read your set books or other material.

Just as a lecturer might give you an in-class exercise, your study units provides exercises for you to do at appropriate points.

Each of the study units follow a common format. The first item is an introduction to the subject matter of the unit and how a particular unit is integrated with the other units and the course as a whole. Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the units you must go back and check whether you have achieved the objectives. These objectives let you know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the units you must go back and check whether you have achieved the objectives. If you make a habit of doing this you will insignificantly improve your changes of passing the course. The main body of the unit guides you through the required reading from other sources.

READING SECTION

Remember that your tutor's job is to help you. When you need help, don't hesitate to call and ask your tutor to provide it.

1. Read this course guide thoroughly.

2. Organize a study schedule. Refer to the "Course overview" for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.

3. Once you have created your own study schedule, do every thing you can to stick to it. The major reason that students fail is that they get behind with their course work. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.

4. Turn to unit 1 and read the introduction and the objectives for the unit.

5. Assemble the study materials. Information about what you need for a unit is given the "Overview" at the beginning of each unit. You will always need both the study unit you are working on and one of your set books on your desk at the same time.

6. Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the unit you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.

7. Review the objectives for each study unit to confirm that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult your tutor.

8. When you are confident that you have achieved a units objectives, you can start on the next unit. Proceed unit by unit through the course and try to space your study so that you keep yourself on schedule.

9. When you have submitted an assignment to your tutor for marking, do not wait for its return before starting on the next unit. Keep to your schedule. When the assignment is returned, pay particular attention to your tutor's comments. Consult your tutor as soon as possible if you have any questions or problems.

10. After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objective (listed in the course guide).

TUTOR AND TUTORIALS

There are 8 hours of tutorials provided in support of this course. You will be notified of the dates, times and location of these tutorials, together with the name and phone number of your tutor, as soon as you are allocated a tutorial group.

Your tutor will mark and comment on your assignment, keep a close on your progress and on any difficulties you might encounter and provide assistance to you during the course.

You must mail your tutor- marked assignments to your tutor well before the due date (at least two working days are required). They will be marked by your tutor and returned to you as soon as possible. Do not hesitate to contact your tutor by telephone, e-mail, or discussion board if you need help. The following might be circumstances in which you would find help necessary.

Contact your tutor if:

1) You do not understand any part of the study units or the assigned readings.
2) You have difficulty with the self-tests or exercises.

3) You have a question or problem with an assignment, with your tutor's comments on an assignment or with the grading of an assignment.

You should try your best to attend the tutorials. This is the only chance to have face-to-face contact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study. To gain the maximum benefit from course tutorials, prepare a question list before attending them. You will gain a lot from participating in discussion actively.

SUMMARY

International trade and production are a way of life for business managers today. All over the world large numbers of business people find that foreign trade is an importance part of their total activities countries rely on foreign countries for much of their raw materials or sell a significant portion of their output abroad.

International trade makes available a range of materials and process that could not conceivably exist in one restricted.

Webster's New encyclopedic dictionary defined trade as exchange, interchange or barter.

International trade therefore means the commercial transaction or exchanges that occur between two or more countries.

Countries trade because they are different from each other. Countries can benefit from their differences by reaching arrangement in what each does or naturally endowed.

International is different from domestic trade which takes place within a country and uses local currency.

The difficulties in re-selling the counter trade goods was seen as the major reason for not counter trading (74%), other reasons were no in-house use for the counter traded goods (66%), a lack of knowledge about counter trade (64%), the complex negotiations involved (62%), the time consumed in negotiations (60%), problems with pricing (59%), and a general increase in uncertainty. Counter purchase, offset and switch was the major forms of counter trade in which the respondents firms engaged. Barter and compensation occurred much less frequently.

ENT 204: PRINCIPLES AND PRACTICE OF INTERNATIONAL TRADE

MODULE ONE

UNIT 1: INTRODUCTION TO INTERNATIONAL TRADE

UNIT 2: DYNAMICS OF WORLD TRADE

UNIT 3: BASIC COMPONENTS OF INTERNATIONAL TRADE

UNIT 4: THEORIES OF INTERNATIONAL TRADE

MODULE TWO

UNIT 1: BACKGROUND TO PROTECTIONISM AND LIBERALIZATION

UNIT 2: GLOBAL TRADE REGIME

UNIT 3: FREE TRADE RHETORIC AND PROTECTIONISM REALITY IN W.T.O

UNIT 4: TRADE LIBERALISM AND RESTRICTIONS ON MIGRATION OF THIRD WORLD LABOUR

MODULE THREE:

UNIT 1: THIRD WORLD AGENDA FOR CHANGE IN GLOBAL TRADE REGIME.

UNIT 2: NATURE OF INTERNATIONAL FINANCE AND ITS VEHICLES

UNIT 3: INTERNATIONAL FINANCING INSTITUTION

MODULE ONE

UNIT 1: INTRODUCTION TO INTERNATIONAL TRADE

CONTENTS

3.4.6 Economic and Social Development

3.5 International trade and international business compared

3.6 Prevailing problems of international trade

3.7 Forms of international trade

3.7.1 Direct Exporting

3.7.2 Foreign Licensing

4.0 Conclusion

5.0 Summary

6.0 Tutor marked assignment

7.0 Reference/Further Reading

1.0 INTRODUCTION

International trade and production are a way of life for business managers today. All over the world large numbers of business people find that foreign trade is an importance part of their total activities countries rely on foreign countries for much of their raw materials or sell a significant portion of their output abroad.

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International is different from domestic trade which takes place within a country and uses local currency.

2.0 LEARNING OBJECTIVES

Upon successful completion of this unit, you should be able to:

- Define and explain international trade
- Examine the nature and scope of international trade.
- Briefly trace the historical development of international trade
- Discuss the basic concepts and reasons for international trade.
- Examine the comparison between international trade and international business.
- Identify the prevailing problems of international trade
- Explain the various forms of international trade

3.0 MAIN CONTENT

3.1 DEFINITION AND MEANING OF INTERNATIONAL TRADE

International trade is the exchange of capital, goods and services across international borders or territories. International trade is the trade that takes place between one country and other countries. i.e. it is a trade transaction that takes place between one or more countries. It is different from domestic trade which takes place within a country and uses local currency.

International trade involves the use of international currency(ies) and to obtain this, one has to go through some procedures.

Czinkota etal defined international trade to consists of transaction that are devised and carried out across national boarders to satisfy the objectives of individuals and operations.

International trade uses a variety of currencies, the most important of which are held as foreign resent by governments and central banks.

Here the percentage of global cumulative reserves held for each currency between 1995 and 2005 are shown: the US dollar is the most sought-after currency, with the Euro in strong demand as well.

3.2 THE NATURE AND SCOPE OF INTERNATIONAL TRADE

In most countries, international trade represent a significant share of Net National product and Gross Domestic Product. International trade as the meaning implicate has been presented throughout much of history, its economic social and political importance has been on the rise in recent centuries.

Industrialization, advanced transportation, globalization, multinational corporations and outsourcing are all having a major impact on the international trade continuance of globalization. Without international trade, nations would be limited to the goods and survives produced within their own borders.

International trade is, in principle, not different from domestic trade as the motivation and the behaviour of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade. The reasons is that a border typically imposes additional costs such as tariffs, time costs due to border delays and cost associated with country differences such as language the legal system or culture. Another between domestic and international trade is that factors of production such as capital and labour are typically more mobile within a country than across countries. Thus international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labour or others.

3.3 BRIEF HISTORICAL DEVELOPMENT OF INTERNATIONAL TRADE

The barter of goods or services among different peoples is an age-old practice, probably as old as human history.

International trade, however refers specifically on an exchange between members of different nations and accounts and explanations of such trade begin (despite fragmentary earlier discussions) only with the rise of the modern nation-state at the close of the European middle ages. As political thinkers and philosophers began to examine the nature and function of the nation trade, trade with other countries became a particular topic of their inquiry. It is, accordingly, no surprise to find one of the earliest form of trade.

International trade has been in existence since ancient times. Even in the Bible references were made to trading activities between different countries. Illusion was made in the book of Genesis of sons of Jacob who went to Egypt to buy grains. With increase in civilization and traveling added to the known benefits of specialization and division of labour. International trade among countries of the world has even increased tremendously.

Although early writers recognized the existence of international trade, they felt that it was not much different from domestic trade to warrant the existence of a separate theory. Adam Smith in his much celebrated work published in 1776 and titled "An Inquiry into the Nature and causes of the wealth of Nation" was the first economists to propound the classical theory. Ohlin (1933) argued that international trade" should be regarded as a special case within the general concept of international economics. He further argued that nations engaged in trading for the same reasons for which individuals or groups within the country trade with each other instead of each one producing his own requirement. The reason is that they are enabled to exploit the substantial advantages of division of labour to their mutual advantage.

Trade between different countries developed first where one country could produce something desirable which others could not. International trade, therefore owes its origin to the varying resources and climate of different regions.

3.4 BASIC CONCEPTS AND REASONS FOR INTERNATIONAL TRADE

International trade refers to buying and selling of goods and services between countries e.g. between Nigeria and the United States of America, Ghana or Australia etc. In other words the term “international trade” refers to exchange of goods and services that take place across international boundaries.

International trade is simply defined as the trade across the borders of a country. This may be between two countries, which is called bilateral trade or trade among many countries called multinational trade. International trade is to enable countries obtain the greatest possible advantage from the exchange of one kind of commodity or another.

REASONS FOR INTERNATIONAL TRADE

3.4.1 OPPORTUNITY COST

This is simply the value of using a resource; measured in terms of the value of the best alterative for using that resource.

International trade occurs because no single country has the resources to produce everything well. The products a country decides to produce depend on what must be scarified to produce them; that is, whatever resources a country uses to produce one product are no longer available for producing some other product. Those things we have to give up in order to get more of what we want are called opportunity cost, and they determine what countries produce for trade.

For example, Saudi Arabia exports crude oil. The Saudis could have chosen to export wheat, but they lack the resources (the arable land, the water, and climate) to grow wheat efficiently.

3.4.2 COMPARATIVE ADVANTAGE/FACTOR ENDOWMENT

The United States also produces both crude oil and wheat, but its opportunity cost is lower than Saudi Arabians. Having smaller reserves of oil and more than ten times the arable land, the united states has to give up only a few barrel of oil (compared with Saudi Arabians innumerable barrels of oil) to produce a bushel of wheat.

Thus, in the production of wheat, the united states has a comparative advantage; that is, it has the ability to produce a given product at a lower opportunity cost than its trading partners.

Factor endowment consists of differences in capital, labour and land. For example, a rich nation like the united states has a large amount of expensive capital equipment hence can specialized in goods such as chemicals, automobiles. Other nations with an abundant labour supply like Japan finds it efficient to concentrate on making television sets, which require the assemblies of components by hand.

3.4.3 ABSOLUTE ADVANTAGE

If a nation is the sole producer of an item, it has an absolute advantage over all other nations in terms of that item. Another absolute advantage exists when one nation can make something more cheaply than its competitors.

An absolute advantage is a nation's ability to produce a particular product with fewer resources (per unit of output) than any other nation. This absolute advantage might exists because for instance the Saudis have been growing wheat far longer than people in the united states or because the Saudis are simply more talented.

3.4.4 COMPETITION

International trade gives room to competitors. Foreign goods competes with the local goods in the market. Foreign markets may grant local manufacturers greater potentials for growth.

3.4.5 ACCESS TO CAPITAL/GREATER RETURNS ON CAPITAL

international trade enables countries with limited capital to either borrows from capital rich countries or attract direct investment into the countries and thus enjoy the benefits imported capital and technology investment abroad may yield higher returns than additional domestic investment, particularly where the foreign market is growing.

3.4.6 ECONOMIC AND SOCIAL DEVELOPMENT

International trade increases the economic and social development of the under developing countries.

Other reasons for international trade are: differences in tastes, differences in industrial development and the level of technology, existence of special skills in some countries and differences in climate.

3.5 INTERNATIONAL TRADE AND INTERNATIONAL BUSINESS COMPARED

International trade is a business transaction between the nationals of two different countries. For example, a Nigerian businessman can import a consignment of a product from a British producer. He needs not to know anything about the business environment of Britain. But opening an international business is more involving. The operator must study and understand the international business environment such as culture, a legal, economic factor which prevails in the environment he would want to locate his business.

3.6 PREVAILING PROBLEMS OF INTERNATIONAL TRADE

Engaging in International trade is a sophisticated activity. It requires great corporate, personal and business skill, experience and knowledge. International trade is being influenced by the following problems:

a. **Cultural differences:** Deep cultural differences like social expectations, manners and methods of doing business can be persistent problems to a country who is about to enter into a bilateral or multilateral agreement.

b. **Currency problem:** Trading between sovereign nation creates financial complications because currencies are not of equal value and the rate of exchange between currencies are not fixed.

c. **Legal protection**: countries often limit International trade by legal means. Example tariff, quota and embargo. This protective tariffs and quotas is to encourage the growth of domestic industries and to protect them from price competition from foreign companies.

d. **Foreign political climates:** these are often unpredictable. For example, terrorism and foreign tax structures may be favoured to business.

e. Foreign business climates and methods may create ethical problems. Example bribery is more widely accepted in Nigeria than in the United States.

3.7 FORMS OF INTERNATIONAL TRADE

There are a number of ways in which Nations can participate in International trade.

3.7.1 DIRECT EXPORTING

This form of international trade involves soliciting orders from foreign countries for goods and services that are made in a country and then shipped abroad. For example, without International trade, the market for the Nigerian crude oil, columbite, cocoa, rubber, etc would have been limited to domestic economy. Export of goods and services act as foreign exchange earners to the domestic economy. Foreign exchange availability is essential requirement for the survival of any national income.

3.7.2 FOREIGN LICENSING

This is another important form of trade that exists between two or more countries. It involves a country soliciting another country to produce and sell her product to them in a fee and after due procedural arrangement have been made which binds the elements of such countries contract. This is generally used for goods with established brand names.

SELF ASSESSMENT EXERCISE

What do you understand by the term International trade? And name the two major forms you know.

4.0 CONCLUSION

In this unit, you have learnt about the meaning of International trade, the brief historical development of International trade, the reasons why countries are engaged in International trade. The unit has also introduced you to the role of International trade in a countries economy, the prevailing problems affecting International trade and how it is differentiated from International business.

5.0 SUMMARY

International trade is quite wide. It includes not only merchandising, importing or export but trade in services, licensing and franchising as well as foreign investment. Domestic trade pertains to a limited territory. Though the country may have many business establishments in different locations all the trading activities are inside a single boundary. Through International trade, nations gain by way of earning foreign exchange and greater utilization of production capacities.

6.0 TUTOR-MARKED ASSIGNMENT

- Critically distinguish between a country Absolute Advantage and Factor endowment.

ANSWER TO SELF ASSESSMENT

- The term International trade is the exchange of capital gods and services across international borders or territories. It is the trade that takes place between one country and other countries.
- The major forms of International trade include:

- Direct exporting and importing
- Foreign licensing and franchising.

7.0 REFERENCES/FURTHER READING

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Bakare I.A. O. (2003): Fundamentals and Practice of Macro-Economics, Gutbbak Publishers, Fadeyi, Lagos.

Akeke Niyi (2009): Introduction To Business, Rakson Publishers, Isolo, Lagos.

Jhingan M.L. (1998): Money, Banking and International Trade, 5th Edition Vrinda Publication.

UNITE TWO: THE DYNAMIC OF WORLD TRADE ORGANIZATIONS (WTO)

CONTENT

1.0 INTRODUCTION

This unit looks at a comprehensive examination of the world trade organization. Forces like technological breakthroughs, economic growth, market evolution, shifts in customer tastes, social changes and political events can expand or shrink business space and world trade. Vast amounts of new track space created today change perspectives. This unoccupied territory represent a land of opportunity for the technological and strategic innovators who can see or create it faster than their competitors do. The opportunities are great, but so are the competition and the chance of failure. To days growth era produces huge discontinuities, creates new industries and destroys old ones, and accelerates global economic growth in the process. Expectations are rising everywhere; human creativity is flowing in every field. Emerging economics are industrializing and everyone is joining the digital revolution of boundless information and seamless electronic commerce. The world trade organization (WTO) is an international body dealing with rules relating to international business operations. The organization is responsible for global agreements, negotiations and ensures regulations and rule made by all is obeyed by all. And to keep various trade policies/rules within agreed limits and bounds. It came into existence on 1st January 1995 as a result of the Uruguay round of trade negotiations URTN. It aims at;

- Facilitating trade among countries by creating conditions for competition that are fair and equitable.

- It encouraging to enter into negotiations for the reduction of tariffs and the removal of other barriers to trade

- Requires them to apply a common set of rules to trade in goods and services.

- This body is responsible for overseeing the multilateral trading system which has gradually evolved over the last 60 years (Otokity, 2006).

2.0 LEARNING OBJECTIVES

At the end of this unit, it is expected that you do the following:

- Examine the issues surrounding the establishment of world trade organization (WTO)
- Discuss the general agreement on tariff and trade (GATT).
- Explain the machinery or mechanism of world trade organization.
- Dilate on the dynamism on the nature of GATT members to WTO environments.
- Elucidate succinctly the major features of WTO agreements.

- Explain the control on WTO by government of importing countries.
- Identify the general agreement on tariff and trade in services (GATT) and
- Examine the world trade organization membership from year 2000 to date.

3.0 MAIN CONTENT

3.1 WTO AND THE ESTABLISHMENT OF GENERAL AGREEMENT ON TARIFF AND TRADE

The World Trade Organization provides a forum for continuing negotiation to liberalize the trade in goods and services through the removal of barriers and the development of rules in new trade-related subject areas. The World Trade Organization agreements have a common dispute settlement mechanism through which members enforce their right and settle the differences that arise between them in the course of implementation.

The multilateral trading system of WTO can broadly be defined as the body of international rules by which countries are required to abide in their trade relations with one another. The basic aim of these rules is to encourage countries to pursue open and liberal policies. These rules are continually evolving. The existing rules are being clarified and elaborated to meet the changing conditions of world trade. At the same time rules covering new subjects are being added to deal with problems and issues that are being encountered.

A tariff is an indirect taxes imposed upon imports. They can either be specific (Fixed amount per good) or ad valorem (a % of the value). Tariff imposition arises due to reasons such as;

- To reduce imports and protect domestic firms from foreign competition.
- To reduce imports in order to reduce balance of payment deficits.

The virtual developing country is a case study of Zambia. There are a series of field trips available looking at different issues connected with economic development. This tour is the trade tour, and this unit shall also look at the imposition of tariffs as a form of protection and the welfare loss that result.

If the government of a country imposes a tariff on the imports from another country they raise the world price by the amount of the tariff they impose. The WTO concept is the outcome of the first major effort to adopt rules to govern international trade relations which was made by countries in the years immediately after the second world war. These efforts resulted in the adoption in 1948 of the General known as, consequently the GATT rules which was basically applicable to international trade in goods for years was modified to include new provisions particularly to deal with the trade problems of developing countries.

3.2 THE MECHANISM OF WORLD TRADE ORGANIZATION

Trade is increasingly global in scope today. There are several reasons for this. One significant reason is technological -because of improved transportation and communication opportunities today, trade is now more political. Thus, consumers and businesses now have access to the very best products from many different countries.

Increasingly rapid technology life cycles also increases the competition among countries as to who can produce the newest in technology. In part to accumulate these realities, counties in the last several decades have taken increasing steps to promote global trade through agreements such as the general treaty on trade and tariff GATT, and organizations such as the World Trade Organization (WTO), north American Free Trade agreement (NAFTA), and the European Union (EU).

Similarly, the WTO system as it has emerged from the Uruguay round consisting of the following substantive agreements:

(i) General agreement on trade in services (GATS)

(ii) Multilateral agreement on tariffs and trade (GATT 1995) and all its associate agreements.

(iii) Agreement on trade –related aspects of intellectual property rights (TRIPS).

3.2.1 LEGAL INSTRUMENT AT URUGUAY ROUND

The legal instrument embodying the results of the Uruguay round of multilateral trade negotiations were adopted in Marrakech on 15th April, 1994. The complete set covers the legal texts, the ministerial decisions and the Marrakech declaration, the signatory countries, as well as the individual agreements, the schedule of specific commitments on services, the tariff schedule for trade in goods, and the plurilateral agreements. Schedule in the original language only. The World Trade Organization (WTO) deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.

The trade in goods involve agreement on implementation of article VII of GATT 1994 (Customs valuation), agreement on Reshipment Inspection (RSI) and others.

3.3 THE BENEFITS AND USEFULNESS OF WORLD TRADE ORGANIZATION

a. Member countries are obliged to ensure that their (User) national registration; regulations and procedures are in full conformity with the provisions of these agreements.

b. The system helps promote peace.

c. Dispute are handled constructively

d. Rules make life easier for all

e. Freer trade cuts the costs of living.

f. It provides more choice of products and qualities.

g. Trade raises incomes

h. Trade stimulate economic growth

i. The basic principles makes life more efficient

j. Government are shielded

The World Trade Organization (WTO) deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictable and freely as possible.

3.4 THE DYNAMIC NATURE OF GATT MEMBERS TO WORLD TRADE ORGANIZATION

It is of greater important to examine any change in attitude of GATT membership and how GATT rules applied to issues. Such issues do not posit whether a certain policy is environmentally correct or not. They suggest that the US policy could be made compatible with GATT rules if members agreed on amendments or reached a decision to waive the rules especially for any issue that could spring up.

Many developing countries discarded import substitution, policies and are now pursuing export-oriented policies, under which they seek to promote economic growth by exporting more and more of their products. Another issue is related to the pace at which the world economy is globalizing through international trade and the flow of foreign direct investment. Similarly, this process of globalizing which has increases the dependence of countries on international trade is further accelerated by the shift in economic and trade policies noticeable in most countries. The collapse of communism has led to the gradual adoption of market-oriented policies in most countries where production and international trade had been state controlled. These countries, which in the past traded primarily among themselves are increasingly trading on a worldwide basis (Otokity S. 2006).

In addition, the framework of rights and obligations which the WTO system has created therefore plays a crucial role in the development of trade in the fast globalizing worlds economy. The ability of governments and business enterprises to benefit from the system depends greatly on their knowledge and understanding of the rules of the system.

3.5 MAJOR FEATURES OF WORLD TRADE ORGANIZATION AGREEMENT

The World Trade Organization (WTO), was established in 1st January, 1995 and represents the culmination of an eight-year process of trade organization known as the Uruguay Round 135 countries now belonging to the WTO and more, continue to join. The WTO is based in Geneva and is administered by a secretariat which also facilitate ongoing trade negotiations, and oversees trade dispute resolutions.

- Another important feature is that WTO is an international that effectively creates a ceiling-but no floor for environmental regulation.

- Made up of detailed procedural code for environmental law making and regulatory initiatives that would be difficult for even the wealthiest nations meet.

Other features of WTO include:

- The objectives and principles of multilateral agreements on trade goods.
- Biding of tariffs

- Most favoured nation treatment (MFN)

- National treatment rule: prohibits countries from discriminating among goods originating in different countries. The national treatment rule prohibits them from discriminating between imported products and domestically produced like goods, both in the matter of the levy of internal taxes and in the application of internal taxes.

3.6 SETTLEMENT OF WORLD TRADE ORGANIZATION DISPUTE

Suppose a trade dispute arises because a country has taken action on trade (for example imposed a tax or restricted imports) under an environment agreement outside the WTO and another country objects. Should the dispute be handled under the WTO or under the GATT agreement? The trade and environmental committee says that if a dispute arises over a trade action taken under an environmental agreement, and if both sides to the dispute have signed that agreement, then they should try to use the environmental agreement to settle the dispute. But if one side in the dispute has not signed the environment agreement, then the WTO would provide the only possible forum for settling the dispute. Preferences for handling dispute under the environmental agreements does not mean environmental issues would be ignored in WTO disputes. The WTO agreements allow panels examining a dispute to seek expert advice on environmental issues.

3.7 THE CONTROL ON WORLD TRADE ORGANIZATION BY GOVERNMENT OF IMPORTING COUNTRIES

The governments seek to limit the level of imports through a quota. Examples of quotas were found in the textile industry under the terms of the multi-fibre agreement which expired in January 2005 and which led, in 2005 to a trade dispute between the European and China over the issue textile imports.

Quotas introduce a physical limit of the volume (number of units imported) or value (value of imports) permitted.

Countries can make it difficult for firms to import by imposing restrictions and being deliberately bureaucratic. These trade barriers range from stringent safety and specification checks to extensive holdups in the customs arrangements. A good example is the quality standards imposed by the European on imports of dairy products.

Preferential government procurement policies and state aid. Free, trade can be limited by preferential behaviour by the government when allocating major spending projects that favours domestic rather than overseas suppliers. These procurement policies run against the principle of free trade within the EU single market.

The use of financial aid from the state can also distort the free trade of goods and services of WTO nations, for example use of subsidies to a domestic cola or steel industry, or the widely criticized use of export refunds;

- Control against dumping and anti-dumping: anti dumping is designed to allow countries to take action against dumped imports that cause or threaten to cause material injury to the domestic industry. Goods are said to be dumped when they are sold for export at less than their normal value.

- The agreement on safeguards permits importing countries to restrict imports of a product for a temporary period by either increasing tariffs or imposing quantitative restrictions. Such safeguard actions can be resorted to only when it has been established through properly conducted investments that a sudden increase in imports. (Both absolute and relative to domestic production).

3.8 THE GENERAL AGREEMENT ON TARIFF AND TRADE (GATT).

A treaty created following the conclusion of World War II. The general agreement on tariffs and trade (GATT) was implemented to further regulate world trade to aide in the economic recovery following the War. GATT's main objective was to reduce the barriers of international trade through the reduction of tariffs, quotas and subsidies. GATT was formed in 1947 and signed into international law on January 1, 1948, GATT remained one of the focal features of international trade agreements until it was replaced by the creation of the World Trade Organization on January 1, 1995. The foundation of GATT was laid by the proposal of the international trade Organization in 1945, however the ITO was never completed.

National Treatment is a concept of international law that declares if a state provides certain right and privileges to its own citizens, it also should provide equivalent rights and privileges to foreigners.

WTO is an international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably, and freely as possible.

3.9 WORLD TRADE ORGANIZATION MEMBERSHIP FROM YEAR 2000 TO DATE

The WTO general agreement on trade in services (GATS) commits member's governments to undertake negotiations on specific issues and to enter into successive rounds of negotiations to progressively liberalize trade among member nations. The member nations of WTO are: Argentina, Bulgaria, Czech Republic, Hungary, India, Kenya, Mauritius, Nigeria, Pakistan, Slovenia, Lanka, Turkey, Thailand etc.

SELF ASSESSMENT EXERCISE

- Distinguish between WTO and National Treatments

4.0 CONCLUSION

Well done for successfully completed the unit. You have been exposed to the establishment and formation of the WTO and GATTs. You have also learnt about the dynamic nature of the world trade governing body, the essential features of WTO, the functions and the Uruguay Round concepts. The unit has also introduced you to how importing government control WTO and membership.

5.0 SUMMARY

The goal of the WTO is to deregulate international trade. To accomplish this (and with one important exception) WTO rules seek to limit the capacity of governments regulate international or otherwise “interfere” with the activities of large corporations.

During the early nineties, similar developments were also taking place in Europe and elsewhere, and the environmental implications of the Uruguay round trade negotiations began to emerge as important issues.

The importance of the environment analysis of the free trade and investment agenda lies in both its accessibility and its universal appeal.

6.0 TUTOR-MARKED ASSIGNMENT

- Critically discuss the major instrument of the 1945 Uruguay Round.

Answers to Self Assessment Exercise

World trade organization is an international organization dealing with the global rules of trade between nations while national treatment is a concept of international law that declares if a state provides certain right and privileges to its own citizens and also provide equivalent rights and privileges to foreigners.

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UNIT THREE: BASIC COMPONENT OF INTERNATIONAL TRADE

CONTENT

5.0 Summary

6.0 Tutor marked assignment

7.0 References/further reading

1.0 INTRODUCTION

The buying and selling of goods and services across national border is known as international trade.

International trade is the backbone of our modern commercial world, as producers in various nations try to profit from an expanded market rather than be limited to selling within their own borders. There are many reasons that trade across the national borders occurs, including lower production costs in one region versus another, specialized industries, lack or surplus of national resources and consumer tastes.

International trade is a complex business system that operates independent of fixed spatial or geographical boundaries. It is concerned mostly with information and technology transfer, international trade in goods (e.g. Gas, petroleum product, raw materials, cement, columbite etc), international trade of flow of labour and money/capital. The fundamental fact upon which international trade rests is that goods and services are much more mobile internationally than the resources used in their production. Each country will tend to export those goods and services for which its resources base is most suited. The reasons for international trade is that it allows a country to specialize in the goods and services that it can produce at a relatively low cost and export those goods in return for import which domestic production is relatively costly. As a consequence, international trade enables a country and the world to consume and produce more than would be possible without trade.

No matter the proximity of one country to another, once there are differences in government currency and cultural values, any form of trade dealing at this level are international.

2.0 LEARNING OBJECTIVES

At the end of this unit, you are expected to do the following:

- Dilate copiously the explanation of the term international trade.
- Examine the various key components of international trade.
- Discuss terms of trade and its features.
- Explain some of the measures of terms of trade.
- Define balance of trade.
- Examine the techniques and economic effects of international trade restrictions.
- Discuss the ill effects of trade to involve;
- Immiserising growth and
- The Dutch Disease technique

3.0 MAIN CONTENT

3.1 COMPONENTS OF INTERNATIONAL TRADE

International trade refers to the exchange of capital, goods and services across international borders or territories.

International trade is quite wide. It involves not only merchandising, importing or export but trade in services, licensing and franchising as well as foreign investments.

3.2.1 ONE OF THE MOST CONTROVERSIAL COMPONENTS OF INTERNATIONAL TRADE IS THE LOWER COSTS OF PRODUCTION OF DEVELOPING NATIONS.

There is currently a great deal of concern over jobs being taken away from the united states, members countries of the European union and other developed nations as countries such as China, Korea, India, Indonesia and others produce goods and services at much lower costs. Both the United States and the European Union have imposed severe restrictions on imports from Asia nations to try to stem this tide.

Clearly, a company that can pay its workers the equivalent of dollars a day, as compared to dollars an hour, has a distinct selling advantage. Nevertheless, American and European consumers are only too happy to lower their costs of living by taking advantage of cheaper imported goods.

3.1.2 SPECIALIZED INDUSTRIES

Even though many consumers prefer to buy less expensive goods, some international trade is fostered by a specialized industry that has developed due to national talent and/or tradition. Swiss watches, for example, will never be price- competitive with mass produced watches from Asia. Regardless, there is a strong market among certain consumer groups for the quality, endurance and even “snob appeal” that owing a Rolex-Patek-Philip or Audemars Piquet offers.

German Cutlery, English bone, China, Scottish wool, fine French silks such as Hermes and other such products always find their way onto the international trade scene because consumers in many parts of the world are willing to foster the importation of these goods to satisfy their concept that certain countries are the best at making certain goods.

3.1.3 VOLUME AND VALUE OF GOODS SAY OIL

Total net oil imports in 2010 are over 96 million barrels per day (U.S. Energy Information Administration figures Imports crude oil, natural gas liquids and refined products). At a recent average of $114 per barrel per day. The natural resources of a handful of nations, most notably the nations of OPEC, the Organization of Petroleum Exporting Countries, are swept onto the international trade scene in staggering numbers each day, and consumer nations continue to absorb this flow. Other natural resources contribute to the movement of international trade, but none to the extent of the oil trade.

Despite complaints about trade imbalances, effects on domestic economics, currency up heavals, and loss of jobs, the reality of goods and services continually crossing borders will not go away.

The global economic system is thus characterized by a growing level of integrated services, finance, retail, manufacturing and nonetheless distribution, which in turn is mainly the outcome of improved transport and logistics, a more efficient exploitation of regional comparative advantage and a transactional environment supportive of legal and financial complexities of global trade.

3.3 TERMS OF TRADE

Terms of trade is a quantitative measure of the rate at which a country's export exchange for its imports. It is a measure of the purchasing power of its exports expressed in its imports or, alternatively, the price of its imports expressed in terms of its exports.

The terms of trade is said to be favourable if for some given imports a country pays with smaller exports, or if for some given exports, it gets more imports. Though, the gains from international trade brings about increase in output, except of course Portugal is able to trade some cloth for wine, workers in Portugal will not get much work done, the same applies to England.

Without trade, workers in England will not get much done. But how much cloth must England give in exchange for Portuguese wine is a question that is very much decided by countries terms of trade. In other words, terms of trade is basically expressed as a relationship between a unit prices of a country's export to a unit price of the country's import. In the case of England and Portugal; terms of trade is how much of wine and vice versa.

3.3.1 ESSENTIAL FEATURES OF TERMS OF TRADE

- **An average**: It should be carefully noted that when a country is trading in more than one item a measure of its terms of trade represents an average with prices of individual items of trade scattered around. This is because the measure is derived with the help of price index numbers, which are themselves average of scattered values.

- **A Derivative**: Being a derivative of price index numbers, a measure of terms of trade is bound to suffer from all the limitations which are inherent in the compilation of price index numbers. E.g. choice of base period, the choice of weights, the method of averaging, and so on.

3.3.2 MEASURES OF TERMS OF TRADE

Change in a country's terms of trade has some direct an indirect effects on; economic gains from trade, economic growth and potential, and its social welfare. If we take into consideration these "spill-over" effects, several alternative concepts of terms of trade come up for consideration. Hence there exists a plethora of measures of terms of trade going by different names.

- **Commodity terms of trade (TTC)**

  This is the most popular measure and it is also known as Net Barter Terms of trade or the unit value index. It is the ratio of the price index number of exports to the price index of imports of the country concerned.

  Symbolically, this ratio may be written as:

  TTC 7(Px/Pm)100

Where,

TTC = Commodity terms of trade

Px = price index of exports

Pm = price index of imports

TTC is limited by the choice of base years, weight and average.

- Gross Barter terms of trade

This is a measure introduced by F.W. Taussig. It is uses relative change in a country's volume of exports and imports as against the comparative changes in their prices.

This is given as

TTg = (Qm/Qx) x 100

TTg = Gross barter terms of trade

Qm = Quantity index of imports

Qx = Quantity index of exports

The major limitation of this measure is the problems of compilation, No credit sales, unilateral transfer etc

3.4 BALANCE OF TRADE

This is the difference between visible imports and visible exports. It visible imports is greater than visible exports; balance of payments is said to be unfavourable. Where visible exports is greater than visible imports, there is a favourable balance of trade. On the other hand, where visible exports is equal to visible imports, there is a balanced of trade.

3.5 TECHNIQUE AND ECONOMIC EFFECTS OF INTERNATIONAL TRADE

The theory of comparative advantage is based on free trade in which there are no trade inhibitions among nations; but the government of a country may however decide to limit the amount of some products coming into the country so as to discourage the import of these goods. This concept is what is known as trade restrictions. (Bakare I.O., 2003) The following are the techniques and economic effects of international trade restrictions.

3.5.1 TRADITIONAL TECHNIQUE

Usually in the past, countries have used traditional techniques such as imposition of tariffs and quotas or both as a means of barrier to trade.

They are carefully examined as follows:

A. Tariff

A tariff is a tax imposed on imported goods. It is also called customs duty. Some times a customer duty is levied as a percentage of the value of the product. The former is known as specific tariff while the latter is known as advalorem tariff. The higher the tariff rate, the more restrictive the tariff and vice versa. Obviously, if the tariff rate is set higher enough it may stop all imports of that item.

B. Effect of Import Quota

Quota work the same way as tariff. In reality, there is indication that there is a major difference being that while tariffs work through prices, quotas restrict quality.

However, while a tariff raises revenue for the government, a quota goes to protect domestic producers and also benefit importers who manages to get some of this scarce import at low foreign price and resell at the higher domestic price. And absolutely, assuming domestic demand increases, with a tariff the quality of imports would increase, while a quota only price will increases.

NON-TARIFF BARRIERS

Nations have been using other techniques set up to keep foreign goods from being imported. These means are briefly the following:

(1) **Government Legislation**: These are kind of government barriers in law. Some are domestic preference laws which are preference to domestic suppliers in government purchases, others are laws which were for domestic reasons which makes it more difficult for foreign supplies to compete e.g. difference in safety standards and labeling requirements.

(2) **Government commercial policy:** This is sum total of actions that a country undertakes to deliberately influence trade in goods and services. Any other commercial policy in any nation other than the ones earlier explained fall under this category (Bakare I.O., 2003).

3.6 THE ILL EFFECTS OF INTERNATIONAL TRADE

For centuries, economic and policy makers assumed that every country gained from its international trade. Their discussion focused on issues relating to the source, the mechanism, the firms and the extent of these gains.

Doubts however, began to emerged after the second world war when issues relating to economic development and welfare to gain ground.

Analysts found that while developed did gain from international trade this was not necessarily the case with poor countries, rather, they could positively suffer on account of foreign trade. Such long term ill-effects may include:

- Inability of a developing country to pursue sustainable development.
- Exhaustion of non-renewable productive resources and
- Environmental degradation and pollution.

3.6.1 IMMISERISING GROWTH

The concept immiserising growth refers to the situation where an increase in a country's export commodity leads to such deterioration in it terms of trade that there is a net decline in its export earnings and social welfare.

For immiserising growth to occur, the following conditions must hold:

- The country's growth should be characterized by a more than proportionate increase in the production of its export commodity.
- The supply of its exports commodity should be price inelastic so that it is willing to export more even when price declines.
- The share of its export commodity in the total supply in international (market should be large enough to depress its international prices).

3.6.2 THE DUTCH DISEASE

The Dutch disease is an economic loss which a country suffers on account of an increase in its factor endowment or a natural windfall (like the discovery of huge oil resources or deposit of a mineral).

The concept describes a situation where an industrial country stats exploiting a natural product which it was previously importing. In the process, its exchange rate appreciate so much that its competitiveness in traditional industries weakness and even results in its de-industrialization to some extent. Netherlands developed its natural gas fields from the North Sea and gave birth to this term. Other countries that have suffered from the Dutch Disease are the United Kingdom, Norway, Australia and Mexico.

SELF ASSESSMENT EXERCISE

- Distinguish between government legislation and government commercial policy as non-tariff barriers to nations engaged in international trade.

4.0 CONCLUSION

This unit is indeed self explanatory. You could see how broad and complex international trade is. You have learnt about the in-depth explanation of the term international trade, the major components of international trade, the terms of trade and balance of trade concept. You have also learnt about the techniques and economic effects of international trade restrictions and the common ill effects of trade.

5.0 SUMMARY

International trade is quite wide. It involves not only merchandising, importing or export but trade in services, licensing and franchising as well as foreign investments.

The major components of international trade – lower cost of production of developing nations.

6.0 TUTOR MARKED ASSIGNMENT

- Discuss succinctly the three key components of international trade

Answers to Self Assessment Exercise

Government legislations are sometimes domestic preference laws which give preference to domestic suppliers in government purchases and other laws which were for domestic reasons which makes it more difficult for foreign supplies to compete. While government commercial policy is sum total of actions that a country undertakes to deliberately influence trade in goods and services relationship with other nations.

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UNIT FOUR: THEORIES OF INTERNATIONAL TRADE

CONTENT

1.0 INTRODUCTION

Any theory of international or foreign trade must explain reasons for trade and gains for trade or why international trade takes place for the same reasons for which inter-local, interstate or interregional trade (trade between districts or regions within a country) takes place.

Trade take place because by trading, both parties gain and the gain consists of the advantages resulting from the division of labour.

There were a lots of evolutionary theories of international trade in the past centuries. Some of which were; era of mercantilism, feudal society, era of classical trade theory.

Owing to the dynamism and the shifting which focus from the country to the firm, from costs of production to the market as a whole and from the perfect the imperfect, this course shall examine critically and extensively the theory of:

- The theory of comparative advantage
- The rent for surplus theory the theory of factor proportion and
- The competitive advantage of nations

2.0 OBJECTIVES OF THE UNIT

After studying this unit, you should be able to:

- Explain the need for international trade
- Explain also the gains from trade
- Examine the theory of absolute advantage
- Discuss the theory of comparative costs advantage
- Discuss the theory of rent for surplus and
- Explain the theory of factor production
- Examine the competitive advantage of nations.

3.0 MAIN CONTENT

3.1 THE NEED FOR INTERNATIONAL TRADE

The reasons for trade between countries are not in anyway different from reasons individuals trade within a country. In essence, international trade is not more than trade between individuals who live in different countries.

The importance of international trade is as follows:

3.1.1 IMPORTS SERVE DOMESTIC INDUSTRY

Domestic industries would have pretty difficult time if basic raw materials, machinery and other needs are not met. Some domestic industrial needs are only met by import.

3.1.2 IMPORT SERVES DOMESTIC CONSUMERS

International trade enlarges the range of consumer's choices of goods and services. Without international trade consumers will have fewer choices.

3.1.3 EXPORTS ARE VITAL TO MANY DOMESTIC PRODUCERS

The market for nations export is very important. For example without international trade, the market for the Nigerian crude oil, columbite, cocoa, rubber etc would have been limited to domestic economy.

3.1.4 EXPORTS SERVES AS A FOREIGN EXCHANGE EARNERS

Exports of goods and services act as foreign exchange earners to the domestic economy. Foreign exchange availability is essential requirement for the survival of any national income.

3.1.5 EXPORTS ACT AS AGENT OF GROWTH

Other countries demand for goods and services produced within a domestic economy acts as a catalyst to the growth of the total spending and hence growth in the gross national product of such an economy.

3.2 THEORIES OF INTERNATIONAL TRADE

These are also known as the basic of international trade.

3.2.1 THE THEORY OF ABSOLUTE ADVANTAGE

The classical economists, Adam Smith said that the basis of international trade falls along the division of absolute advantage, which may be defined as the good, or services in which a country is more efficient or can produce more than the other country or can produce the same amount with other country using fewer resources.

This theory was proposed in 1776, by Adam Smith. He also states that trade between two countries will take place if each of the two countries can produce one commodity at an absolute lower cost of production than the other country.

Example, Nigeria can produce one unit of cocoa with 10 labour hours and one unit of textile material say lace with 20 labour hours while

Australia can produce one unit of cocoa with 20 labour hours and one unit of lace textile material with 10 labour hours.

Note that from the above given example, it would be to their mutual advantage. If Nigeria produces only cocoa and Australia produced only lace textile material with the former exporting her surplus cocoa to Australia while Austria exported her surplus production of lace textile material to Nigeria. This shows that there is absolute difference in terms of cost since each country can produce one commodity (Nigeria cocoa and Austria lace textile material) at an absolute lower cost than the other country.

3.2.2 THE THEORY OF COMPARATIVE ADVANTAGE

This theory was first stated by Adam Smith and later developed by David Richardo and John Stuart Mill.

According to Adam Smith, "it is the maximum of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy".

If two countries, for instance Nigeria and Togo are two countries of the world. Nigeria produces cassava better than Togo and Togo is better at producing fish. Nigeria should specialize in the production of cassava, while Togo concentrates its resources; on the production of fish. They can trade their products. But even if Nigeria is better than Togo in the production of both cassava and fish, while Togo is at a disadvantage, both countries can still benefit by each one specializing in the production of the goods where it has the greater comparative cost advantage or the least comparative cost advantage.

Richardo took the application of the law to trade between two countries and conclude that both countries will benefit if each of them concentrates on producing the commodity where it can perform more efficiently and exchange the product with the one it can produce less efficiently.

3.2.3 THE RENT FOR SURPLUS THEORY

This theory has its origin with the classical economists just like the theory of comparative cost advantage; it was first propounded by Adam smith. According to him, a country carries out that surplus part of the produce of their land and labour for which there is no demand; it gives a value of these surplus by exchange them for something else, which may satisfy a part of their wants, and increase their enjoyment. The important aspect of the rent for surplus theory include:

- International trade does not necessarily reallocated factors of production but enables the output of the surplus resources to be used to meet foreign demand.

- The population density of a country largely determines its export potential since the total volume of production is based on available labour so also is internal consumption level as well as what will be the surplus to be exported.
- The surplus productive capacity of resources enables farmers to produce export crops without necessarily compromising the production of food crops which enter into the domestic market.

3.2.4 THE THEORY OF FACTOR PROPORTIONS

This theory is also known as Hecksher – Onlin theory. The theory was based on a more modern concept of production, one that raised capital to the same level of importance as labour. Heckscher –Ohlin theory states that the differences in the relative prices of commodities in the two isolated regions (and this is the basic cause of international trade) depend upon the conditions of the demand and the supply of the commodities in the two regions.

This theory is based on four basic assumptions which are:

a. The theory assumes two(2) countries, two (2) products and two(2) factors of production hence, the so-called 2x2x2 assumption.

b. The markets for the inputs and the outputs are perfectly competitive. That is, the factors of production, labour and capital were exchanged in markets that paid them only what they were worth, hence, perfect competition ensured between the two countries involved, with no on one having market power over the other.

c. Third assumption says, increase in the production of a product can experience a diminishing returns. This means that, as a country increasingly specialized in the production of one of the two outputs, it eventually would require more and more inputs per unit of output.

d. Lastly, assuming both countries make use of identical technologies, each production was produced in the same way in both countries. This meant that, the only way in which a god production can be produced more cheaply in one country than the other is when the factors of production used (Labour & capital) are cheaper.

3.2.5 COMPETITIVE ADVANTAGE OF NATIONS

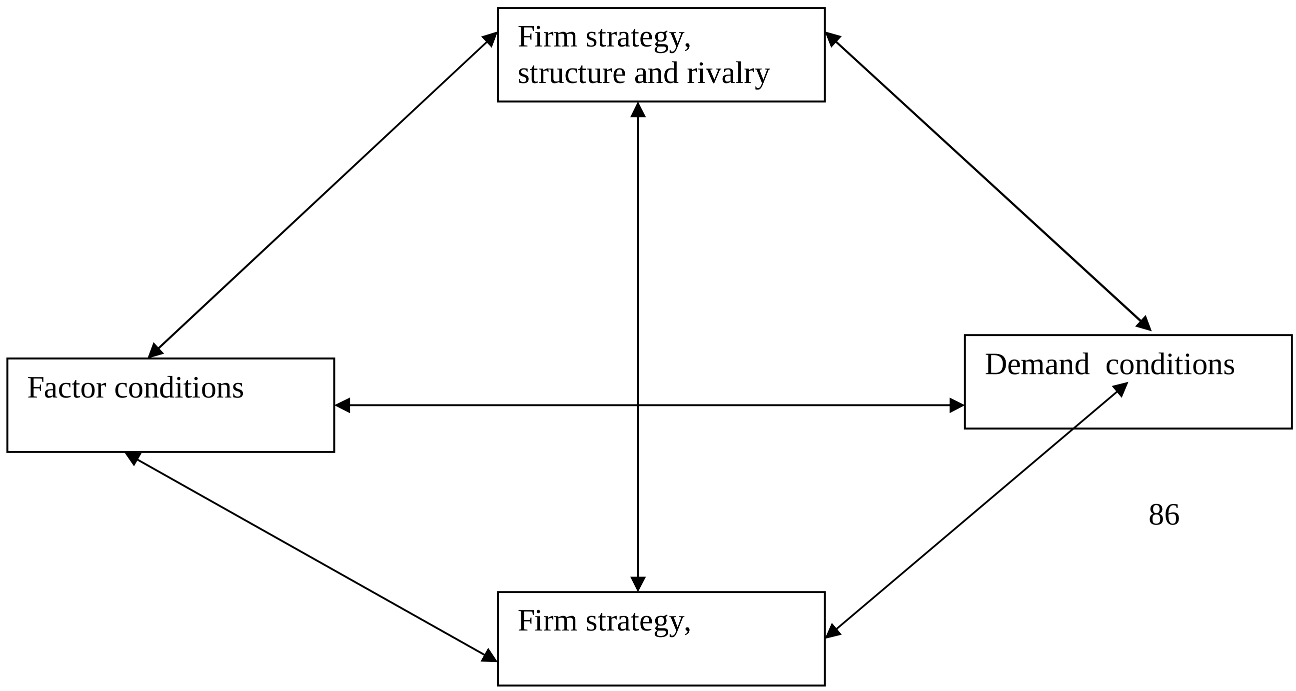
Michael Porter of Harvard Business School developed this theory which attempt to explain why particular nations achieve international success in particular industries.

Porter states that "National Prosperity is created, not inherited. It does not grow out of a country's natural endowments its labour pools, its interest rates, or its currency's values, as classical economics insists." A nations competitiveness depends on the capacity of its industry to innovate and upgrade. Porter points out the importance of country factors which he categorized into four major component. They are:

- Factor conditions
- Demand conditions
- Related and supporting industries
- Firm strategy, structure and rivalry.

The above mentioned four (4) components constitute what nations and firms must strive to create and sustain through a highly localized process" to ensure their success. It is also illustrated in the diagram below:

DETERMINANT OF NATIONAL COMPETITIVENESS



Source: M.E. Porter Adapted.

3.3 THE GAIN FROM TRADES

Arising from the law of comparative advantage as stated earlier, countries would benefit from trade with a rise in world output without additional factor inputs when countries specialize in the production of those goods in which their opportunity cost is lower.

For example, let us assure that:

- England and Portugal are the only two countries in the world.
- Wine and cloth are also the only two goods in the world.
- Transport cost is non-existent.
- Each of England and Portugal has equal workers of say 100 each.
- Survival need deserve that each worker has two units of clothes.

From the forgoing, it means that England must commit 50 workers to cloth production i.e. 50 x4 =200. And Portugal 25 workers i.e. 25 x 8 = 200.

By extension, 50 workers will be left for the production of wine in England i.e. 50 x 2 = 100 and in Portugal, 75 workers will be left also for the production of wine i.e. 75 x 6 =450. This is given in the table below

Countries	Cloth	Wine
England	50 x 4 = 200	50 x 2 = 100
Portugal	25 x 8 = 200	75 x 6 = 450
World output	400	550

If we again assume that each country should now specialize, England on cloth and Portugal on wine; world out put will increase, as in

Countries	**Cloth**	**Wine**
England	100 x 4 = 400	0

Portugal	0	100 x 6 = 600
World output	400	600

Source: Bakare I.O Adopted 2003:

Therefore, the following benefits will follow specialization

- **Increase in world output**: There is certainly more of cloth i.e. 600 though output of wine still remains at 400.
- Increase in specialization and skills.

SELF ASSESSMENT EXERCISE

* Highlight the major theories of international trade you know.

4.0 CONCLUSION

Waoh! What a journey. Can you see how international trade covers a wide spectrum knowledge that are derived from economics and other field of study, beside you have learnt about why international trade is necessary. The possible gains from trade and the various theories with assumption of international trade.

5.0 SUMMARY

While the theory of comparative cost advantage explains the principles of international division of labour, the rent for surplus theory, on the other hand, seeks to explain the principles of international trade in terms of both domestic and foreign demands.

It therefore infers that a country will not export its produce merely on the basis of comparative cost advantage if the volume produced cannot meet domestic demand. The point at which a country's product enters into international trade is determined at the time when it can produce a surplus.

6.0 TUTOR MARKED ASSIGNMENT

* Carefully discuss the rent for surplus theory of international trade.

Answer To Self Assessment Exercise

The following theories are available in international trade.

- The theory of absolute advantage
- The theory of comparative cost advantage
- The rent of surplus theory
- The theory of factor proportions

- The competitive advantage of nations.

7.0 REFERENCE/FURTHER READING

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MODULE TWO

UNIT ONE:	BACKGROUND TO PROFESSIONALISM AND LIBERALIZATION
UNIT TWO:	GLOBAL TRADE REGIME
UNIT THREE:	FREE TRADE RHETORIC AND PROTECTIONISM REALITY IN WTO
UNIT FOUR:	TRADE LIBERALISM AND RESTRICTIONS ON MIGRATION OF THIRD WORLD LABOUR

UNIT ONE: BACKGROUND TO PROTECTIONISM AND LIBERALIZATION

CONTENT

1.0 Introduction

2.0 Learning objective

3.0 Main content

3.1 Protectionism and liberalism concept defined

3.2 Liberalization

3.3 Liberalization in the 19th century

3.4 Liberalization and protectionism in Europe

3.5 Instruments of international trade protection and promotion.

3.6 Various cases for protection

4.0 Conclusion

5.0 Summary

6.0 Tutor marked assignment

7.0 Reference/further reading

1.0 INTRODUCTION

A great many factor can make it difficult to export. When governments and public authorities prevent trade or make it difficult to trade, it may be a matter of protectionism and trade barriers. In addition, the recent finance crisis has reinforced protectionist tendencies in may export markets.

The impact of government regulation on trade was well understood by the nineteenth century from the writings of Adam Smith and other political economists. Smith noted that in addition to raising revenue, tariffs also had the effect of protecting domestic producers from foreign competition, something Smith and other reformers generally viewed with disfavour. As a political movement, however, the effort to curtail protectionists regulations did not begin until the reform act of 1993 in England. A campaign for free trade had begun among British merchants in the second quarter of the nineteenth century. The campaign was part of a broader effort of political reform in British society, and its eventual success resulted in part from the political realignment introduced by the reform act. The campaign was led by Richard Cobden, who demonstrated the importance of pragmatic leadership in promoting the ideal of free trade.

Protectionism can be defined as an act by which the governments placing of duties or quotas on imports to protect domestic industries from global competition. At the end of November 1999, Seattle Saw major governments meet at a world trade organization ministerial meeting to discuss various trading rules. Though there may be many differences in the perspectives of developing and industrialized nations on the current reality of free trade and how it affected them. It resulted in a WTO failure to agree on many issues, without adopting any resolutions. Developing countries were sidelined and one delegate even physically barred from a meeting.

2.0 LEARNING OBJECTIVES

Upon successful completion of this unit, you are expected to:

- Define and explain protectionism and liberalization
- Discuss the major developments of liberalization in the 19th century.
- Examine protectionism and liberalization in Europe
- Identify and explain the instruments of international trade protection and promotion.
- Examine the various cases for international trade protection.

3.0 MAIN CONTENT

3.1 PROTECTIONISM AND LIBERALISM JUXTAPOSED

Protectionism can be defined as an act by which the governments placement of duties or quotas on imports to protect domestic industries from global competition.

Protectionism is often referred to as being a barrier to free trade.

The word seems to conjure up negative images of isolationism and subsidizing industries that could otherwise not compete fairly against others (This can help indicate why some industries would strongly support protectionism for themselves) complete deregulation allows corporations to benefit but at the possible expense of people in that nation or region if that deregulation means relaxation of environmental rules, health and educational services including control of natural resources and energy. This hint at the powerful lure that the “freeing” of trade and liberalization of access to resources from regulation has to some proponents, either seems to answer the notion of fairness. Though, often those nations that promote free trade for all wants protectionism for themselves.

3.2 LIBERALIZATION

A strong reaction against mercantilist attitude began take shape toward the middle of the 18th century. In France, the economist known as physiocrats demanded liberty of production and trade in England, economist Adam Smith demonstrated in his book the wealth of the Nations (1776) the advantages of removing trade restrictions. Economists and businessmen voiced their opposition to excessively high and often prohibitive customs duties and urged the negotiation of trade agreement s with foreign powers. This change in attitudes led to the signing of a number of agreements embodying the new liberal ideas about trade, among them the Anglo-French treaty of 1786, which ended what had been an economic war between the two countries.

After Adam Smith, the basic tenets of mercantilism were no longer considered defensible.

This did not however, mean that nations abandoned all mercantilist policies. Restrictive economic policies were now justified by the claim that, up to a certain point, the government should keep foreign merchandise off the domestic market in order to shelter national production from outside competition. To this end, customs levies were introduced in increasing number, replacing outright bans on imports, which became less and les frequent.

3.3 LIBERALIZATION IN THE 19TH CENTURY

In the middle of the 19th century, a protective customs policy effectively shelter many national economics from outside competition. The French tariff of 1860, for example, charged extremely high rates on British products: 60 percent on pig iron; 40 to 50 percentage on machinery; and 600 to 800 percent on woolen blankets.

Transport costs between the two countries provided further protection. A triumph for liberal ideas was the Anglo- French trade a agreement of 1860 which provided that French protective duties were to be reduced to maximum of 25 percent within five years, with free entry of all French products except wines into Britain. This agreement was followed by other European trade pacts.

3.4 LIBERALIZATION AND PROTECTIONISM IN EUROPE

The European system enjoyed a brief period of liberal commercial exchange that started in the 1830s and lasted until the 1870s. This period was economically dominated by great Britain. The Napoleonic Wars of early 1800s had left British manufacturing capabilities unscathed, and following the Wars Britain's economic strength allowed it to become the leading creditor country in the world. Britain provided aid and loans to European nations and had large export of foreign investment, mostly to the united states and British Colonies in Asia. In sum, the mid-century period of free trade essentially originated in the domestic politics of great Britain and spread to the nations of Europe through the mechanism of international commercial treaties. The European commitment to free trade was considerably less enduring then the British, and it turned around quickly in the face of depression after 1870. for the British, however, free trade was the principal commercial policy of the nation until well after the first world war.

Protectionism reasserted itself in Europe as a straightforward response to hard times. Owing to a series of rapid technological improvements in the mid-1850s, the comparative advantage gain in growing shifted decisively to the new world, with the result that grain prices fell sharply in European markets. At the same time, a slum occurred in industrial production, which continued for over two decades in the form of low prices and low return on capital for manufactured products.

International competition became severe, and in all countries there were strong pressures for protection against import. One by one, national governments succumbed to the pressures and reversed the period of relatively free trade that had been established prior to mid-century.

Austria – Hungary raised tariffs in 1876 and Italy followed in 1878. In 1879, Germany shifted to a protectionist policy and so, because of its size in the European economy and its philosophy of nationalism and mercantilism, set a protectionist tone for the overall system.

France responded to German protectionism with restrictions of its own, and for its part, the United Nations continued the protectionism it had pursued throughout the nineteenth century. The United Kingdom, the low countries, and Switzerland, however, restricted the move toward higher tariffs, but by the end of the century, the UK was the only major nation practicing free trade.

3.5 INSTRUMENTS OF INTERNATIONAL TRADE PROTECTION AND PROMOTION

In an ideal world in which the principle of comparative costs specialization is practiced, there is free trade and no duty is placed on traded goods. Almost all countries around the world imposed form of restrictions on the flow of international trade. Despite the advantages of foreign trade, different governments place restrictions on it. These restrictions takes different forms such as:

a. Total Ban: This involves placing total ban on the importation of certain commodities, especially harmful and non-essential goods.

b. Import quotas or quantitative restrictions which are direct restrictions on the quantity of goods bought into the country.

c. Exchange control i.e. the rationing of foreign exchange available for purchases e.g. import licensing etc.

Others include:

d. Export promotion/subsidies

e. Export duties or tariffs

3.6 THE CASE FOR PROTECTION

Why nations impose restrictions on international trade

a. Infant industry argument: Nations imposed restrictions in order to protect new or infant local industries from foreign competition with respect to long-standing but similar large industries.

b. **Revenue argument**: Nations imposed duties or restrictions in order to earn enough revenue to execute other projects locally. This is particularly so in the case of the imposition of import duties.

c. **Balance of payments**: Some countries imposed restrictions to improve their balance of payments via import restrictions or to correct balance of payments deficits. Measures taken here include those which restrict import.

d. **Anti-dumping argument**: Countries take measures to prevent the dumping of cheap commodities in their countries

e. Employment simulation argument

f. Changing pattern of consumption argument

g. Bargaining power argument

h. Self-sufficiency argument

i. Self-reliance argument

j. Recovery from depression argument

k. Strategic sector argument

SELF ASSESSMENT EXERCISE

- Write short note on the following

- Protectionism and Liberalism

4.0 CONCLUSION

The breakdown of trade after 1930 was alarming to the western governments, but even more alarming was the process that had led to the breakdown. The smooth –Hawley Act was written in congressional committees that were essentially unable to master the detail that had become inherent in any major tariff and because of the general sympathy toward protectionism that had been created by the depression, congress essentially extended protection to all those groups that demanded it.

You have now learnt about the details of protectionism and liberalization. Keep reading and revise.

5.0 SUMMARY

The most favoured nation principle was introduced into the trade agreements of the 1930s and was incorporated as Article 1 of the General Agreement on Tariffs and trade in 1947.

The effect of the MFN principles was the eliminate discrimination between trade partners, for countries in principle were obliged to have one MFN tariff that applied to all other countries and therefore were prohibited from applying different tariffs on the same product coming from different countries.

Also known as the Anglo-French treaty, the Cobden –Chevalier treaty known of 1860 initiated a brief period of liberalized trade between the UK and France. Through the treaty, France reciprocated Britain's free trade gestures, (such as the repeal of corn laws which provided high tariff on agricultural products and a series of administrative and diplomatic measure) by opening up the French market to British manufacturers.

6.0 TUTOR MARKED ASSIGNMENT

- Certain arguments surround the impositions of restriction in international trade. Discuss.

Answers to Self Assessment Exercise

Protection is referred to an act by which the government place duties or quotas on imports to protect domestic industries from global competition.

7.0 REFERENCES/FURTHER READING

Bakare I.O.A. (2003): Fundamentals and Practice of Macro Economics, Giltbbak Publishers, Mushin, Lagos.

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UNIT 2: MAJOR THIRD WORLD CONCERNS IN THE GLOBAL TRADE REGIME

CONTENT

1.0 INTRODUCTION

The Uruguay Round of GATT, and the WTO which resulted, was an attempt by the major advanced countries to tackle issues of strategic importance to them for the redesign and management of the global economy in their interest, including the linkages between money, trade and finance. In many respects, the outcome of the Uruguay Round were, and still are, threatening the domestic development and future options of poor, Third World countries. Against that background, the purpose of this unit, and the next, is to put in perspective specific strategic concerns of Third World countries arising from the injustice and exploitation they experience in the global trade regime.

2.0 LEANING OBJECTIVES

By the end of this unit, you should be able to:

- Explain why GATT-WTO is described as an instrument of suppression.
- List the issues that are offensive to the Third World in GATT negotiations.

- List the major areas of disagreement between the developed and underdeveloped countries.

- Described the double standards and hostility of the advanced countries in dealing with the Third World in the GATT-WTO.

3.0 MAIN CONTENT

3.1 GATT-WTO AS AN INSTRUMENT OF SUPPRESSION

Following the Third World countries constrictive demanding for an equitable and New International Economic Order (NIEO), (which had received international notice by 1973), the major advanced courtiers began to seek for an appropriate framework to implement radical changes in the structures of world trade and economy.

The changes were required to achieve the following three aims:

Arrest the rising prices of raw materials (controlled mainly by the Third World, e.g. crud oil), which had led to the second slump in 1974/78; stop the increasing radicalism of the Third World; and bolster US economic dominance – and, by extension, that of its western allies.

For several reasons, GATT was chosen as an appropriate framework to accomplish those aims. The reasons include the fact that foreign trade is one of the strongest linkages among nations. Then there is the fact that Third World countries were weakest inside GATT as they did not negotiate collectives within it like the main powers. The support of the socialist countries for the Third World even verbal and rhetorical – could not be counted on inside GATT because, for reasons of self-interest, the socialist countries adopted a low profile in it. Moreover, GATT negotiations were the least transparent, unlike other international processes.

The Uruguay Round of GATT negotiations, and the World Trade Organization which followed, constitute a major reconstruction of international capitalism and a great setback for Africa and the rest of the Third World.

The Uruguay Round is regarded as the most a ambitious and complex of the eight rounds of negotiations under GATT. It differs from earlier rounds of GATT which had sought merely to open up world trade through tariff reductions and the selective lowing of non-tariff barriers to trade, e.g. quota restrictions. The Uruguay Round represents two separate themes:

a. The GATT multinational negotiations in goods; and
b. Separate negotiations on multinational mechanisms for 'trade in services'

Hence, the new rounds of GATT negotiations were about wider economic issues and trade policy. The new round is essentially for reorganizing the international economy and international economic relations into the 21st century, in the wider geographical context of the efforts of the United States to maintain its position as a global superpower. It is about global production, production capacities and how to reduce weaken competition from the Third World. In these ways, the WTO was joined to the IMF and the World Bank as the new multilateral bureaucracy for managing the world economy, predominantly in the interest of the US, the European Union and Japan.

In order to underscore the new character of international capitalism, many of the old rules of the game have either been changed or weakened, where they were positive, or left unchanged, where they were negative, e.g. the Multi-Fibre Agreement (MFA). Moreover, as we noted earlier, a whole range of new issues under trade in services and agriculture, environment, investment and tighten the monopoly of the advanced countries over the global economy. These are reflected in the three sets of issues in the GATT negotiations, which Third World countries must grapple with early in the 21st century.

- What were the three main aims of the advanced countries' efforts to radically restructure global trade and economy in response to the Third World countries' agitations for a new international economic order in the mid-1970s?

3.2 OPPRESSIVE ISSUES IN THE GATT NEGOTIATION

Three sets of oppressive issues been identified in the Uruguay Round of GATT negotiation. These are:

3.2.1 TRADITIONAL ISSUES

1) Textile and clothing – These have been partly removed from GATT rules, but the discriminatory Multi-Fibre Agreement (MFA) has been retained.

2) Agriculture - Third World interests differ among exporters of temperate zone products who complete with the advanced countries; exporters of tropical products; net food –importing countries; and others. But the broad development interest of the Third World should not be sacrificed for mere market-share arrangement between the US and the European Union.

3.2.2 SYSTEMIC ISSUES

1. **GATT Articles** – There are moves to tamper with these especially Article XVIII, which enables the Third World countries to imposed 'trade policy restrictions' in defence of their balance of payments.

2. **Safeguards** – These ensure that selective or discriminatory safeguard actions should be outlawed. This arrangement is not really offensive to the Third World.

3. **Subsidies and Multilateral Trade Negotiation Agreements** – The 'non-exclusion' clause should not be used to extract concessions that are contrary to the provisions of the agreements. The weak Third World countries are especially vulnerable here.

4. **Special and Different Treatment** – This is a fundamental principle and the provisions for it in part IV of GATT and in the Enabling Clause should be made operational in order to offer additional incentive to the weaker economies of the Third World.

5. **Enforcement of Rights and Obligations** – This relates to the Dispute Settlement Mechanism and the functioning of the GATT system. At present, the enforcement of rights and obligations lies in 'retaliation', an area in which Third World countries are very weak in relation to the industrialized countries.

3.2.3 NEW ISSUES AND THEMES

(1) **Trade in Services** – 'Development' should have the same force as security in Africa XXI so that Third World countries can reserve their rights to make and enforce laws, regulations and practices that they consider proper for their development. Third World countries that are already heavily dominated and marginalized require this protection.

(2) **Trips (trade-related intellectual property right** –technology): many aspects of these rights require fuller discussion and agreement. National laws on TRIPS should not be allowed to come under international review, or be a subject for the settlement of disputes. Third World regarding the technological monopoly of the advanced countries means that TRIPS would aggravate this desperate situation. The Third World must produce a sound collective agenda on these issues of trade in services and TRIPS.

(3) **TRIMS (trade-related investment measures** – on foreign investment): these must not restrict national capacity for attracting foreign direct investment (FDI), or for directing it to sectors according to national proprieties. In spite of this pious hope, however, it is clear that the Third World must produce a joint agenda on TRIMS.

(4) **MAI (Multilateral Agreement on Investment)**: Third World countries must insist on their sovereignty over all foreign investment. This is because MAI, TRIPS and TRIMS are the most controversial and unacceptable aspects of the new WTO system. Third World countries must struggle against these issues now and demand redress.

(5) **Labour Standards** – These should be governed by the international Labour Organization (ILO) Conventions and not come under the WTO system.

The implementation of current WTO agreements on these issues will, therefore, constitute a major setback for Third World countries. This is why these issues have to be scrutinized and raised for fuller discussion and necessary modifications in the national interest of member-states before they can be accepted and implemented by Third World countries.

3.3 MAJOR NORTH-SOUTH CLEAVAGES IN WTO

We have noted that a common characteristic of the Uruguay Round Negotiations was a marked hostility of the advanced countries towards the Third World. And the true objective of the Uruguay Round was to block the competitiveness of the industrialized Third World, even at the expense of the principles of liberalism, and thus to reinforce the monopolies of the dominant centre. In this area, as in every other time, their double standard prevails.

The conclusion of the Uruguay Round negotiations produced few winners, and these were mostly from the industrialized countries, and many losers- mostly from the Third World. The major issues of interest to the Third World were relegated or ignored. It I s, therefore, not surprising that the last attempt to hold the WTO meeting in Seattle, U.S.A. in December 1999 was scuttled by the widespread angry protests of hostile and marginalized social groups.

3.4 DIFFERENCES BETWEEN THIRD WORLD COUNTRIES AND INDUSTRIALIZED COUNTRIES (URUGUAY ROUND)

The major differences between Third World and the industrialized countries in the Uruguay Round negotiations on GATT and the WTO are in four areas. These are:

a. **Industrial exports from the south-**Opening up the advanced countries' markets to the Third World has been resisted so far. Instead, the former has exclude trade in textiles from the rules of GATT-Multi-Fibre Agreement (MFA) which has been in place for over 25 years.

b. **Tropical agricultural and mining products –** The GATT-WTO has remained silent on the issue of improving the terms of trade for Third World export. Thus, the trade regulated by GATT-WTO represents merely 7% of world trade; while textiles, agricultural products (including tropical oil, which compete with temperate oils), mining products, etc ., are excluded (so as not to benefit the Third World)

c. Better access to international finance – The Third World had demanded this during the Uruguay Round negotiations but the

GATT-WTO only offered liberalized banking rules, which have rather facilitated capital flight (including stolen funds) from the Third World to the advanced countries.

d. Improved conditions for technology transfer – Rather than make this possible, GATT –WTO has, indeed, strengthened western technological monopoly by introducing the issue of intellectual property rights (TRIPS).

3.5 RELATED TRADE REGIME POLICIES

All the policies of the advanced countries reflect their hostility and double standard in dealing with the Third World under GATT-WTO. For example,

1. Rather than include textiles, agricultural and mining products in the Uruguay Round (GATT-WTO), the advanced countries allowed Third World countries the minor concession of granting each other some preferences on these products;

2. GATT-WTO rules on TRIMS promote the monopoly of transactional in the local markets Third World countries by opposing clauses requiring 'minimum national content in production, minimal exports, etc., which were designed to promote Third World development

3. TRIPS have been launched under GATT-WTO not to promote competition in technology but to strengthen Western transactional monopoly of technology – a move that is clearly detrimental to the development of Africa and the ret of the Third World.

4. while claiming to be fighting corruption (e.g. via Transparency international), the GATT-WTO negotiations were not only highly non-transparent, they also prohibit Third World countries from employing import inspectors to monitor the prices charged by western exporters, especially as these prices involve illegal transfer of capital, tax evasion and corruption. They also include 'transfer pricing' (which is the over-invoicing of imports and the under invoicing of exports) for hiding profits and transferring them abroad without paying national profits tax on them;

5. opening financial markets in the Third World to the western banks and insurance companies (called financial liberalization) is really meant to increase the transfer of capital (legal, illegal and extra-legal) from the Third World advanced countries. Yet, the persistent inadequacy of development finance continues to crippled Africa and other Third World countries.

6. the inclusion of 'new issues' mentioned earlier in the Uruguay Round negotiations have also increased conflicts between the two groups in the new trading system. They constitute the imperative for an urgent and collective Third World agenda on the GATT-WTO system.

SELF ASSESSMENT EXERCISE

- Describe the major aims and issues world consensus in the global trade regime today.

4.0 CONCLUSION

The GATT-WTO system which is imposing liberalism without borders constitutes a fundamental attack on the sovereignty of Third World countries, especially as the new trade rules are being imposed without full and transparent discussion and the assent of under developed countries. Third World appears to be a replay of the old impositions of the original GATT and the Bretton Wood system when most Third World countries were still colonies. In other words, it would appear that Third World countries are now being recolonised in the GATT-WTO system. The new GATT-WTO system has effectively marginalized Third World countries; and their development interests and priorities are being neglected in place of a pre-occupation with free trade rhetoric's. It is imperative for the Third World to adopt an urgent and collective agenda to redress the injustices of the GATT-WTO system.

5.0 SUMMARY

This unit has exposed you to the major concerns of Third World countries in the global trade regime. The main content of this nit include the characterization of the GATT-WTO as an instrument by which the demands and struggles of Third World countries for a new international economic order were suppressed. This led to the dilution of the Third World's competitiveness and the reestablishment of US hegemony in the global economy. This unit also dealt with new and oppressive rules, from the perspective of Third World countries, in the GATT negotiations. And the major divisions between the advanced and Third World countries were also addressed in this unit

6.0 TUTOR-MARKED ASSIGNMENT

- Discuss the new issues in the WTO negotiation as they affect Third World countries.

Answer to Self Assessment Exercise

* The major Third World concerns in the global trade regime today include how the advanced countries have manipulated, through double standards, the GATT-WTO in order to suppress and exploit underdeveloped countries. Third World countries are also concerned with the oppressive rules which have been introduced into the WTO negotiations to maintain them in a position of sever disadvantage. And is a ... of the marked hostility of the advanced countries towards the Third World there remains today major areas of differences between the two groups in the world trade regime.

- The aims were to:

a. Arrest the rising prices of the Third World's raw materials;

b. Stop the rising radicalism in Third World's quarters; and

c. Enhance the economic dominance of the US and its western allies in the global economy.

- The three categories of offensive rules are on:

a. Traditional issues

b. Systemic issues; and

c. New issues

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UNITE THREE: FREE TRADE RHETORIC AND PROTECTIONISM REALITY IN WORLD TRADE ORGANIZATION

CONTENTS

5.0 Summary

6.0 Tutor marked assignment

7.0 References/further reading

1.0 INTRODUCTION

A form of globalization and global trading where all nations prosper and develop fairly and equitably is probably what most people would like to see.

Various factors such as political decisions, military might wars, imperial process and social changes throughout the last-decades and centuries have pulled the world economic system in various directions.

Free trade and free markets are essentially about making trade easier by allowing the market to balance needs, supply and demand wit h a nation, it can be a positive engine for development. With the cold war over, politicians, economists and others have been promoting unfettered free trade and free market ideology, pushing it to an even wider international arena to facilitate international trade. (Though, as will be suggested below, the current system in its reality is hardly the free trade that the theories described.

While these are not new ideas, their resurgence in the last few decades has led to naming the ideology of neoliberalism. Richard Robbins, quoted above, also summarizes some of the guiding principles of this ideology, which include:

- Sustained economic growth as the way to human progress.
- Free markets without government "interference" allow for the most efficient and socially optimal allocation of resources.
- Economic globalization is beneficial to everyone.
- Privatization removes in efficiencies of the public sectors.
- Governments should mainly function to provide the infrastructure to advance the rule of law with respect to property rights and contract.

Many in the developing world have been welcome to the ideas of globalization, but are way of the realities as well. For example, on November 16,2000 during a lecture at the British museum Nelson Mandela. Progress is measured by increased materialistic consumption and so ever more consumption should be favoured.

2.0 LEARNING OBJECTIVES

By the end of this unit, you should be able to:

- Explain the differences between free trade rhetoric's and Northern protectionism in the WTO.
- Enumerate the objectives of the advanced countries' anti-free trade policies.

- Describe evidence of Northern protectionism.
- Describe the specific grounds that warrant the conclusion that GATT –WTO is a re-colonisation of the Third World
- Explain how GATT-WTO amounts to a re-colonisation of the Third World

3.0 MAIN CONTENT

3.1 FREE TRADE RHETORIC AND PROTECTIONIST REALITY IN WTO

One of the major contradictions of the crises of the world economy into which the WT O was born I s that between free trade rhetoric and the mercantilist reality of advanced countries protectionism against the Third World . at the heart of the anomaly is the interventionist stance of their governments seeking to promote the objectives of d domestic growth , employment and transactional expansions, on one hand, and free trade or liberalization, on the other. These reflect the double standards in the theory and practice of free trade. We need to understand that in international political and economic relations, there are double standards with glaring inconsistencies between policies preached and practiced. While neoclassical economics and liberalism are thrust on the Third World countries, government intervention and protectionism is growing the major industrialize countries."

In the process, 'free trade', liberalization and deregulation have become the convenient ideological weapons for a radical restructuring of the global economy in favour of the advanced countries and against the Third World. The clearest demonstration of this fact is the eruption of virulent economic regionalism in the North, which is a antithetical to genuine free trade.

The advanced countries have mounted mercantilist foreign trade policies and protectionist practices against the underdeveloped countries.

3.2 OBJECTIVES OF THE ADVANCED COUNTRIES ANTI-FREE TRADE POLICIES

The main objectives of these anti-free trade (protectionists and interventionist trade) policies are to:

- Restrains Third World trade competition, especially in manufactured exports and textiles
- Ensure that the Third World remains technological poor and dependent on the North (the new TRIPS in the WTO are to promote this objective.

- Arrest the rising prices of raw materials from the 1970s (especially oil prices) through the imposition of massive devaluation and deregulation on the poor countries.

- Demobilize the Third World prevent the revival of radical southern projects like the demand for a New International Economic Order (NIEO);

- Shore up US powers and global dominance in trade, investment and finance through its trans-national corporations (TNCs).

These are the main reasons for the hypocrisy over free trade, the revival of mercantilist and protectionlist trade policies in the north, and the persistent lack of transparency in the Uruguay Round of GATT negotiations. These fact s also explain the concerted hostility from Third World to quarter and subsequent collapse of the WTO meeting in Seattle in December 1999.

3.3 THE EVIDENCE OF THE NORTHERN PROTECTIONISM

The evidence of Northern protectionism includes:

- Growing economic regionalism in the advanced countries involving free trade restrictions against outsiders. Economic regionalism negatives the principles of GATT.

- The advanced countries' refusal to dismantle the Multi-Fibre Agreement (MFA) against southern textiles for over 25 years, in spite of persistent southern demands for its dismantling, especially under the Uruguay Round.

- The exclusion of over 90% of world trade, especially trade in textiles, other agricultural commodities and mining products, from GATT-WTO liberalization measures (only some 7% of world trade is covered by the Uruguay Round rules.

- The introduction of some new issues into GATT-WTO(such as TRIPS for protecting industrial property or global technology, monopolized by advanced countries transactional), labour standards, government procurement, etc, all reflect their interest in the protection (or increased protection) of these areas.

Mercantilist or state-assisted competition is also extensive in the advanced countries. The best-known examples of this are: US military –industrial complex, which offers massive state assistance to industry through government defence spending and contracts; US agricultural assistance or subsidy programme; the Common Agricultural Programme (CAP) for subsidy in the EU; the EU's subsidy to industry, e.g. to aircraft and space industries, etc. The practice of trying Third World aid procurement to the donor countries at higher-than –world – market prices is also an example of state-assisted, or mercantilist competition.

Then there is massive research spending support under research and development (R &D) activities. 'Trade in services', especially TRIMS and the highly controversial MAI both of which promote transactional investments abroad through home-country support under GATT-WTO auspices, are also examples of fostering mercantilist competition.

Considering all these, one cannot escape the conclusion that, in the new global trade of GATT-WTO, genuine free trade is the exception, and different forces of foreign trade intervention, protectionism and regional groupings are the norm.

3.4 GATT- WTO AND THE RE-COLONISATION OF THE THIRD WORLD

The Uruguay Round of GATT and its WTO have ushered in a new international division of labour which effectively amounts to the de facto recolonisation of Africa and the rest of the Third World. The specific grounds for such a conclusion are as follows:

3.4.1 WORLD REDIVISIONS

The Uruguay Round negotiations differentiated the developed countries into USA, EU and Japan, on the one hand, and other industrialized countries, Australian, New Zealand, etc, on the other. The negotiations also divided the South into the newly industrialize countries; exporter of manufacturers, and the rest that are primary commodity have become exporters. The unity of the Third World has obviously suffered because of these redivisions;

3.4.2 NEW TRADE PARTNER

Conventional international trade theory, from the classical model of Adam Smith to the neo-classical model, used to recognize countries as trading partners. Under GATT-WTO, however, we now have liberalization or free trade without borders- and the dominant actors are trans-national corporation, rather than nation-states;

3.4.3 Nature of specialization – The possibility of specialization in production, not exchange itself, is the basis of international trade and the gains from trade. The GATT-WTO system is now altering the erstwhile North-south specialization on the basis of commodity production and replacing it effectively with specialization between producers in the north (who will also monopolise technology) and consumers in the south. This is because most of the production and industrial base of the nation states of the Third World has been destroyed by the liberalization of Structural Adjustment Programmes (SAP's) or market reforms foisted on them. Both their manufactured export s and agricultural/mineral products are denied market access under GATT-WTO (the agricultural and mineral products being excluded from the rules of the Round);

3.4.4 Rules of the game – These rules are negotiated in highly non-transparent ways such that most countries were not, and many are still not, sure of what they were committing themselves to in the Uruguay Round negotiations;

3.4.5 Dispute Settlement Mechanism – Under the old trade system and GATT rules, the rules were not really enforced. But under the new WTO system, 'might is right' and dispute settlement is by retaliation. Clearly, only the strong economies can get justice under such a system-without any pretence to objectivity;

3.4.6 Free trade or oligopolistic system – While the old international division of labour under GATT pursued the reduction of tariffs and the elimination of non-tariff barriers to trade, the new GATT-WTO system is being dominated by the five monopolies of the West-in technology, finance capital, access to world resources, media an communications and military capability, and the protection of their home countries in the USA, EU and Japan. Some of the new issues in the WTO, such as TRIPS, and TRIMS are bound to reinforce these oligopolistic tendencies;

3.4.7 Free trade in the South, Protectionism in the North-The free trade and Liberalization rhetoric of the GATT-WTO system is meant to bully Africa and the rest of the South into opening up their borders for greater and easier penetration and domination by the North. At the same time, the North is adopting new measures to restrain trade competition from the south and deny it technology.

Under this new capitalist international division of labour which is driven exclusively by the motives of maximum private profit and capital, the recolonisation of the Third World has progressed apace.

Hence eleven SADCC (South Africa Development and Coordination Committee) countries had to reject MAI and ask UNCTAD to study it for future discussion. The south centre (for the Non-Aligned Movement, NAM), the Third World Network, and many NGO's that attended the first ministerial Conference of the WTO have also called for its reviews – not a new Round.

3.5 URUGUAY ROUND OF GATT AND RECOLONISATION OF THE THIRD WORLD

But how does the Uruguay Round of GATT, with its WTO, amount to a recolonisation of the Third World?

Firstly, the GATT-WTO system is imposing ‘liberalism without border’s which amounts to a fundamental attack on the sovereignty of Africa and other Third World countries, especially as these new trade rules are being imposed without full and transparent discussion and the assent of the poor countries. This was how the original GATT and Bretton Wood systems were imposed in the postwar years when most Third World countries were still colonies. They are, thus, being treated like colonies all over again.

Secondly, the new GATT-WTO system has effectively marginalized Africa and the rest of the Third World and their development interest are neglected by it. There is a pre-occupation with free trade matters to the neglect of the important goal of development, which is the priority of the Third World countries. By treating trade and liberalization as an end itself, rather than a means to a large end, the GATT-WTO system is either ignoring or distorting the legitimate priorities of the poor countries- in the repressive and exploitative manner of the former colonial system, which underdeveloped Africa and the rest of the Third World;

Third, MAI is an undisguised colonial agreement. One of the most important aspects of the GATT-WTO system is the imposition of the Multilateral Agreement on Investment. The investor's rights demanded in MAI include 100% equity ownership, and the same treatment for foreign investors as for nationals; rights of foreign investor's entry and establishment in all sectors (except security); freedom of capital and profit flows: as well as right to property and to changes in tax and company laws. These certainly constitute recolonisation.

Fourth, the new trade system is also a direct attack on the means employed by Third World countries to compel northern TNS operating in their territories to respect the rules of competition and ensure national development. A clear example of this is the clause requiring ' minimum national content' in production, mineral exports, etc, which the new system is subverting in order to strengthen the monopoly position of TNCs in Third World markets. The agreement on TRIMS thus undermines national control over foreign investment in ways that are remiscent of the former colonial system; and the attempted introduction of labour standards into the WTO, instead of keeping them within the ILO Conventions, is also designed to facilitate cheap labour for the TNCs against the control of national governments;

Fifth, the exclusion of primary production in WTO, and restraints on Third World competition and technology are colonial type policies for keeping Third World countries down, as in the former colonial system. Good examples here include the persistent refusal of the North to dismantle the out-dated Multi-Fibre Agreement after over twenty-five years, the restrictions on manufactured exports from the Third World countries as well as the increased impediments on their access to world technology.

SELF ASSESSMENT EXERCISE

- Describe one way in which the GATT-WTO amount to a recolonisation of the Third World.

4.0 CONCLUSION

Third World countries need to full appreciate the new reality of free trade rhetoric and protectionism by the advanced countries in the global trade regime so as to unite effectively and persistently for collective re-negotiations of, and joint actions on, many unfair and non-transparent practices in GATT-WTO. Whatever may be the merits of free trade; their national and collective regional interests must take priority, as the mercantist policies of the advanced countries have been demonstrating consistently.

5.0 SUMMARY

This unit is the continuation of the discussion on Third World concerns in the global trade regime. This unit dealt with two critical issues: the fact of the mercantist policies adopted by the advanced countries, despite their shouts of liberalism globally, and the attempt by the advanced countries to, as a result, re-colonized the Third. This unit has exposed you to a critical appreciation of the hostility of the advanced countries and their double standards in the global trade regime

6.0 TUTOR MARKED ASSIGNMENT

* Discuss in two paragraphs how the Uruguay Round of GATT contributes to the recolonisation of the Third World trade.

Answer To Self Assessment Exercise

The new GATT-WTO system has effectively marginalized Africa and the rest of the Third World and their development interest are neglected by it. There is a pre-occupation with free trade matters to the neglect of the important goal of development, which is the priority of the Third World countries. By treating trade and liberalization as an end itself, rather than a means to a large end, the GATT-WTO system is either ignoring or distorting the legitimate priorities of the poor countries- in the repressive and exploitative manner of the former colonial system, which underdeveloped Africa and the rest of the Third World;

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UNIT FOUR: TRADE LIBERALISM AND RESTRICTIONS ON MIGRATION OF THIRD WORLD LABOUR

CONTENT

1.0 INTRODUCTION

The international labour organization is the oldest UN organization and operates with labour business and government representatives setting and enforcing minimum labour standards, including standards for migrant workers.

The focus of the annual conference has been on migrants and the goal will be to explore what the ILO can do to promote orderly migration and protect migrants with ILO standards. The international labour organization notes that migration for employment is a response to demographic and economic inequalities, and that the labour force is expanding in developing countries where 2.6billion of the world's three billion workers are more rapidly than the number of good jobs.

Hamilton and Whalley (1984) divided the world into seven regions, assumed full employment in each region and asked what would happen if workers migrated from lower to higher wage countries. Their projected GDP would be more than a double, a result that prompted Economist Dani Rodrik to argue that 'even a marginal liberalization of international labour flows would create gains for the world economy far larger than prospective gains from liberalization.

Some migration researchers argue that immigration restrictions thus reduce the size and growth of a country's GDP, protecting certain domestic interest. Advocates of fewer migration restrictions argue that global firms need to move personnel easily over borders.

2.0 OBJECTIVES

By the end of this unit, you should be able to:

- Describe the potential benefits of international migration of labour to the Third World and the global economy.
- Explain the advanced countries' position in imposing severs restrictions on labour migration.
- Explain why the "trickle-down" argument is no longer tenable.
- Described the implications of the advanced countries' insistence on vital restrictions.

3.1 LIBERALISM WITH RESTRICTIONS ON MIGRATION OF THIRD WORLD LABOUR.

In international trade theory, the international mobility of goods and services is regarded as a substitute for the international immobility of factors of production (land, labour and capital). With liberalization, globalization and the new world trade of WTO, capital and technology (the recently discovered fourth factor of production), have become mobile. Globalization requires that not country must retain any restrictions, controls and barriers on the free movement measures and technology as intellectual property rights. But this is not so with labour, another factor of production, which can move across national borders. Again, in trade theory, the factor-price equalization theorem holds that the free mobility of factors of production will equalize factor prices (i.e. rent on land, wages of labour-power and interest rate on capital) across countries of the world. Even though this has not happened, and may in fact never occur, movement towards the international equalization of wages remains a seductive idea because it will be a great step towards the solution of the problems of increasing poverty and widening inequalities around the world.

3.2 ADVANCED COUNTRIES POSITION TOWARD TOWARDS RESTRICTIONS ON LABOUR MIGRATION

Yet, the major sponsor of liberation, globalization-GATT WTO and a (Multilateral Agreement on Investment), in the North- are strongly opposed to the international migration of labour. From France, Germany, the USA and other Western countries, we read incredibly depressing tales of the harrowing experience of immigrant workers – whether as boat people from Asia, North Africans in France, other Africans in Germany, and East European in other parts of what should be their common European homeland.

Why, this being the case, should the government of Third World countries not be allowed to exercised any control on the entry of manufactured goods, capital, investment and technology into their countries, while the advanced countries stoutly shut out migrant workers (labour) from the Third World countries, (including Eastern European), who went to enter their countries? Why would free trade, liberalization and globalization be good for manufactured products, capital and technology (intellectual property rights) and be bad for labour? The answer is simply because of the inequality between the powerful owners of commodities, capital and technology, on the one hand, and the weak atomized owners of labour-power, on the other.

3.3 THE TICKLE DOWN ARGUMENTS

An answer through the so-called 'trickle-down' effect of growth in world income to the poor and unemployed in the south is no longer admissible here. Years of faith in trickle-down has only led to disappointment and increasing inequalities. The suggestion that the free flow of world investment and the globalization of production will permit capital from the North to move to the South, and employ the abundant labour in Third World countries, is equally diversionary. For two decades since liberalization started in the 1980s, this has not occurred, and its prospect in the future are very dim.

There are several reasons why the inflow of foreign investment and production to Third World countries cannot be acceptable as a substitute for the international migration of labour.

First, if labour from Third World countries, then by reciprocity, the governments of the former should exercise restriction over the inflow of the latter's products, which often displace local production in the former. Second, the well-known high capital-intensity of Northern production and investment means that unrestricted capital inflow into the Third World is not appropriate for the relatively labour intensive production which they need.

Hence this very capital-intensive investment from the North is not an adequate substitute for labour migration from the Third World the industrialized world. Moreover, if the North were willing to employ less relatively capital-intensive methods by accepting a lower relative income share for their capital in world income (i.e. willingness to accept less shore of profit, interest and rent by the rich in national income), then bother the unemployment problems of the North will be reduced and the North's capacity to absorb more foreign workers will increase. But beyond factor-intensity and relative factor shares (i.e. distribution of income between the owners of land, labour, capital and
distribution of income between the owners of land, labour, capital and

technology), there are also the issues of xenophobia (fear of foreigners, e.g., their diluting and possibly changing the national culture) and outright racism in the restriction of international labour migration. The National Front Party in France, for example, has to deal with these questions of racism, and so has the Freedom Party in Austria.

3.5 ARGUMENTS FOR FREE TRADE

In the history of free trade, two types of arguments have been advanced in favour of allowing purchases from abroad, and free trade in the broader sense.

a. The first set of arguments is essentially economic that free trade will make society more prosperous. These are mostly technical arguments from the discipline of economics, starting especially with Smith's. The wealth of Nations, which overthrew the mercantile orthodoxy.

b. The other set of arguments for free trade could be classified as "moral" arguments listed below:

3.5.1 ECONOMIC ARGUMENTS FOR FREE TRADE

Classical economic analysis shows that free trade increases the global level of output because free trade permits specialization among countries. Specialization allows nations to devote their scarce resources to the production of the particular goods and services for which that nation has a comparative advantage. The benefit of specialization coupled with economies of scale increase the global production frontier.

3.5.2 QUALITATIVE ARGUMENTS

Free trade policies are often associated with general laissez-faire economic politics and parties, which permit faster growth. Voluntary exchange, by virtue of its voluntary nature, is assumed to be beneficial (extante) to the parties involved (why else would they engage in the exchange?). Thus, the restriction of voluntary exchange restricts commerce and ultimately the accumulation of wealth.

3.4 IMPLICATIONS OF DOUBLE STANDARDS

All these have two implications. One is that those who push for liberalization and globalization must also be prepared to accept that the logic of their position demands the liberalization of international labour migration. At the minimum, the current hard positions on labour migration and visa (including transit visas) must be relaxed. The other point is that just as the free international migration of labour across nation borders and outside the zones of integrated Economic communities, like the EU, is not like to hold soon, the pressures of the North on the South to open up and remove all economic restrictions in their economies must also be resist in order to ensure justice to all parts of the world.

SELF ASSESSMENT EXERCISE

- What are the two implications of the double standards of the advanced countries with respect to the labour issues?

4.0 CONCLUSION

We have noted that while the advanced countries push globalization and liberalization in their areas of interest and dominance, they reject that same logic with respect to labour movement across borders. We also noted that it is really in the area of labour movements not in market access, that Third World countries would receive the biggest benefits in the global trade regime. All of these revelations would set the scene for Third World agenda for change, which is the subject of the next and last unit of this course.

5.0 SUMMARY

This unit has dealt with the issue of international migration of labour within the context of globalized world of liberalism. Once again, you have been exposed to another example of the hypocrisy and double-standards of the advanced countries in their dealings with poor Third World countries in the world trade regime. In this unit, the warped logic of the advanced countries to justify their position has been exposed and your attention has been drawn to the critical implications of the situation for a jut world order.

6.0 TUTOR MARKED ASSIGNMENT

* Discuss the nexus between economic argument for free trade and qualitative argument.

ANSWER TO SELF ASSESSMENT EXERCISE

* First, the advocates of globalization and liberalization with respects to goods and services must be prepared to supply the same logic to international labour migration.

Second, just as the advanced countries are resisting international migration across their national borders, so also must Third World Countries resist the call to open up their economies and remove all economic restrictions.

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MODULE THREE

UNIT 1: THIRD WORLD AGENDA FOR CHANGE IN GLOBAL TRADE REGIME

CONTENT

4.0 Conclusion

5.0 Summary

6.0 Tutor-marked Assignment

7.0 Reference/Further Reading

1.0 INTRODUCTION

The new GATT-WTO system has many flows; and the system has been so in its operation since 1996, in different perspectives as we discussed in the last three units, that several developing countries, NGOs, the Third World trade Network, which is based in Penang, Malaysia, and the South Centre in Geneva have proposed several reforms of the systems.

Besides, the trend toward creating special codes under the GATT's auspices has been found to be a consequence of a number of factors:

Although developing countries have been members of the GATT from its beginning, they have not infact taken on any substantial commitments under the terms of agreement. Nor have they become deeply involved in the tariff-negotiation sessions sponsored by the GATT. Their role therefore, has been that of bystander, entitled to non-discriminatory treatment from the more advanced country-members as regards tariffs and other import restrictions but not obliged to provide any prescribed treatment in return.

However, the new areas of agreement were to touch on policies which many governments regard as highly sensitive, much more so than the tariff and trade licensing areas covered by the GATT. Accordingly, only minorities of the GATT's members, mostly advanced industrialized countries, are prepared to enter into agreements in these new fields (Otokiti, 2006).

To this end there have been a whole lot of reforms proposals third world strategic agenda for redressing the bottlenecks surrounding the global trading system and in that capacity sketches the preparatory work that need to be done urgently.

2.0 LEARNING OBJECTIVES

By the end of this unit, you should be able to:

- Enumerate several needed reforms in the GATT-WTO system
- Identify several items in the Third World's strategic agenda for change.
- Describe the kind of preparatory work needed for Third World strategic engagement with the GATT-WTO.

3.0 MAIN CONTENTS:

3.1 A THIRD WORLD PROGRAMME FOR REFORM OF WTO

The proposed reforms include the following:

3.1.1 DEMOCRATIZE AND BRING THE SYSTEM WITHIN THE UN SYSTEM

Greater openness and equitable participation by Third World countries are essential, and so it has been proposed to bring the WTO within the UN system, hopefully with fairer sharing of benefits and costs;

3.1.2 ADDRESS PROBLEMS OF MARGINALIZATION AND IMPLEMENTATION OF AGREEMENT BY THIRD WORLD COUNTRIES:-

A pre –condition for liberalization is the possession of built-up local capacity to withstand the increased competition of the TNCs. This requires addressing the urgent development problems of poverty, unemployment,inequalities, technological stagnation and environmental degradation, which have worsened in the Third World, and have been causing greater insecurity. There has also been reported increase in disguised protection measures against poor countries, e.g. Use of WTO measures on anti-dumping subsidies and environment.

3.1.3 ELIMINATE THE DEFICIENCIES AND IMBALANCE IN THE WTO SYSTEM:

The inequalities in the distribution of benefits and costs, in which most poor countries are losers (with Africa estimated as loosing between $1.2 and $3 billion annually) has to be addressed. The principle of reciprocity for the balance of rights and obligations is also more appropriate for countries at a similar level of development, whilst the dispute settlement mechanism based on retaliation is a rule of the jungle that should change. Then the following imbalances need to be specifically redressed.

- **Agricultural agreement:** This ignores, at present, the interest of non-commercial households and peasant farmer who are in the majority in the Third World;

- **The agreement on subsidies**: Currently permits the subsidy practices of the North for research, regional development, environmental protection (in addition to the current ones for agriculture and industry), but not Third World subsidies for protection, diversification and exports;

- **Market access for the Third World**: This has featured tariff escalation in many advanced countries such that their tariffs on goods of interest to poor countries are still extremely high. So the issue of import restriction that stile production and exports in the Third World need to be addressed;

- **The textiles sub-sector**: Without any compensation to the Third World countries for maintaining the Multi-Fibre Agreement (MFA) for 25 years, the advanced countries have continued to extract concessions from them for, bringing textile into the normal – WTO framework. This, and the "*bad faith*" evident in the first phase of liberalization whereby the advanced countries have not liberalized products under restrain, must be redressed;

- **The agreement on services:** This is clearly inequitable as it involves an unfair imbalance in the protection of capital, which is abundant in the North, and the exclusion of labour, which is relatively more abundant in the Third World, and made subject to harsh Northern immigration restrictions, including the imposition of exploitative transit visas. This must be redressed;

- **The agreement on TRIPS, MAI and TRIMS:** Also need urgent review, as some poor countries have either rejected some of them, e.g. MAI, or they are demanding their review;

- **Need for greater balance, transparency and accountability**: This is also important as the WTO is weighted against the weaker states that are not usually invited to the numerous informal meetings where major decisions are taken.

3.2 STRATEGIC AGENDA FOR CHANGE

The challenges and threats posed to Third World countries by the new global trade system should be seized by the Third World to forge a strong and united front for preparing a strategic agenda for engagement with the North.

The main items of this collective Third World agenda for the strategic engagement with the North should include:

- The linking of the trade liberalization demanded by the North to the urgent development goals of poor Third World countries;
- Demand for special and differential treatment for poor countries on account of their high vulnerability in the global economy;
- Special attention to export commodities from the Third World with respect to their falling prices, declining term of trade and restricted volumes. This requires that the Third world should (a) contest the International Commodity Agreements that have been

abrogated unilaterally by the North; and (b) renew schemes of supply management among poor countries;

- Demand for effective governance of the global economy, with particular reference to trade, international capital flows (especially speculative short-term capital), technology, environmental protection, foreign debt, termination of SAP's and the activities of TNCs;

- Review of the status of the Multi-Fibre Agreement, agriculture and mineral products in GATT-WTO;

- Demand for the implementation of international agreements reached in the context of the negotiations for the Uruguay Round of GATT, e.g. on trade and environment development of local capacity as pre-condition for full participation in the new trading system, etc;

- Pressure against any new round of WTO negotiations and for its review with regard to some sectoral negotiations, e.g. on agriculture, mining, textiles, etc.;

- Insistence that WTO procedures become transparent and democratic, and that its secretariat be accountable, particularly in the sharing of the benefits and costs of the new global trading system, which involves winners and losers;

- Fuller discussions on competition policy under the new GATT-WTO system, particularly with regard to improved market access for Third World products, through removal of restrictions on their manufactured products and of disguised protective measures, such as anti-dumping subsidies;

- Review of the new protectionism implied by the introduction of new issues such as services, technology and foreign investment through TRIMS, TRIPS and MAI, respectively, as well as Environment and Labour standards. The Third World countries have to articulate their proposals very clearly on these issues so as to effectively engaged North in meaning dialogue on them.

3.3 PREPARATORY WORK & MOBILIZATION FOR CHANGE

In order for the Third World to have meaningful and productive negotiations with the North over GATT-WTO, it is imperative for them to engage in serious preparatory work and effective national, regional and south mobilization. Third World countries must jettison their international docility since the foreign debt crisis and its conditionality. They must become pro-active and demand serious and fair international attention and solutions to their international problems they must not react to be blueprints, programmes and agenda of the North; they must systematically and persistently articulate their own agenda, programmes and blueprints on all major international questions. That is the path to effective negotiations and strategic engagement with the rest of the world.

All these require attentive focus on the following issues in the context of the GATT-WTO:

(a) Inspite the growing differentiation among the poor countries, e.g. emergence of Newly Industrialized Countries (NIC's), exporters of manufactured products, etc, they still share many common interest and face several common challenges. These constitute the economic, political and social basis for united mobilization among African Third World countries for effective response to the new global trade challenge. Groups like the AU (African), NAM (Non-Aligned Movement) (and it group of 15 directing countries) constitutes ready platforms for the joint mobilization of Third World on the major questions arising from the GATT-WTO system;

(b) The past cohesion and unity....the 53 in Africa many others in and, the rest of the Third World, should be invoked and employed for the urgent mobilization and strategic engagement with the GATT-WTO. Just as African countries were able to produce a Common Position on Africa's Commodity Problem in response to the flawed Frazer Report (on same), it should be fairly easy to utilize the auspices of the AU, ECA (Eonomic Commission for Africa) and the ADB (African Development Bank) to articulate an urgent common African position on the GATT-WTO system and mobilize the African civil society (NGO's, trade unions, etc) to support it. The successful mobilization of the dissenting groups that scuttled the Seattle Ministerial Conference of the WTO in December 1999 is instructive in this regard;

(c) A United Policy Front of Third World countries should then crystallize around these ideas for the strategic engagement with the North. This United Policy Front should then speak with one strong voice in negotiations on WTO items such as TRIMS, TRIPS, MAI, trade and Environment, Labour Standards, etc., well as on the implementation of the negotiations of the Uruguay Round of GATT. The point should be underscored that the Third World performed so poorly during the WTO negotiations because they were divided, atomized and, therefore, lacking in strength.

(d) All these concretely require serious and detailed national, regional and collective Third World studies of the WTO, e.g. by the Group of 15 of NAM or the South Centre. Studies on such the issues would be Compelling: What are the implications of the agreements researched and their possible adverse effects? What should be the informed positions of poor countries on such outstanding issues as TRIPS, MAI treatment of textiles (fibres), agricultural and mineral products, trade and environment, liberalization versus development goals, etc? Each African country, region of the Third World and the collective Third World should produce detailed and harmonized blueprints on these issues for the urgent strategic engagement with the advanced countries on GATT-WTO. This must not be allowed to be another grand international deception like SAP and foreign debt relief.

SELF ASSESSMENT EXERCISE

- Why is the cultivation of a United Third World front important for the Third World to redress the injustices of the GATT-WTO system?

4.0 CONCLUSION

Suggestions for the reform of the GATT-WTO system, which has been so unsatisfactory in its operations since 1996, have come from several dissenting quarters. All the reforms call for urgent remedial measures in order to eliminate the numerous flaws, inequities and inefficiencies in the new experimental GATT-WTO system. These reforms are… to the much-desired integration of world trade, development, and the effective resolution of the world economic crisis. What needs to be underlined is that the Third World should reject any proposals for new Rounds of GATT negotiations. The Third World must forge a strong and united front and prepare a strategic agenda for engaging the advanced countries in the world trade regime.

5.0 SUMMARY

This unit is the conclusion part of this course on the principles and practice of international trade. You have been exposed to the workings of the world trade regime; the rules-based World Trade Organization that represents the principles and practice of international trade in that regime. This course has shown that from the objective of the underdeveloped countries, the operations of the trade system are inequitable and unjust. Hence, the concern of this unit is with the nature of necessary reforms of the GATT-WTO system, the strategic agenda to be adopted by the Third World to engage the advanced countries in the system and the preparatory work that they need to do towards that strategic engagement.

6.0 TUTOR-MARKED ASSIGNMENT

- Name three items in the Third World agenda for change in the WTO

Answer to Self Assessment Exercise

a) The linking of the trade liberalization demanded by the advanced countries to the urgent development priorities of Third World countries.

b) Demand for affirmative action through special and differential treatment for poor countries in view of their high level of vulnerability in the global economy.

c) Special attention to export commodities from the Third World with respect to their falling prices, declining terms of trade, and restricted volumes.

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UNIT TWO: NATURE OF INTERNATIONAL FINANCING AND ITS VEHICLES

CONTENT

3.4.5 Balance of payments

3.5 The banker's roles and traditional vehicles employed.

3.5.1 Letter of credit instrument

4.0 Conclusion

5.0 Summary

6.0 Tutor –marked assignment

7.0 References/further reading

1.0 INTRODUCTION

In this unit, we discuss the external sector activities- import and export trade in goods and services, investment flows across national borders and unrequited transfers –generate the need for external financing and therefore international banking activities.

These activities required corresponding funds transfer in acceptable currencies, and therefore the need to convert one currency to the other which is foreign exchange market. The foreign exchange market might be free, free, fixed or managed regime.

In performance its roles in international financing banks employ a variety of vehicles or instruments. One of these instruments – the letter of credit shall be discussed

2.0 LEARNING OBJECTIVE

Upon successful completion of this unit, you are expected to do the following:

- Discuss some of the external sector activities and international financing.
- Examine the intricacies surrounding foreign exchange market.
- Explain the concept of hybrid exchange rate regimes.

- Identify the essential variable under the alternative exchange rate regimes.
- Examine the bankers' role and traditional vehicle employed
- Discuss the letter of credit instrument.

3.0 MAIN CONTENT

3.1 EXTERNAL SECTOR ACTIVITIES AND INTERNATIONAL FINANCING

Three major types of activities in the external sector of any nation give rise to the need for international financing. These are trade across national borders (export and import), capital flows (both direct and indirect investment across borders) and unrequited transfer (e.g. home remittances, relief materials, etc) which result in the demand for and supply of international means of payment often called foreign exchange. To appreciate the issues at stake, we describe as briefly as possible, the following fundamental concept: (Andy, 2001).

3.1.1 IMPORT

When for instance, a Nigerian Motor Vehicle distributor buys a Suzuki motor cycle from Japan, he has engaged in importation because the trade involves the exchange of goods outside the national boundary of

Nigeria. The motor cycle so imported is a visible import because the subject of the exchange – Suzuki – can be seen and touched physically.

Beside visible imports, there are invisible ones. These are trade in services. Though they attract values, they cannot be seen or touched physically. For instance, when a Nigerian goes for medical treatment in the U.S.A. medical services have been imported. Also, after the Suzuki Motor Cycle referred to above was purchased, it has to be transported to Nigeria as well as insured. If foreign transport and insurance firms respectively undertook the transportation and the insurance of the Suzuki from Japan to Nigeria transport and insurance services have been imported.

It is worth nothing, that if rather than going for medial treatment abroad a Nigerian obtains such services in the Nigerian market, no importation would be involved. It would be like any other domestic services that are traded locally e.g. barbing, consultancy etc. Also, if rather than engaging foreign firms in the transportation and insurance of the Suzuki motor cycle, domestic firms are engaged, no importation would be involved. It must be noted that foreign currencies are required to settle import bills.

3.1.2 EXPORT

In the example of the Suzuki importation stated above, Nigeria imported while Japan exported. One country's export is another country's import. Today, the dominant export of Nigeria is crude petroleum. Like imports, exports are either visible (crude oil, iron ore, coal, etc) or invisible (e.g. shipping, insurance, etc). Those engaged in exportation would normally want to repatriate their exports proceeds which are earned in foreign currencies.

3.1.3 CAPITAL FLOWS

Like goods and service which are trade or exchange by people across national boundaries, capital funds also move across national borders. A wealthy Nigerian, for instance, may want to purchase real estate, shares, stocks, or may want to set up a business in the United Kingdom. In such a situation, he would have to move the equivalence of his naira sum to the United Kingdom where the Naira is not a legal tender and therefore not a medium of exchange and

UNREQUITED TRANSFERS

Unrequited transfer are resources transfer across borders, but are not reciprocated with corresponding settlements. They are not to be paid for e.g. gifts, home remittance, etc.

3.1.4 FOREIGN EXCHANGE

In the domestic scene, local currency, coins, cheques, etc are used as the medium of exchange and therefore the medium for setting invoices associated with trading and investments. In each country, the local currency is the preferred, and in some cases, the only currency acceptable for payment.

Consequently, imports from the U.S.A. by Nigerians, for instance, would normally be invoiced in dollars and therefore have to be settled in dollars. However, over the years some items, like in the history of evolution of money in the domestic scene, have come to be accepted in settlement of international transactions (trade and investment). These items include: gold, silver, key currencies and the Special Drawing Rights (SDRs).

Gold and Silver at one time or the other have been accepted in international settlement because of their intrinsic values. Even up till today, Gold remains an acceptable instrument for international settlement.

The key currencies are the currencies of the major economic powers. They get their values from the goods and services that these economics can always provide in exchange for these currencies at any time. Such currencies include the U.S.A. dollar, the pounds sterling, Deutsche Mark French Francs, Japanese Yen, Swiss Franc, Italian lire etc.

The SDRs are the paper money created by the international monetary Funds (IMF). They are the counterparts of domestic paper money. They are created by law and general agreement by member countries.

Therefore, the Gold, the key currencies, and the SDRs are the international money acceptable in the settlement of international transactions. These international monies are collectively referred to as foreign exchange. Therefore, any instrument that is acceptable in the settlement of international transactions is a foreign exchange.

Thus, because an American exporter would only accept foreign exchange in settlement of his invoice, the Nigerian importer needs foreign exchange to pay for his import. Also, a Nigerian investor, wishing to invest his funds (capital outflow) in the U.S.A. needs foreign exchange to realize his dream. Similarly, a Nigerian wanting to send monetary gifts abroad, or a Lebanese wanting to remit part of income to his relations back home needs foreign exchange to do this. All these create demand for foreign exchange.

In the same direction, a Nigerian exporter would earn foreign exchange and therefore has a supply of it. Capital flows associated with foreign investors wanting to invest in the domestic economy (e.g Nigeria), supply foreign exchange by demanding for the local currency, the naira.

Unrequited transfers in favour of Nigerian residents also supply foreign exchange.

3.2 FOREIGN EXCHANGE MARKET

To simplify matters, we can assume for a start, that there is a place where suppliers and users (demanders) of foreign exchange are gathered to transact the business. In such a conventional market, exporters who have earned foreign exchange would come with their wares; same with the foreign investors' hat have key currencies but want Naira to invest in Nigeria. Similarly, those who receive gifts and remittances in foreign currencies would come, all displaying their wares which are foreign exchange. This is the supply side.

On the demand side would be those who wanted to import or to settle their import invoices as well as those who want to send monetary gifts to foreign countries in foreign exchange. Also, domestic residents wanting to invest in foreign countries would enter the market with their demands. The sum of all these is the total foreign exchange demand.

3.2.1 EXCHANGE RATE

The price at which the foreign exchange is exchanged among buyers and sellers is what is called the exchange rate. If this market is a free one, the price will be competitively determined and the normal demand

and supply analysis would be applicable. This price is usually stated in terms of how many units of domestic currency would be required to purchase a unit of foreign currency. For instance, if N83 exchange for a U.S. dollar in the foreign exchange market in Nigeria, then the exchange rate is N83. In any foreign exchange market a currency is usually dominant. For instance, in Nigeria, the U.S. dollars is the dominant one. Hence the price for dollar is first determined in the Nigerian foreign market after which the cross-rates for other key currencies are determined by their relative prices in the international foreign exchange markets.

There are two major types of foreign exchange markets which represent the polar ends. In between those polar ends are some hybrid systems. These two major types are free exchange-rate market (or regime) and fixed exchange-rate market.

3.2.2 FREE EXCHANGE-RATE MARKET

The free exchange-rate markets is a monetary arrangement whereby the exchange rate is freely and competitively determined by the forces of demand and supply of foreign exchange. Rates so freely determined are referred to as floating rates or flexible rates. The commodity of trade, the foreign exchange, is freely trade so that when there is an increase in demand for foreign exchange (probably as a result of increased imports, capital outflows and/or outward unrequited transfers), supply remaining unchanged, demand pressures would put up the exchange rate being the price of foreign exchange. Thus, when the exchange rate in the Nigerian foreign exchange market moves from N83 to N85 for a U.S. dollar, the exchange rate is said to have depreciated such that foreign exchange becomes more costly. Correspondingly, imports become more costly than before because an import that costs one dollar would now cost N85 rather than the previous price of N83.

3.2.3 FIXED EXCHANGE –RATE MARKET

Under this monetary arrangement, the rates are not freely determined but are rather fixed by the government or one of its agencies. In Nigeria for instance, the government, while it operated a fixed exchange- rate regime, fixed the rates through the Central Ban of Nigeria (CBN).

Because the rates that are usually fixed under such a dispensation are often different from the equilibrium (or market-clearing) rates, the government or its agents must maintain buffer pool for foreign exchange. This buffer pools is called Foreign Exchange Reserves (FERs).

Consequently, when the demand for foreign exchange in the market is greater than its supply, the government releases (i.e. sells) part of its FERS holdings to make for the deficiency. Similarly, when the supply is in excess, the government buys the excess and build up its FERS.

This is to stabilize the price of the foreign exchange (the exchange rate) at the administratively pre-determined level.

These mechanisms of exchange-rate stabilization is only possible if the rate fixed is the appropriate long-run average or the appropriate yearly averagely such that the period or excess supply, are over a short period smoothened out by the periods of excess demand. In other words, stabilization is only possible when the aim is limited to smoothening cyclical and seasonal effects as it cannot reverse movements in long-run rates.

In practice, however, government's aims often go beyond what is possible. Even when the stock of FERs is low or virtually exhausted, and because a huge external debts, they can no longer borrow from the international capital and money markets, they still want to maintain the exchange rate at the unsustainable levels. (Bakare, 2003).

Therefore, in an attempt to do the impossible, they ration the available of some items, import licensing, prohibitive import tariffs, exchange and capital controls, currency movements etc. The effects of all these are to make transactions in the foreign exchange market far from being free as a earners of foreign exchange are compelled to surrender them to the monetary authorities (CBN in the case of Nigeria). The CBN would then allocation such foreign exchange surrendered, using its own criteria, which in most cases would be different from those of market conditions.

But the more the market conditions requirements differ from the administrative conditions imposed by the CBN, the more parallel markets for foreign exchange would develop in efficiency and coverage. These have been the lesson of experience not only in Nigeria, but world over. (Bakare, 2003).

3.3 THE CONCEPT OF HYBRID EXCHANGE –RATE REGIMES

As we have earlier noted, the free and fixed exchange-rate regimes in their pure forms, are the polar ends; and in their pure forms they are hardly observed. Commonly, a regime is classified on the basis of how close it is to each of these polar ends.

A very common hybrid, common especially among the industrial countries of the world, is the managed floating exchange-rate regime simply called managed float. Under this arrangement, the government does not interference in the market directly rather it has its undeclared (i.e. unannounced to the public) target level for the exchange and would adjust its monetary (level of money supply, domestic credits etc) and fiscal (level of government spending and its composition/quality) policies to ensure that the exchange rates freely determined, is within the neighbourhood of its target rates. This, for a practical purposes, is eligible to be called a floating or free exchange –rate market (regime).

Another hybrid is the two-tier foreign exchange market where the market is segregated into two. For instance, there may be a separate market for a capital transactions (i.e. movements of investments funds either portfolio of direct investments) and another market for current accounts transaction (i.e. import and exports of goods and services and requited transfers). If the segregation is effective, rates in these markets would differ. The two markets might both be floating, both fixed or one fixed and the other floating. An example of this hybrid was introduced at the commencement of the Nigerian Structural Adjustment Programme (SAP) in 1986. During that experiment, all debt- servicing obligations were to be honoured at a fixed (pre SAP) exchange rate while all other transactions were to be undertaken at market determined rate–a rate determined through an auctioning system. Similarly, during the so called “guided-deregulation” period of 1995, government’s transactions were to be conducted at a fixed rate of N22 to a U.S dollar while other transactions were done at the market rate, this time with the parallel market rate as the bench mark. For most part of the year, the parallel rate was in the neighbourhood of N85 and this coexisted with the N22 in the other market. Of course this created a lot of room for administrative abuses and corruption because market segregation is often a very difficult task.

3.4 ESSENTIAL VARIABLE UNDER THE ALTERNATIVE EXCHANGE –RATE REGIMES

The activities and transactions of the external sector with the rest of the world if often carefully recorded and accounted for. The major accounts kept are the Merchandise Trade Accounts, the Invisible (Services) Accounts, the Capital Accounts and the Balance of payments.

3.4.1 MERCHANDISE TRADE ACCOUNT

The merchandise Trade Account records all external trade (imports and exports) in (physically visible) goods. An import is a debit while an export is a credit. Consequently, we say the balance on the Merchandise Trade Account is favourable or in a credit (or a surplus is said to be recorded) if total exports recorded in this account is greater than imports. (Olaniyan, 2009).

3.4.2 UNREQUITED TRANSFER ACCOUNTS

Unrequited Transfer Accounts record an inflow as a credit and outflow as a debit. When inflow is greater than outflow, then a surplus is recorded on that account-a favourable balance.

3.4.3 CURRENT ACCOUNT

The current Account Consolidates entries in the Merchandise Trade, Invisible and unrequited transfer Accounts. Therefore, an excess of exports (Merchandise plus invisibles and unrequited receipts) over imports (Merchandise, invisibles and urequited payments) implies a current surplus (or a favourable balance). Examples of the Nigerian Current Accounts for 1990 and 1991 are provided in Table 1.4. As can be seen in this table, it is merely a consolidation of Tables 1.1, 1.2 and

1.3 it shows that Nigeria had a favourable (i.e. surplus) current account balance of N12,655.4million in 1991.

3.4.4 CAPITAL ACCOUNT

The Capital Account records as credits all capital inflows, and as debits all capital outflows. Contently, when inflow is greater than outflow, the capital account is said to be favourable (or in surplus). Examples of the Nigeria Capital Account for 1990 are provided in Table 1.5. It shows that Nigeria recorded a net capital outflow (i.e. unfavourable balance) of N27,482.9 million in 1991 (line 1 of that table). Bakare, O. 2003).

3.4.5 BALANCE OF PAYMENT

The Balance of Payments consolidates the current account and the capital account. When the consolidated account is credit, it is said to be in surplus i.e. favourable. A favourable Balance of payments implies that the countries Stocks of FERS increased by the amount of the favourable balance. Under a pure free exchange-rate regime, the balance of payments is expected to be zero. Such that the stock of FERs remain virtually unchanged overtime.

However, under a fixed exchange –rate, balance of payments is not expected to be zero except by accident. Therefore, the stock of FERs is expected to change overtime under a fixed exchange-rate arrangement.

3.5 THE BANKERS' ROLES AND TRADITIONAL VEHICLES EMPLOYED

A bank is a financial intermediary, harmonizing the needs of deficit units, and those of surplus units. In addition, the bank facilitates trade through its mechanism for funds transfer and by providing media for settlement of debts. These functions which they perform in respect of domestic trade and investments are also performed in respect of international trade and investments.

For instance, the export customer would want his export proceed repatriated to him in local currency at least under normal conditions. Also, the importer would want to settle his import invoices in foreign exchange or the currency of choice of the exporter. Similarly, investors across borders would want to change their local currencies to those of the countries where they want to invest or to foreign currency that are generally acceptable.

It is the responsibility of the banker to intermediate between those who have foreign exchange but want domestic currency and those that have domestic currency but want foreign exchange instead.

To perform those intermediation roles, a bank must have its foreign desk(s) and must establish correspondent bank (s) would intermediate foreign exchange supplies and demands by accepting or buying from those who wish to sell and selling to those who wish to buy. That immediately solves the problem of double coincidence of wants that could have resulted absent banks.

The physical foreign exchanges that are taken across the borders and therefore trade on the counters are usually small in comparison to the total volume of transactions involved. Lion share of the foreign exchange are not moved across borders. Rather, the associated title documents are traded through the Central Bank, the corresponded banks and the local banks intermediating.

Under a free exchange rate regime, he would go to his bank, Trade Bank Plc and pay in the cheque. The bank would send it to its correspondent bank in the U.S.A. let us say, the American Express who shall present it to ABC bank for payment. Upon clearing, Trade Ban's Account with American can express is credited.

From this count, Trade Bank Plc can meet the demands of his import-customers in need of foreign exchange, sell to other banks whose customers may want foreign exchange. The transactions are done at the market rate and the Bank earns the associated commission.

However, under a fixed exchange rate and strict export and exchange control, the exporter must surrender his export proceeds to the CBN through his bank. The proceed is then cleared to CBN's accounts in the

U.S.A. which, in the main, is its accounts with Federal Reserves. This increases its stocks of foreign reserves. Foreign exchange allocations to importers, investors etc, that required foreign exchange are made from the CBN's account with Federal Reserves to the correspondent banks of the importers' banks generally. It is in respect of such allocations that the importers' bank issues its letter of credit.

In effecting the above transactions, either under a fixed or floating rates, some documentations, documents and information are required. A bank should be familiar with these requirements so that it would be in position to advise its customers. Therefore, we proceed to discuss one of the most common instruments employed in rendering services to customers that are engaged in international trade and investment namely, the Letter of Credit Other documents will be discussed later is this series. (Ayodele Jimoh, 1997).

3.6 LETTER OF CREDIT

In international trade, the interest of the exporters wants to be assured of payment and as soon as delivery is made. He often, is not aware of the credit ratings of all those making import orders. If he restricts his sales to those he is familiar with, he might lose his market to other exporters who are more liberal. Yet his fears might be genuine.

On the other hand, the importer wants to pay only after he had taken delivery and found the goods to be satisfactory. He would want to delay payment for as long as possible.

A letter of credit is an instrument for resolving the above conflicts of interest. A letter of credit advises the beneficiary (i.e. the exporter in this case) that a bank (the issuing bank) will pay for the value of the concerned transaction on behalf of the account party (the importer in this case) provided some conditions stated in the letter are met. The following concepts are worthy of further discussions in respect of Letters of Credit. According to Ayodele Jimoh.

- Account party
- Issuing bank
- Beneficiary
- Paying bank (same as drawee bank)
- Accepting bank
- Negotiation of Letters of Credit
- Revocability of Letters of Credit
- Confirmation of a Letter of Credit
- Advising a Letter of Credit

An Account Party is the person wanting to settle his invoice or pending indebtedness. For the purposes of international trading, this is the importer. The issuing bank is the author of a letter of credit. Usually it is a bank located in the importers' country. It is the bank who agrees to honour any demand for payment resulting from the import transaction described in the letter of credit. Therefore, it serves as a guarantor for the payment. To provide this guarantee, the issuing bank would normally get the custom (the account party/importer) to execute an agreement with it. In the agreement, the account party undertakes to pay the value of the letter of credit together with fees mutually agreed upon.

The beneficiary in the above example is the exporter in whose favour the letter of credit is written. The letter of credit is written to the beneficiary and is either forwarded to him through an advising bank or forwarded directly to him with a copy sent to the advising bank. The advising bank is normally in the exporter's country and acceptable to him.

The issuing bank may request the advising bank to add its confirmation. I advising bank obliges, it does this by adding the following words to the letter of credit".... Drafts drawn under and in compliance with the terms of this credit shall be dully honoured by us on due presentation" or include such words in its own letter which is advising of the credit. By providing such a confirmation, the letter of credit becomes a confirmed letter of credit and consequently the confirm bank is under obligation to pay the exporters once he meets all the conditions of the credit whether or not the account party and/or issuing bank fulfills his obligations of payment.

The paying bank is the upon whom the letter of credits is drawn, the bank is authorized by the letter of credit to pay the sum involved after the stated conditions are met. Thus, it is referred to as the drawee bank.

The accepting bank is the bank mandated to verify and accept the documents indicated in the letter of credit. These documents are usually evidence shipment and proving that the conditions stated in the letter of credit have been met. An accepting bank is normally in the exporter country and is mostly a correspondent bank to either the issuing bank or the paying bank.

SELF ASSESSMENT EXERCISE

- Distinguish between a favourable balance of payment and unfavourable balance of payment

4.0 CONCLUSION

This unit has clearly discussed the nature of international financing and its vehicles. You have also study the issues relevant to international financing such as the banker’s roles and conventional vehicles employed in international financing, the hybrid exchange rate regime and the letter of credit.

5.0 SUMMARY

Three major types of activities in the external sector of any nation give rise to the need for international financing-trans-border trade (import and export), direct and indirect investment beyond boundaries of nations.

The demand for and supply international means of payment often called foreign exchange has been a vital issue in international financing beside visible imports, there are invisible ones. These are trade in services.

6.0 TUTOR-MARKED ASSIGNMENT

* Write short not on each of the following

a. Export

b. Capital flows

c. Unrequited transfer.

Answer to Self Assessment Exercise

- A favourable balance of payments implies that the countries stock of FERs increased by the amount of the favourable balance.

- When prices rise more rapidly in the home country than the foreign countries, the domestic product become more expensive compared to foreign product. Imports tend to rise higher than exports thereby making the balance of payments unfavourable for the country.

7.0 REFERENCES/FURTHER READING

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UNIT THREE: INTERNATIONAL FINANCIAL INSTITUTION

CONTENT

3.6 export credit agencies of individual country governments such as:

3.6.1 The multinational investments guarantee agencies (MIGA).

3.6.2 African Development bank

3.7 The operations of organization of petroleum exporting countries

4.0 Conclusion

5.0 Summary

6.0 Tutor-marked assignment

7.0 Reference/further reading

1.0 INTRODUCTION

The centre for Global Development (CGD) research examines how the International Financial Institutions or IFIs – the IMF, world bank, multilateral development banks, and other international development agencies – can become more responsive to the need of developing countries and ensure that growth opportunities they promote reach the world's poorest people.

Publish what you pay (PWYP) calls for International Financial Institutions (IFIs) to require public disclosure of revenues and contracts for all extractive industry investment projects development policy lending and technical assistance programmes. In addition, PWYP request IFIs to ensure the development, implementation and monitoring of the transparency program includes meaningful civil society participation.

By International Financial Institutions, we mean recognize international economic organizations established primarily to provide adjustments, financing of external balances, creating and distribution of liquidity of their members. However, the discussion below encapsulates all recognized bodies that are of international status.

2.0 LEARNING OBJECTIVES

At the end of this unit, you are expected to do the following:

- Examine International Financial Institution by meaning and definition.
- Discuss International Monetary Fund (IMF)
- Explain the formation of IMF
- Discuss the objectives of IMF
- Explain the organization management and criticisms of IMF.
- Discuss the role of world bank is international financial institution.
- Examine the role of regional development banks, such as African Development Bank (ADB), Asian Development Bank and other regional financial institutions e.g. European investment banks etc.
- Discuss the controversies surrounding the organization and management of OPEC.

3.0 MAIN CONTENT

3.1 DEFINITION AND MEANING OF INTERNATIONAL FINANCIAL INSTITUTIONS (IFIS)

International Financial Institutions can refer to any of the following:

- International Bank for Reconstruction and Development (IBRD).

- Recognized international economic organizations established primarily to provide adjustments, financing of external imbalances, creating and distributions of liquidity to their members. (Bakare, 2003).
- International development association (IDA)
- International Finance Corporation etc.

IFIs offer loans, grants, and policy reforms mainly in low-income and middle-income countries.

The specific mission of each IFI varies, but typically includes elements ranging from poverty reduction, to economic development, to promotion of international trade.

The world bank group and the major regional development banks directly finance, to varying degrees, extractive industry projects, investing a total of & 2.2 billion in 2006 and $2.6billion in 2007, according to Bank information centre statistics. Two institutions, the international finance corporation (IFC) and the European investment Bank (EIB) have dominated IFI financing of European investment together accounting for almost three-fourth of total financing for 2009-2011.

International financing institution transparency activities represent a critical first step towards addressing the challenges of developing the extractive industries. A typical specific measures should include public disclosure of extractive industry revenues should be a core condition for all development policy lending relevant to the oil, gas and mining sectors and for all non-humanitarian aids, as well as for all technical assistant and other non-investment activities.

3.2 INTERNATIONAL MONETARY FUND

Following the breakdown, International Gold Standard in the thirties. Countries embarked on policies aimed at increasing their exports and reducing their imports, such as currency depreciation. Foreign exchange and trade controls, currency devaluation, thus generating retaliatory action from other countries. As a result of which led to total international money disorder. In short, this acute commercial rivalry resulted in straining of political relations with one another, which was one of the remote causes of the Second World War. (Bakare, 2003).

After the Second World War, there was therefore the need for reconstruction and development, thus an international institution was needed for the orderly international monetary cooperation as well as reconstruction. Therefore, in July 1944, some leads national of the world met as a conference in Bretton Wood, New Hampshire in the USA and decided to from the twin institutions namely. (Andy C.E. 2001).

3.2.1 INTERNATIONAL MONETARY FUND FORMATIONS

The United Nations Monetary and Financial Conference held at Breton Woods in USA in July 1944 decided to establish the International Monetary Fund to help the countries to tide their temporary difficulties in their balance of payments and maintain their rates of exchange fairly at stable level. 44 countries and its currency operation in March 1947 signed the articles of agreement in December 27, 1945.

3.2.2 OBJECTIVES/PURPOSE

The objectives of the fund as contained in paragraph one of its Articles of Agreement are as follows:

1. To promote international Monetary cooperation among member countries, through the establishment of a permanent institution.

2. To pursue with vigour, the expansion and balance growth of world trade so as to improve the standard of living of mankind.

3. To provide means of international payments (i.e. promotion of multilateral method of payment).

4. To assist in the promotion of exchange stability of the effective maintenance of orderly exchange relations among member countries and to avoid competitive devaluation that characterized the pre-Bretton Wood era.

5. To provide financial resources to member countries in order to enable them clear their fundamental dis-equilibrium evident in the balance of payment.

6. To promote investment of capital in backward and underdeveloped countries by means of exporting capital from the richer to the poorer countries so that the latter could develop their economic resources for achieving higher living standard.

3.2.3 MEMBERSHIP

Every member of the UNO is free to become a member of the IMF. It should be note that the defunct USSR although played a major role in the establishment of the institutions is not a member. As at September 1981, the fund had 141 members subscribing to its shares China became member of the IMF only in April 1980.

- **Capital**

The financial resources of the fund consist of the aggregate of the quotas to member countries. Contributions to the IMF pool are partly in gold or US Dollars and partly in the members 'local currencies. Member's gold contribution is normally 25 percent while the local currency is 75 percent. The IMF might decide to keep the national currency of the member with the country's Central Bank. The contribution of a member's quota start from strength especially in such areas as the volume of the country's international trade fluctuations in it balance of payments and the level of its international reserves.

Among the Central banks appointed by IMF as its gold depositories for members to deposit gold are Federal Reserve Bank of New York, the Bank of England, Bank of France and Reserve Bank of India.

Organization and Management

Two bodies run the IMF. These bodies are:

a. Board of Governors

It is the highest of the authority of fund, consisting of one person from each member country normally appointed for a term of 5 years. Each participant has 250 votes plus one vote.

b. Board of directors

There are 21 members in the board of directors. Seven of them are permanent members appointed by the seven member nations with the highest quota holdings while 14 are elected from among the remaining members. One of the directors is designated as the Managing Directors of the Fund. He is the chief executive of IMF and control the day to day affairs of the fund.

3.2.4 CRITICISMS/SHORTCOMINGS OF IMF

- The funds has been unable to effect a fixed exchange rate because the fund can object or oppose changes in the per value of currencies but is cannot prevent a member country from change per value of its currency for political, social or economic circumstances.

- It has not been accused of discriminations against African and devaluation, which is common among its member.

- The IMF has also been accused of discriminations against African and Asian member countries. In actual fact. It has been observed that the fund is working under the political consideration of both EUROPE and USA.

- The fund has power to correct any dis-equilibrium in the balance of payments of the country if it caused by wrong economic policy embarked upon by the member country.

- It has a limited scope, in that deals with foreign exchange problem pertaining to current transactions only the problems of war debts, imports and export of capital, etc, are beyond its scope.

- The quotas allotted to member countries do not appear on quite reasonable, as they allotted bearing in mind the economic and political interest of both USA and UK. The two countries that have been dominating the funds since its origin.

- Other criticisms against the fund are:

a. Inability to remove exchange controls.

b. Non-provision for automatic revelation of currency

c. Incomplete solution to international liquidity problem

d. Failure to recycle surpluses.

3.3 THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

The International Bank for Reconstruction and development (IBRD) other wise known as the World Bank was established at a conference in Breton Woods in 1945 along with International Monetary Fund (IMF). They are expected to complement one another.

The need for international finance at the end of the Second World War for reconstruction of infrastructures destroyed during the war and to enhance and increases productivity and living standards of the underdeveloped areas of the world was in the minds of the participants of the Breton Wood Conference. As they felt that private capital alone could not cope with these problems (Andy C.E. 2001).

3.3.1 AIMS AND OBJECTIVES

The primary aim of the bank is to guide international investment into productive channels.

a. To assist the member countries in the reconstruction and development of their economies through facilitation of capital for productive purpose. Since the bank provides such capital for restoration of the destroyed economies during the Second World War. It is called bank for reconstruction and since it also provide finance for the development.

b. To promote private foreign investment by means of guarantees or direct participation in loans in less developed countries either from its capital or borrowed funds.

c. To promote long range balanced growth of international trade and consequently indirect maintenance of balance of payments equilibrium through deliberate encouragement of international investments for the development of the productive resources of nation.

d. To provide technical assistance to the less developed countries which in most cases have less experts available in the field of investment projects.

3.4 CAPITAL OF THE WORLD BANK

The bank capital was $10billion made up of shares of $100 each. The actual amount subscribed by the members amounted to $9.4billion, which the USA subscribing the highest amount of more than 30 percent. The bank capital is divided into two parts.

- Loan fund made up of 20 percent of all contributions. 20 percent of which is payable in gold or US Dollars and the remaining 18 percent payable in the currencies with the consent of contributing member.

- Guarantee fund, which made up 80 percent of the subscription that is subject to call whenever the bank requires it to meet its obligations.

The other resources of the bank are borrowed on special resources. Members can always contribute to the resources of the bank especially when bank is sourcing for funds for specified project of a member nation of the IMF are equally members of the World Bank.

Organization of the Bank

The board of governors is the highest authority of the bank like that case of the IMF. Consisting of one governor and another alternate governor appointed by each member nation. The board meets annually to deliberate many of its power to board of executive directors consisting of 21 directors, six appointed by the six members with the largest capital subscription and the remaining 15 elected from among other members. The board of executive directors meets regularly once in a month to carry out routine working of the bank.

The president of the bank is the chairman of the board and executive directors. He is the chief executive and its responsible for the day-to-day business of the bank.

Other structures of the bank include, its committee comprising of seven members on playing advisory role on banking concerns, industry, agriculture and labour. There is also a loan committee, which advises on loan matters.

Banks Operations

For the purpose of efficiency the World Bank and its affiliate, the international development association (IDA) have divided the member nations into the following groups:

- Eastern African
- Western Africa
- East Asia
- Latin American and Caribbean
- South Asia
- Europe, Middle East and North Africa.

Each office is responsible for planning and supervising of the execution of the banks development assistance programme within its assigned countries.

Functionally, the World Bank investments are mainly for agriculture, transportation water supply telecommunication, power generation, industry education urban development and finance etc.

The banks loans are commercial in nature with its own interest and period of amortization. However, it is worthy to note that the bank is to empower to give soft loans or grants. Its loans are granted to private investors in member country. The bank lends for project, which cannot be financed by private investors either because of the low rate of return or magnitude of resources required for such a project.

Besides granting of loans, the banks give technical assistance member countries in form of:

a. Feasibility studies for projects
b. Setting of industrial or development banks.
c. Supplement private investment in agriculture productivity etc.

3.4.2 PROCEDURES FOR LENDING

There are four stages involved in the granting of loan by the bank, which are:

- Exploratory Discussion and Preliminary Investigations: under this stage, discussions between the bank and the intending borrower are held, basically on the latter ability to repay. In case of a first time borrows, experts are sent to make a detailed study of its economy and its ability for repayment.

- **Investigation of the specific project**: Based on satisfactory recommendation of the bank under the first stage, the bank then proceeds to investigate the specific project in all its aspect, technical financial and administrative.

- **Negotiation of term of Loan**: If the second phase is successful, the bank proceeds further to determine the amount of loan and securing assurances and guarantees for safe guarding the bank's interest.

- **Administration of Loan**: This is the final phase of the bank's representatives at this stage continue to visit the borrowing country to check whether the fund is being used as agreed upon. Regular progress reports are also demanded by the bank to keep abreast and monitor the project.

- The bank has also helped in setting international economic disputes. An example is the settlement of financial dispute between UK and Egypt over Suez Canal.

3.4.3 SHORTCOMINGS OF THE BANK'S OPERATIONS

The bank has been criticized on the following ground:

- The banks resources have been inadequate when compared to the needs of the member nations.

- The bank has also been accused of discrimination against both its African and Asian members who are as a matter of fact have large population, vast areas and un-exploited resources.

- The bank charges high rate of interest on its loan from member countries attempting to justify the high rate of interest to the cost of borrowing of their loan by the bank.
- The huge sum of loan required by the underdeveloped countries for their development programmes are not met in required quantity.
- Private enterprises in underdeveloped countries have been finding it difficult to secure loans from the bank due to lack of guarantee by their various governments.

3.5 THE WORLD BANK GROUP

This group presently has three affiliates such as the International finance corporation, International development association and the multilateral investment guarantee agency.

3.5.1 THE INTERNATIONAL FINANCE CORPORATION (IFC)

The international finance corporation was formed to provide equity capital to underdeveloped countries without government guarantee, which the World Bank refuses on the ground that there is no guarantee for the government. The body came into existence in July 1956 as an affiliate of the World Bank.

Its aims and objectives are:

- To encourage the growth of productive private enterprises in developing countries.

- To further economic development if it's less developed member countries by investing directly in private enterprise.

The IFC capital when established in 1956 was $100million subscribed in gold or US Dollars by member countries. The figure has increased over the years. However, half of the total resources of the IFC was subscribed by the USA and Great Britain.

The Board of Governors and Board of Executive Directors of the World Bank manage the IFC itself except that their action is independent of the World Bank.

3.5.2 INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

The need to provide development finance on more lenient terms and bearing less heavily on the balance of payments of developing countries than the World Bank's loan gave both the International Association in September 1960.

It is worthy to note that borrowing countries were allowed longer period of repayment say 50 years or these about 10 years of grace, and loans can be repaid in borrower's currencies instead of gold or US Dollars as is the case with the World Bank. Based on this, the IDA is often regarded as the "Soft Loan Window" of the World Bank.

OBJECTIVES OF THE IDA

- The main objectives of IDA are to expand loan to the poorer member nations on terms, which are more favourable to them.

- To extend its credit its facility to the private sectors and also on projects which aimed at developing the economics of the member countries.

3.6 EXPORT CREDIT AGENCIES OF INDIVIDUAL COUNTRY GOVERNMENT

3.6.1 THE MULTINATIONAL INVESTMENT GUARANTEE AGENCIES (MIGA)

This body was established in April 1988. It has been created to supplement the World Bank and the IFC to assist where the Bank and the IFC do not reach. It is a joint venture with the international finance Corporation. The MIGA has an authorized capital of $1.08 billion.

OBJECTIVES OF MIGA

The MIGA has the following objectives:

1. Its primary objective is to encourage the flow of direct foreign investment into developing member countries.
2. It provides insurance cover to investors against political risks.
3. The MIGA's guarantee programme to protect investors against four types of non-commercial risks. They are: any danger

involved in currency transfer, expropriation, war and civil disturbance and breach of contract by governments.

4. It insures only few investments including the expansion of existing investment. Privatization and financial restricting.
5. It provides promotional and advisory services to the governments of developing countries to enable them to increase the attractiveness of their investment climate.
6. Another objective of the MIGA are to establish among global banking and finance markets of its members.

Membership and its operations

It order to become a full-fledge member of the MIGA, a country has to ratify the convention and pay its capital subscription. By 30 June 1996, 152 countries had signed the MIGA convention of these, 128 countries had become it's full-fledge members.

Before the investments are made, projects are to be registered with the MIGA 90 percent of the investments amount can be insured. By the MIGA subject to equity loans made or guarantee by equity holders, and certain other types of extended to 20 years in exception cases. It also insures eligible investment in cooperation with national insurance agencies and private insures. All projects insured by the MIGA have to support the environmental and development objectives of the World Bank. The MIGA provides promotional advisory services to its developing member's countries to help them attract more foreign direct investments. These services include the organization of investment promotion conferences, executive development programmes foreign investment advisory services in policy institutional and legal matter relating to direct foreign investment. It also gives advice on such policies and programme, which promote backward linkages between foreign investors and local investors. (Andy C. E. 2001).

3.6.2 AFRICAN DEVELOPMENT BANK (ADB)

In international financial system made up of the World Bank Group. The international bank for Reconstruction and Development (IBRD), the International Development Finance Corporation (IFC) and the international Monetary Fund (IMF). Third world countries have only a minority voice in the manner in which economic assistance is being provided and used.

These financial institutions focus little or no attention on problems peculiar to the third world countries of which the African states from the largest percentage.

The African continent with about 240 million population covers almost one quarter of the earth's land mass. Though vast, the continent's resources are yet to be adequately exploited due mainly to lack of capital and shortage of technicians and identifiable projects.

As a result of this situation, the Africans resolve to create an effective instrument, which would help to spread up development of its vast resources. It was decided that the best instrument for this purpose would be a financial institution common to all African countries. This idea originated in Tunis (Tunisia) in 1960 during the All People's Conference (Bakare, 2003). Thus the adoption of resolution 2711/on February 16, 1961 by the United Nations Economic Commission for Africa (UNECA) at its meeting was the genesis of the ABD.

A nine-nation committee made up Nigeria, Ghana, Cameroon, Liberia, Mali, Sudan, Tanzania, Ethiopia and Tunisia made far reaching recommendations, which were the basis of the agreement for its establishment.

On August 4, 1963, the agreement establishing ABD was signed in Khartoum, Sudan by 30 independent African countries.

In November 1964, the member countries participated in the inaugural meeting of the Board of Governors held in Lagos. Election of the

President, Vice-President and Board of Directors took place, and Abidjan in Ivory Coast was chosen as the site for its headquarters.

It commenced business in July 1966 with representative offices in London and Nairobi, and its authorized capital was initially fixed at 250 million units of account. (One unit of account $ is 115060).

Membership of the bank is restricted to independent African nations. However, in May 1978, the Board of Governors passed a resolution to admit non-African nations as members with the provision that the President of the bank should always be an African. The main objectives of the ADB include:

a. Financing of investment projects with potential for social and economic development of member (African) states.

b. Preparing, studying and identifying project for development of member states.

c. Mobilization of resources for financial of development of selected projects inside and outside Africa.

d. Providing technical assistance for project preparation, study and execution.

3.7 THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES (OPEC)

5 oil-producing countries of Venezuela, Iran, Iraq, Kuwait and Saudi Arabia formed the body in 1960. The membership increased to 13 with the admission of Qatar, Indonesia and Libya in 1962, UAE (1967), Algeria (1969) Nigeria (1971). Equador and Gabon (1973). (Andy C. E 2001).

The main aim of the member countries is to coordinate the production, development and pricing of crude petroleum resources among them. Its formation has helped.

OBJECTIVES OF OPEC

(1) To adopt a uniform policy towards oil importing countries

(2) To maintain stability of price of oil in the international market.

(3) To ensure steady and effective supply of petroleum products to importing countries.

(4) To fix and allocate production quota to each member state.

(5) To assess and examine the effects of the involvement of foreign companies in oil exploitation and exploration vis-à-vis the OPEC and exploitation.

ACHIEVEMENTS OF OPEC

The Organization has been able to attain some levels of achievements in the area of:

1) Regulation of oil prices, to a large extent, ensuring stability of prices in the international markets.

2) Adoption of uniform policies towards importing countries.

3) Curbing the exploitative tendencies of foreign multinational companies that are involved in oil exploration.

4) Participation of its member nations in oil exploration.

5) Protection of the interest of the member states by provision of financial assistance in times if need.

PROBLEMS OF OPEC

1. The activities of non-OPEC member oil producing countries such as Norway, Mexico etc. tend to negate the rules, regulations and expectations of OPEC in the international oil market.

2. Dishonesty on the part of member countries would act deviance of the directive of the organization.

3. The rivalry for the leadership of the organization between Saudi Arabia and Iran is a big problem to OPEC.

4. World economic depression has brought about a fall in oil prices.

5. The emergence in the international oil market in the 1980s of the North Sea oil producers of the UK and Norway added to the problems of the organization.

6. The activities of most oil importing countries in stockpiling oil, most of the time creates fluctuation in the international oil market.

7. Declining loyalty by member countries in another problem confronting OPEC.

8. Political disagreements, which sometimes lead to war between member nations, have a destabilizing on the organization.

SELF ASSESSMENT EXERCISE

- Discuss the major problems confronting OPEC today.

4.0 CONCLUSION

This unit has succinctly taken you round the operation and existence of International Financial Institutions. You have learnt about the meaning, formation and structure of the World Bank and International Monetary Fund. The unit has also introduced you to the international bank for reconstruction and development, the organization of OPEC and its criticisms etc.

5.0 SUMMARY

International Financial Institutions (IFIs) are financial institutions that have been established (or chartered) by more than one country, and hence are subjects of international law.

Their owners or shareholders are generally national governments, although other International Institutions and other organizations occasionally figure as share holders. The regional development banks consist of several regional institutions that have function similar to the world bank group's activities, but with particular focus on a specific region.

The best known of these regional banks – African development bank, inter-American development bank, European bank for reconstruction and development etc.

Several regional groupings of countries have established international financial institutions to finance various projects.

6.0 TUTOR–MARKED ASSIGNMENT

- Examine the comprehensive objectives of Multinational Investment Guarantee Agencies (MIGA).

Answers to Self Assessment Exercise

The purpose for the establishment of OPEC is thwarted by reasons such as:

a. The activities of non-OPEC member oil producing countries such as Norway, Mexico etc, tend to negate the rules, regulations and expectations of OPEC in the international oil market.

b. Dishonesty on the part of member countries of OPEC. Most of the time some of the member countries would act in deviance of the directives of the organization.

c. The rivalry for the leadership of the organization between Saudi Arabia and Iran is a big problem to OPEC.

d. World Economic depression has brought about a fall in oil prices.

e. The activities of most oil importing countries in stockpiling oil, most of the time creates fluctuation in the international oil markets.

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UNIT FOUR: REGULATION OF INTERNATIONAL TRADE

CONTENT:

1.0 Introduction

2.0 Learning Objectives

3.0 Main Content

3.1 The legal nature and structure of WTO.

3.2 Basic legal rules and principles of GATT

3.3 Overseeing national trade policies

3.4 Multilateral trade arrangement between nations.

3.5 Bilateral trade

3.6 Multilateral investment treaties

3.7 The UN conference on trade and development UNCTAD

3.7.1 Primary functions of the UN conference on trade and development UNCTAD.

3.7.2 Objectives and achievements of UNCTAD

4.0 Conclusion

5.0 Summary

6.0 Tutor-marked assignment

7.0 Reference/further reading

1.0 INTRODUCTION

This course is intended to study different regional and international arrangements put in place fort the purpose of regulating international commerce. It particularly attempts to discuss the nature function and history of world trade organization (WTO) and its prominent role in facilitating international commerce. It also provides detailed discussions on bilateral and multilateral trade arrangements between nations. Example Bilateral and multilateral investment treaties BITS and MITS.

The consequences of trade in equalities are at the core of the criticism about globalization. Many international organizations, from the world bank to non-government organizations (NGOs), work to change the world trading system to make it more fair and equal for all countries, including the poorest ones. But for all countries to be able to reap the benefits of globalization and trade regulation, the international community must continue working to reduce distortions in international trade (cutting agricultural subsidies and trade barriers) that favour developed countries and to create a common fair system.

2.0 LEARNING OBJECTIVES

On completion of this course, you are expected to do the following:

- Explain legal nature and structure of WTO

- Discuss the dispute settlement mechanism used by WTO.
- Explain Bilateral trades and multilateral investment, Treaties, their nature, function and legal structure.
- Examine or help the parties BITS and MITS to draw up such treaties.
- Discuss the establishing, functions and objectives of the UN Conference on trade and development (UNCTAD).

3.0 MAIN CONTENT

3.1 THE LEGAL NATURE AND STRUCTURE OF WTO

Most of the WTO agreements are the result of the 1986-94 Uruguay Round negotiations, signed at the Manakesh ministerial meeting in April 1994. There are about 60 agreements and decisions.

Negotiations since then have produced additional legal texts such as the information Technology Agreement, services and accession protocols. New negotiations were launched at the Doha Ministerial conference in November, 2001.

The final “Act” of the Uruguay Round agreements were signed in Marrakech in 1994 which is like a cover note. Everything else is attached to this. Fore most is the agreement establishing the World Trade Organization (or the WTO Agreement), which serves as an umbrella agreement. Annexed are the agreements on goods, services and intellectual properly, dispute settlement, trade policy review mechanism and the plurilateral agreements. The schedules of commitments also form part of the Uruguay Round Agreements. The structure of the WTO is dominated by its highest ministerial conference composed of representatives of all WTO members, which is required to meet at least every two years and which can take decisions on all matters under any of the multilateral trade agreements.

The day to day work of the WTO however, falls to a number of subsidiaries; principally the general council, also composed of all WTO members, which is required to report to the ministerial conference. As well conducting its regular work on behalf of the ministerial conference, the general council convenes in two particular forms as the dispute settlement body, to over see the dispute settlement body.

3.2 BASIC LEGAL RULES AND PRINCIPLES OF GATT

The GATT was a multilateral treaty which had been signed by 96 governments known as: Contracting parties". Thirty one other countries had applied GATT rules de facial. The GATT was neither an organization nor a court of justice. It was simply a multinational treaty, which covered 80 percent of the world trade.

It was decision making body with a code of rules for the conduct of international trade, and a mechanism for trade liberalization. It was a forum where the contracting parties met from time to time to discuss and solve their trade problems and also negotiated to enlarge their trade, the GATT rules provided for the settlement of trade dispute called for consultants waived trade obligation and even authorized retaliatory measures.

Some of the legal rules and principles of GATT involved:

a. Carrying on trade on the principle of one discrimination, reciprocity and transferring.

b. A transaction will qualify to be international if element of more than one country are involved.

c. Most favoured nation principle (MFN) expressed that any advantage to a product originating or destined for another country shall be treated in accordance with a like product originating in or destined for the contracting country.

d. **National treatment principle**: This prohibits discrimination between imported and like domestic products other than through the imposition of tariffs (products, nature, intended use, commercial value, price and sustainability)

e. **Reciprocity principle**: Encourages negotiations between contracting parties on a reciprocal and mutually advantages basis, directed towards the reduction of tariffs and other charges on imports and exports.

3.3 OVERSEEING NATIONAL TRADE POLICIES

Surveillance of national trade policies is a fundamentally important activity running throughout the work of the WTO. At the centre of this work is the trade policy review mechanism (TPRM).

The objectives of the TPRM are, through regular monitoring, to increase the transparency and understanding of trade policies and practices, to improve the quality of public and intergovernmental debate on the issues, and to enable a multilateral assessment of the effects of policies on the world trading system. In this way member governments are encouraged to follow more closely the WTO rules and discipline as measures to curb disputes and to settle them.

Reviews are conducted on a regular, periodic basis. The four biggest traders – the European union, the United States, Japan and Canada- are examined approximately once every two years. The next 16 countries in terms of their share of world trade are reviewed every four years; and the remaining countries every six years, with the possibility of a longer interim period for the least-developed countries.

Reviews are conducted in the trade policy review Body (TPRB) – established at the same level as the General council – on the basis of two documents; a policy statement prepared by the government under review, and a detailed report prepared independently by the WTO secretariat. These two reports report together with the proceedings of the TPRB are published after the review meeting.

In addition to the TPRB, many other WTO agreements contain obligations for member governments to notify the WTO secretariat of new or modified trade measures. For example, details of any new anti-dumping or counter rating legislation, new technical standards affecting trade, changes to regulations affecting trade in services and laws or regulations concerning the TRIPS agreement.

3.4 MULTILATERAL TRADE ARRANGEMENT BETWEEN NATIONS

Multilateral trade agreements are between many nations at one time. For this reason, they are very complicated to negotiate, but are very powerful once all parties sign the agreement. The primary benefit of multilateral agreements is that all nations get treated equally, and so it levels the playing field, especially for poorer nations that are less competitive by nature.

Examples, the Doha Round of trade agreements is a multilateral trade agreement between all 149 members of the World Trade Organization.

One other principle the United States traditionally has followed in the trade arena is multilaterism. For many years, it was the basis for U.S. participation and leadership in successive rounds of international trade negotiations. The Trade Expansion Act of 1962, which authorized the so-called Kenny Round of trade negotiations, culminated with an agreement by 53 nations accounting for 80 percent of international trade agreement to cut tariffs by an average of 35 percent. In 1979, as a result of the success of the Tokyo Round, the United States and approximately 100 other nations agreed to further tariff reductions and to the reduction of such non tariff barriers to trade as quotas and licensing requirements.

A more resent set of multilateral negotiation, the Uruguay Round, was launched in September 1986 and concluded almost 10 years later with an agreement to reduce industrial tariff and non tariff barriers further, cut some agricultural tariffs and subsidies, and provide new protections to intellectual property. Perhaps most significantly, the

Uruguay Round led to creation of the World Trade Organization, a new, binding mechanism for settling international trade disputes.

3.5 BILATERAL TRADE AGREEMENT

A trade agreement is a contract/agreement/fact between two or more nations that outlines how they will work together to ensure mutual benefit in the field of trade and investment. Such trade agreements may involve co-operation in the field of R & D, the lowering of import duties to be levied on the other partners, exports, guaranteeing any investments made by the partner(s) in the home market, co-operation on the tax front, etc.

Bilateralism is the practice of promoting trade between two countries through agreements concerning quantity and price of commodities.

Bilateral trade as the name implies involve two countries. For instance, bilateral trade is the exchange of goods between two countries. Bilateral trade agreements give preference to certain countries in commercial relationships, facilitating trade and investment between the home country and the foreign country by reducing or eliminating tariffs, imports quotas, export restraints and other trade barriers. Bilateral trade agreements can also help minimized trade deficits. In the United States, the office of bilateral trade affairs manages the country's bilateral trade agreement. Its roles include:

Negotiating free trade agreements with new countries, supporting and improving existing trade agreements, promoting economic development abroad and more. Bilateral trade agreement often aim to keep trade deficits at minimum by keeping a clearing account where deficit would accumulate. The soviet union conducted bilateral trade with two nations, India and Finland.

On the soviet side, the trade was nationalized, but on the other side, also private capitalists negotiated deals.

3.6 MULTILATERAL INVESTMENT TREATIES

The multilateral agreement on investment (MAI) was a draft agreement negotiated between members of the Organization for Economic Co-Operation and Development (OECD) in 1995 -1998. it ostensible purpose was to develop multilateral rules that would ensure international investment was governed in a more systematic and uniform way between states. When its draft became public in 1997, it drew widespread criticism from civil society groups and developing countries. International direct investment (IDI) has been talking place in various forms and to different degrees for over a century. Attempts to establish a framework for the protection of foreign investments dates back to the 1920s, most notably negotiating a league of nations draft convention. Also starting from the second half of the twentieth century, the investment protection was developed through the bilateral investment treaties, which are signed between two countries and which state the desired conditions under which investment can take place between them.

PURPOSE AND PROVISION IN BRIEF

More specifically, multilateral investment treaties would:

- Minimize the diverse state regulations in governing the conditions under which investments by foreign corporations could take place.
- Enable compensation to corporations for proven unfair or discriminatory investment conditions causing loss of profit.

The MAI was supported by both the business and industry advisory committee to the OECD (BIAC) and trade union advisory committee to the OECD (TUAC). While BIAC was interested in stable and consistent treatment of investment TUAC was interested on setting standards on employment and industrial relations.

3.7 THE UN CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)

This was established in 1964 following the growing dissatisfaction with the operation of such international institutions as the IMF and GATT. These institutions favoured the developed countries and failed to tackle the special trade and development problems of the LDC's. The GATT, in particular, being committed to free trade, reduction of tariffs and abolition of preference and import restrictions, did not pay any attention to proposals to stabilize commodity price, and give preferential treatment to LDC's is trade with developed countries (Bakare, 2003).

The first step towards the creation of UNCTAD was taken when the UN general assembly declared the 1960s as the united nations development decade in December, 1961. By so doing, it recognized the need for adopting measures by developed countries to bridge the gap between the rich and poor nations through trade and aid. It was on the recommendations of the UN Economic and Social council in July 1963 for convening the first UNCTAD at Geneva in 1964.

3.7.1 PRIMARY FUNCTIONS OF THE UN CONFERENCE ON TRADE AND DEVELOPMENT

(i) To promote international trade between countries with different socio-economic systems, especially for accelerating the economic development of LDCs.

(ii) To formulate principles and policies of international trade and related problem economic development.

(iii) To make proposals for putting the said principles and policies into effect, and to take such steps which may be relevant towards this end (Bakare, 2003).

(iv) Generally, to review and facilitate the coordination of activities of other institutions within the UN System in the field of international trade and rated problems of economic development.

3.7.2 OBJECTIVES AND ACHIEVEMENTS OF UNCTAD

Which have been evolved gradually of the various.

CONFERENCE

- Trade in primary commodities
- Trade manufacturers goods
- Development financing
- Technology transfer, and
- Economic Co-operations countries

SELF ASSESSMENT EXERCISE

Explain the two major purposes of multilateral investment treaties.

4.0 CONCLUSION

You can see things by yourself from this unit. The unit has succinctly introduced you to how international or cross border trade is regulated. You have learnt about the legal nature and structure of WTO, basic legal rules and principles of GATTA and multilateral trade arrangement. To add to your knowledge is the UN conference on trade and development UNCTAD.

5.0 SUMMARY

The WTO is an organization that intends to supervise and liberalize international trade.

The organization officially commenced on January 1, 1995 under the Marrakech agreement, replacing the general agreement on tariffs and trade (GATT), which commenced in 1948. The organization deals with regulation of trade between participating countries, it provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants adherence to WTO agreements which are signed by representatives of members governments and ratified by their parliaments. Most of the issues that the WTO focuses on derived from previous trade negotiations especially from the Uruguay Round (1986 – 1994).

6.0 TUTOR-MARKED ASSIGNMENT

- Discuss the major functions of UNCTAD.

Answer To Self Assessment Exercise

More specifically, multilateral investment treaties would:

- Minimize the diverse state regulations in governing the conditions under which investments by foreign corporations could take place.
- Enable compensation to corporations for proven unfair or discriminatory investment conditions causing loss of profit.

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MODULE FOUR

UNIT ONE: MANAGEMENT OF FOREIGN OPERATIONS AND INTERNATIONAL TRADE

UNIT TWO: STRATEGIES OF FIRMS IN INTERNATIONAL TRADE

UNIT THREE: ECONOMIC COOPERATION AND INTERNATIONAL TRADE

UNIT FOUR: TRADE POLICIES AND ECONOMIC DEPRESSION

UNIT ONE: MANAGEMENT OF FOREIGN OPERATIONS AND INTERNATIONAL TRADE

CONTENT

1.0 Introduction

2.0 Learning Objectives

3.0 Main content

3.1 Management of operations and international trade

3.2 Types of foreign operations

3.2.1 Wholly owned subsidiaries

3.2.2 Imports/exports activities

3.2.3 Joint ventures

3.3 Issues of nations/ organization with foreign operations.

3.4 The concept of currency rise management.

3.4.1 Financial strategies

3.5 Types of foreign exchange exposure (Risk)

3.5.1 Translation exposure

3.5.2 Transaction exposure

3.5.3 Operating exposure

4.0 Conclusion

5.0 Summary

6.0 Tutor-marked assignment

7.0 References/further reading

1.0 INTRODUCTION

Many companies that have significant foreign operations derive a high percentage of their sales overseas. Financial manager of the company require an understanding of the complexities of international finance to make sound financial and investment decisions. International operations in the finance aspect or perspective involve consideration of managing working capital, financing the business, control of foreign exchange and political risks, foreign direct investments. Most importantly, the financial manager has to consider the value of the US dollar relative to the value of the currency of the foreign country in which business activities are being conducted. Currency exchange rates may materially affect receivables and payables, and imports and exports of the US Company in its multinational operations. The effect is more pronounced with increasing activities abroad.

2.0 LEARNING OBJECTIVES

Upon successful completion of this unit, you should be able to do the following:

- Examine clearly the major types of foreign operations we have.
- Discuss joint ventures as a type of foreign operation.

- Identify the major issues of Nations/Organizations with foreign operations.
- Explain currency risk management in international operations management.
- Discuss financial strategies concept in foreign operations management.
- Dilate copiously types of foreign exchange exposure (risk).

3.0 MAIN CONTENT

3.1 MANAGEMENT OF FOREIGN OPERATIONS AND INTERNATIONAL TRADE

The efficient and cost effective production and delivery of goods and services to customers is essential for business to flourish. Achieving this in the global marketplace poses unique and exciting challenges, and international companies require skilled operations manages to deliver these goals.

3.2 TYPES OF FOREIGN OPERATIONS

Companies, nations involved in foreign operations business may structure their activities in the following three ways.

3.2.1 WHOLLY OWNED SUBSIDIARIES

A large, well established company with much international experience may eventually have wholly owned subsidiaries.

3.2.2 IMPORTS/EXPORTS ACTIVITIES

A small company with limited foreign experience operating in "risky areas" may be restricted to export and import activity. If the company's sales force has minimal experience in export sales, it is advisable to use foreign brokers when specialized knowledge of foreign markets is needed. When sufficient volume exists, the company may establish a foreign branch sales offices, including sale people and technical services staff.

3.2.3 JOINT VENTURES

A joint venture with a foreign company is another way to proceed international and share the risk. Some foreign governments require this to be the path to follow to operate in their countries. The foreign company may have local goodwill to assure success. A drawback is less control over activities and a conflict of interests.

3.3 ISSUE OF NATIONS/ ORGANIZATIONS WITH FOREIGN OPERATION

Nations involved in foreign operations are to take cognizance of the three key issues below:

a. **Multiple-currency problem**: sales revenues may be collected in one currency, assets denominate in another, and profits measured in a third.

b. Various legal, institutional and economic constraints:

There are variations in such things as tax, labour practices, balance of payment policies, and government controls with respect to the types and sizes of investment, types and amount of capital raised, and repatriation of profits.

c. **Internal control problem**: When the parent office of a foreign operation company and its affiliates are widely located, international organization difficulties arise.

3.4 THE CONCEPT OF CURRENCY RISK MANAGEMENT

Foreign exchange rate exists when a contract is written in terms of the foreign currency or denominated in the foreign currency. The exchange rate fluctuations increase the riskness of the investment, incur cash loses. The financial manager must not only seek the highest return on temporary investments but must also be concerned about changing values of the currencies invested. You at this point do not necessarily eliminate foreign exchange risk.

3.4.1 FINANCIAL STRATEGIES

In countries where currency values are likely to drop financial managers of the subsidiaries should:

- Avoid paying advances on purchases orders unless the sellers pays interest on the advances sufficient to cover the loss of purchasing power.
- Not have excess idle cash. Excess cash can be used to buy inventory or other real assets.
- Buy materials and supplies on credit in the country in which the foreign subsidiary is operating, extending the final payment date as long as possible.
- Avoid, giving excessive trade credit. If accounts receivable balances are outstanding for an extended time period, interest should be changed to absorb the loss in purchasing power.

- Borrow local currency funds when the interest rate charged does not exceed US rates after taking into account expected devaluation in the foreign country.

3.5 TYPES OF FOREIGN EXCHANGE EXPOSURE (RISK)

National and companies with foreign operations are faced with the dilemma of three different types of foreign exchange risk. They are;

3.5.1 TRANSLATION EXPOSURE

It is often called accounting exposure, measures the impact of an exchange rate change on the firms financial statements.

An example would be the impact of an Euro devaluation on a US firms reported income statement and balance sheet. A major purpose of translation is to provide data of expected income statement and balance sheet. A major purpose of transaction is to provide data of expected impacts of rate changes on cash flow and equity.

In the transaction of the foreign subsidiaries financial statements into the US parents financial statements, the following steps are involved.

- The foreign financial statements are put into US generally accepted accounting principles.

- The foreign currency is translated into US dollars. Balance sheet account are translated using the current exchange rate at the balance sheet date. If a current exchange rate is not available at the balance sheet date, use the first exchange rate available after that date. Income statement accounts are translated using the weighted average exchange rate for the period.
- Translation gains and losses are only included in net income when there is a sale or liquidation of the entire investment in a foreign entity.

3.5.2 TRANSACTION EXPOSURE

This measures potential gains or losses on the future settlement of outstanding obligations that are denominated in a foreign currency. An example would be a US dollar loss after the European devaluates, on payments received for an export involved in francs before that devaluation. Foreign currency transactions may result in receivables or payables fixed in terms of the amount of foreign currency to be received or paid. Transaction gains and losses are reported in the income statement. Foreign currency transacted are those transactions whose terms are denominated in a currency other than the entities functional currency.

3.5.3 OPERATING EXPOSURE

It is often called economic exposure. It is the potential for the change in the present value of future cash flows due to an unexpected change in the exchange rate. Operating or economic exposure is the possibility that an unexpected change in exchange rates will cause a change in the future cash flows of a firm and its market value. It differs from translation and transaction exposure in that it is subjective and thus not easily quantified. Note the best strategy to control operation exposure is to diversify operations and financing internationally.

SELF ASSESSMENT EXERCISE

- State any two steps you know about translation exposure.

4.0 CONCLUSION

This unit has introduced you to he various types of foreign operations that we have, the issues of nations and organizations in foreign operations management. You have also learnt about the concept of currency risk management.

5.0 SUMMARY

The foreign exchange market (forex, fx or currency market) is a global worldwide–decentralized financial market for trading currencies.

Financial centres around the world function as anchors of trading between a wide range of different types of buyers and sellers around the clock, with the exception of weekend. The foreign exchange market determines the relative values of different currencies.

The foreign exchange market assists international trade and investment, by enabling currency conversion.

6.0 TUTOR-MARKED ASSIGNMENT

- Discuss the financial strategies that are involved in currency risk management.

Answer to Self Assessment Exercise

Translation exposure has it that;

- The foreign financial statements are put into US generally accepted accounting principles.
- The translation gains and losses are only included in net income when there is a sale or liquidation of the entire investment in a foreign entity.

7.0 REFERENCES/FURTHER READING

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Lawrence S. Welch & Co (2007): Foreign Operations Methods: Theory, Analysis Sis and Strategy. Edward Eldgar Publishing, Business & Economics – 462.

Zemel E. (2006): Managing Business Process Flows (MBPF), Prentice Hall.

UNIT TWO: STRATEGIES OF FIRMS IN INTERNATIONAL TRADE

CONTENT

7.0 References/further reading

1.0 INTRODUCTION

When an organization has made a decision to enter an oversees market, there are a variety of options open to it.

These options vary with cost, risk and the degree of control which can be exercise over them. The simplest form of entry strategy is exporting using either a direct or indirect method such as an agent, in the case of the former, or counter trade, in the case of the latter. More complex forms include truly global operations which may involve joint ventures, or export processing zones. Having decided on the form of export strategy, decisions have to be made on the specific channels. Many agricultural products of a raw or commodity nature use agents, distributors or involve government, whereas processed materials, whilst not excluding these, rely more heavily on more sophisticated forms of access.

2.0 LEARNING OBJECTIVES

At the end of this unit, you should be able to:

- Discuss the basic issues about firms strategies in international business.
- Examine the sources of competitive advantage in global strategy.

- Identify the nature of participants in international business.
- Explain firms strong trade name in interaction business.
- Highlight the problems of firm's strong trade name

3.0 MAIN CONTENT

3.1 BASIC ISSUES ABOUT FIRMS STRATEGIES IN INTERNATIONAL TRADE

An organization in the international trade faces three major issues.

- **Marketin**g: Which countries, which segments, how to manage or directly with what information.
- **Sourcing** - whether to obtain products, make or buy?
- **Investment and control** – joint venture, global partner, acquisition.
- During the last half of the twentieth century, many barriers to international trade fell and a wave of firms began pursuing global strategies to gain a competitive advantage. However, some industries benefit more form globalization than do others, and some nations have a comparative advantage over other nations in certain industries. To create a successful global strategy,

managers first must understand the nature of global industries and the dynamics of global competitive.

3.2 SOURCES OF COMPETITIVE ADVANTAGE FROM A GLOBAL STRATEGY

A well designed global strategy can help a firm to gain a competitive advantage. This advantage can arise from the following sources.

3.2.1 EFFICIENCY

- Economics of scale from access to more customers and markets.
- Exploit another country's resources – labour, raw materials. Extend the product life cycle older products can be sold in lesser developed countries.
- Operational flexibility – shift production as costs, exchange rates, etc. change over time.

3.2.2 STRATEGIC

- First mover advantage and only provider of a product to a market
- Cross subsidization between countries.
- Transfer price

3.2.3 RISK

- Diversify macroeconomic risks (business cycles not perfectly correlated among countries).
- Diversify operational risks (labour problems, earthquakes, wars).

3.2.4 LEARNING AND REPUTATION

- Broadened learning opportunities due to diversify of operating environments.
- Cross over customers between markets – reputation and brand identification.

3.3 FIRMS STRATEGIC OBJECTIVES

Sumatra Ghoshal of INSED proposed a framework comprising three categories of strategic objectives of firms in international trade and three sources of advantage that can be used to achieve them.

Assembling these into a matrix results in the following framework.

STRATEGIC OBJECTIVE	NATIONAL DIFFERENCE	SCALE ECONOMIES	SCOPE ECONOMIC SHARING INVESTMENTS

Efficiency in operations	Exploit factor cost differences	Scale in each activity	And costs
Flexibility	Market or policy induced changes	Balancing scale with strategic operational risk	Portfolio diversification
Innovation and learning	Societal differences in management and organization	Experience cost reduction and innovation	Shared learning across activities

3.4 THE NATURE OF PARTICIPANTS IN INTERNATIONAL TRADE

Firms that have developed a multinational structure not only tend to be large; they also tend to be engaged in certain kinds of business activities. The manufacturing, industries as a group account for more of these enterprises than any other category. Oil and banking each run well behind manufacturing, according to almost any measure. The numerous other activities in which multinational enterprises are prominent include mining, agriculture and public activities (Otokiti, 2006).

Within the manufacturing sector, the multinational enterprise is especially strong in certain kinds of industries. In practically all countries, multinational have a dominance in motor vehicles, chemical products, petroleum refining, drugs, electronic products, and food products. Firms from developing countries such as Brazil and India, have sometimes managed to create a multinational network in less complex industries, such as textiles and food preparations confectionary etc. Again, the position of these two countries is far better than other Latin America or African countries.

3.4.1 FACTORS THAT DRAW COUNTRIES INTO INTERNATIONAL TRADE

- They might be pushed into it by the lack of opportunity at domestic market.
- They might be pulled into it by growing opportunity for their production other countries.
- Existence of great variation in industrial structure and national income, both of which empirically influence the need for exchange and trade relations.

3.5 EXPLOITING A STRONG TRADE NAME (STN)

Another strategy that has led enterprises to create producing facilities in foreign countries is to exploit strong trade name, this is an obvious example that falls in the third category of the theories mention above. In the modern world of easy international movement globalization and communication, trade names can sometimes gain strength in a foreign market without much conscious effort on the part of the firm that own the name.

3.5.1 REASONS FOR STN are:

- The strength of the foreign trade name is associated with the past or the illusion of superior performance. These superior performance is often strengthened and fortified by copious promotional expenditures.

- The strength of a brand name is associated not with superior performance but with predictable performance. For instance, delivering a package food product such as a reasonably reliable basis can be a technically exacting job. This is very important in the airways passage system.

3.5.2 PROBLEMS OF STN

- The foreigners have sometime been handicapped by added costs of communication and control associated with the maintenance of a multinational organization

- Their ability to command a price premium in a given type of product against the competing offers of national producers often erodes in time.

- As long as the product itself remains unchanged, the national producers learn either to matches the performance of the foreign product or to over come the illusion of a difference that was never there (Otokiti, 2006).

3.6 NATIONAL BOUNDARIES AND MULTINATIONAL OPERATIONS

In response to the requirements of a common strategy, the units of a multinational enterprise are engaged in a variety of transfers among themselves. Such transfer are characterized by;

a. The cash generated in some units of the enterprise can sometimes be used more efficiently in other units. Accordingly, cash transfers are arranged. If royalties, charges, or payment for goods, they are generally arranged as loans and advances or as purchases of equity among the affiliates.

b. Given unit may be speculated in research and development for the benefit of the multinational enterprise as a whole. At some point, transfers of patent rights and known-how must have place between affiliates. These transfers are often regarded as sales and the payments generally appear as "royalties" or administrative charges (Welch, 1999).

c. Given unit of the enterprise may be specialized in the production of some intermediate material, component, or final production on behalf of the enterprise as a whole transfers are dubbed "sales" and ordinarily bear a transfer price even when both sides of the transaction fall under the general direction and control of a single global product.

d. Manager.

SELF ASSESSMENT EXERCISE

- Summarize Sumantra Ghoshal of INSED firm's strategic objectives.

4.0 CONCLUSION

You have learnt about the various strategies of firms in international trade in this unit. The unit has also introduced you to some of the strategic advantages of firm's in cross border trade.

5.0 SUMMARY

The transactions that take place across the borders of any country affect every part of its economy, not just the transacting firms. The pervasive impact of changes in the international oil market over the pas few years illustrates the profits the point well enough. (Otokiti, 2006).

A well designed global strategy can help a firm to gain a competitive advantage which arise from source efficiency, strategic, risk reputation and learning objectives.

Firms strong trade name is confronted by the ability to command a price premium in a given type of product against the competing offers of national producers which is often erodes in time.

6.0 TUTOR-MARKED ASSIGNMENT

- Examine the various sources of competitive advantage from a global strategy.

Answers to Self Assessment Exercise

Sumantra assemble into a matrix framework firms strategic objectives as follows:

STRATEGIC OBJECTIVE	**NATIONAL DIFFERENCE**	**SCALE ECONOMIES**	**SCOPE ECONOMIC SHARING INVESTMENTS**
Efficiency in operations	Exploit factor cost differences	Scale in each activity	And costs
Flexibility	Market or policy induced changes	Balancing scale with strategic operational risks.	Portfolio diversification
Innovation and learning	Societal differences in management and	Experience cost reduction and innovation	Shared learning across activities

	organization		

7.0 REFERENCES/FURTHER READING

Bakare I. O. A. (2003): Fundamental Macro Economic Giittbak Pushes, Fadeyi, Lagos.

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UNIT THREE: ECONOMIC COOPERATION AND INTERNATIONAL TRADE

CONTENT

1.0 INTRODUCTION

The world trade organization (WTO) is an organization that intends to supervise and liberalized international trade. The organization officially commenced on January 1st, 1995 under the Marrakech Agreement, replacing the General Agreement on Tariff and Trade (GATT), which commenced in 1948. The organization deals with regulation of trade between participating countries; it provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements which are signed by representatives of member governments and ratified by their parliaments.

The activities of Economic Cooperation organization are conducted through directorates under the supervision of secretary General and his Deputies which considered and evolve projects and programmes of mutual benefit in the fields of:

- Trade and investment
- Transport and telecommunications
- Energy, minerals and environment
- Agriculture, industry and tourism etc.

2.0 LEARNING OBJECTIVES

At the end of this unit, you are expected to do the following:

- Examine the key role played by economic cooperation and international trade.
- Dilate copiously the history and role of economic cooperation.
- Discuss the major principles of cooperation
- Explain the nexus between WTO and economic cooperation.
- Identify the success story of the Economic Community of West African State.

3.0 MAIN CONTENT

3.1 ECONOMIC COOPERATION AND INTERNATIONAL TRADE

The economic cooperation organization (ECO) is an intergovernmental organization involving seven Asian and three Eurasian nations, part of the south central Asian union. It provides a platform to discuss ways to improve development and promote trade and investment opportunities. The ECO is an adhoc organization under the United Nations. The common objective is to establish a single market for goods and services much like the European union. ECO's secretariat and cultural department are located in Tehran, its economic bureau is in Turkey and its scientific bureau is situated in Pakistan.

3.2 HISTORY AND ROLE OF ECONOMIC COOPERATION

Economic cooperation organization is an intergovernmental regional organization established in 1985 by Iran, Pakistan and Turkey for the purpose of promoting economic, technical and cultural cooperation among the member states. It was the successor organization of what was the regional cooperation for development (RCD), founded in 1964, which ended activities in 1979. The status and power of the ECO is growing.

However, the organization faces many challenges. Most importantly, the member states are lacking appropriate infrastructure and institutions which the organization is primarily seeking to develop, to make full use of the available resources in the region and provide sustainable development for the member nations.

The Economic Cooperation Organization Trade Agreement (ECOTA) was signed on 17 July 2003 in Islamabad. ECO Trade Promotion Organization (TPO) is a new organization for trade promotion among member states located in Iran 2009.

3.3 THE PRINCIPLE OF COOPERATION

- Sovereign equality of the member states and mutual advantage.

- Linking of national economic, development plans with ECO's immediate and long-term objectives to the extent possible.

- Joint efforts to gain freer access to markets outside the ECO region for the raw materials and finished products of the member states.

- Effective utilization of ECO institutions, agreements and cooperative arrangements with other regional and international organizations including multilateral financial institutions;

- Common endeavours to develop a harmonized approach for participation in regional and global arrangements.

- Realization of economic cooperation strategy and exchange in educational, scientific technical and cultural fields.

3.4 THE WTO AND ECONOMIC COOPERATION

World Trade Organization deals with foreign trade and cooperation. The organization is known for its unique responsibilities such as issuing the permit of quotas; examining and approving the qualification of those enterprises dealing with imports and exports; coordinating the effort of international cargo-delivery agents in Dalian.

Studying and promoting contemporary trading approaches, such as E-Commerce, advancing the development of processing trade; supporting name brand product for exports; managing those state-owned public institutions dealing with foreign trade and economic cooperation.

- Enact laws and regulations on foreign trade and economic cooperation. Organized, draft laws and regulations concerning foreign trade carry them out.
- Make strategic plans for foreign trade and economic cooperation. Propose strategies beneficial to Dalian and coordinate the work of foreign trade and economic growth.
- Utilize foreign capital. Coordinate bidding for investment and provide hospitable services to key projects; examines and approved establishment of foreign enterprises and modification of their institutions.

Supervise those corporations and manage them to follow the regulations.

3.5 INTERNATIONAL COOPERATION NEEDS DOMESTIC SUPPORT FOR OPENNESS

Government are only able to make the sacrifices necessary to sustain international and economic cooperation if they can rely, in turn one domestic political support for an open world economy. The national publics unconvinced of the value of international integration will not back policies–often costly and difficult policies – to maintain it. This can lead –again, as in the 1930s– to a perverse process in which global economic failure undermines support for economic openness, which leads governments to pursue uncooperative policies, which further weakens the global economy.

On dimensions, international and domestics we are in trouble. So far despite high-sounding internationalist rhetoric, governments have resounded to the crisis with policies that take little account of their impact on other nations. And the crisis has dramatically reduced domestic public support for globalization, and for national policies to sustain it.

3.6 THE AIM OF ECONOMIC COOPERATION AND DEVELOPMENT

The OECD defines itself as a forum of countries committed to democracy and the market economy, providing a setting to compare policy experiences, seek answers to common problems, identify good practices, and co-ordinate domestic and international policies. Its mandate covers economic environmental, and social issues. It acts by peer pressure to improve policy and implement soft law-non binding instruments that can occasionally lead to binding treaties. In this work, the OECD cooperates with businesses, trade unions and other representatives of civil society. Collaboration at the OECD regarding taxation, for example, has fostered the growth of a global web of bilateral tax treaties.

The OECD promotes policies designed:

- To achieve the highest sustainable economic growth and employment and a rising standard of living in members countries, while maintaining financial stability, and thus to contribute to the development of the world economy.

- To contribute to sound economic expansion in member as well as non members countries in the process of economic development; and

- To contribute to the expansion of world trade on a multilateral, non discriminatory basis in accordance with international obligations.

Building on the respective rights and obligation under the agreement establishing the world trade organization. Other multilateral instruments, in particular of the organization for economic cooperation and development (OECD) as well under bilateral instruments of trade and economic cooperation.

3.7 GUIDELINES FOR MULTINATIONAL ENTERPRISES

An example of one aspect of work that is driven by the OECD and its membership are its guidelines for multinational enterprises. These guidelines set out voluntary principles and were last updated in 2011. These are designed to help multinational firms operate in harmony with the policies and societal expectations of their national activities with international best practice. The guidelines coverage is broad, touching on issues such as information disclosure, employment, industrial relations, the environment, combating disclosure, consumer interest, science and technology, competition and taxation. The guidelines were developed by 39 governments, and are increasingly being used to guide the development of ethical codes in business.

3.8 ECONOMIC COMMUNITY OF WEST AFRICAN STATE ECOWAS

The body was unified in May 1975 by the treaty of Lagos signed by 15 states with the objective of promoting trade cooperation and self-reliance in West Africa. Outstanding protocols bringing certain key features of treaty into effect were ratified in November 1977.

According to the articles of the treaty, the community aims at promoting cooperation and development in the fields of industry transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial relations and socio-cultural matters (Bakare, 2003).

The specific steps to be taken to accomplish these broad objectives include the following:

- Harmonization of economic and industrial policies of member states as well as the elimination of inequalities in the levels of development of each member state.
- Establishment of funds for cooperation compensation and development.
- Elimination of obstacles to free mobility of people, services and capital.
- Elimination of customs and other duties on both imports and exports of member states.
- Establishment of a common customs tariff and commercial policies.

SELF ASSESSMENT EXERCISE

- Give a very good reason why economic cooperation and development is necessary.

4.0 CONCLUSION

This unit has been wonderfully prepared. You have learnt about the role of economic cooperation, the principles of economic cooperation, the WTO and economic cooperation. The unit has also introduce you to some of the reasons why the economic community of West African State ECOWAS came to existence.

5.0 SUMMARY

Economic cooperation organization is an intergovernmental regional organization established in 1985 by Iran, Pakistan and Turkey for the purpose of promoting economic, technical and cultural cooperation among the member states. It was the successor organization of what was the regional cooperation for development (RCD), founded in 1964, which ended activities in 1979.

The status and power of the ECO is growing. However, the organization faces many challenges.

6.0 TUTOR-MARKED

- Discuss some of the principles of economic cooperation you know.

Answer to Self Assessment Exercise

The major objectives of economic cooperation are:

- Sustainable economic development of member states

- Progressive removal of trade barriers and promotion of intra-regional trade; greater role of ECO region in the growth of world trade; gradual integration of the economics of the member states with the world economy.
- Economic liberalization and privatization
- Effective utilization of the agricultural and industrial potentials of economic cooperation.

7.0 REFERENCE/FURTHER READING

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UNIT FOUR: COUNTER TRADE

CONTENTS

1.0 INTRODUCTION

Counter trade means exchange goods or services which are paid for, in whole or part, with other goods or services, rather than with money. A monetary valuation can however be used in Counter trade for accounting purposes. In dealing between sovereign states, the term bilateral trade is used. OR' any transaction involving exchange of goods or service for something of equal value".

Counter trade also occurs when countries lack sufficient hard currency, or when other types of market trade are impossible.

The security council noted" although locally produced food items have become increasingly available throughout the country, most countries do not have the necessary purchase power to buy them.

Unfortunately, the monthly food ratios represent the largest proportion of their household income. They are obliged to either barter or sell items from the food basket in order to meet their other essential needs. This is one of the factors which partly explain why the nutritional situation has not improved in line with the enhanced food basket. Moreso, the absence of normal economic activities has given rise to the spread of deep-seated poverty.

2.0 OBJECTIVES OF THE UNIT

Upon successful completion of this unit, it is expected that you do the following:

4) Define and explain counter trade
5) Examine the various types of counter trade and classification of form.
6) Highlight the advantages and drawbacks of counter trade.
7) Discuss government position towards counter trade.
8) Examining the consistency of counter trade with the international trade framework.
9) Know how firms are prepared for counter trade.
10) Discuss the attitude of international organizations to counter trade.

3.0 MAIN CONTENT

3.1 DEFINITION AND MEANING OF INTERNATIONAL TRADE

Counter-trade is a sale that encompasses more than an exchange of goods, service or ideas for money. In the international market, counter trade transactions are those transactions that have as basic characteristics a linkage, legal or otherwise, between exports and imports of goods or services in addition to, or in place of financial settlements. “Historically, counter trade was mainly conducted in the form of barter, which is a direct exchange of goods of approximately equal value between parties with no money involve. Such transactions were the very essence of business at time during which no money that is, no common medium of exchange – existed or was available. Over time money emerged as a convenient time and their joint timing and therefore permitted greater flexibility

Increasingly, countries and companies are deciding that counter trade transactions based on financial exchange alone. One reason is that the world debt crisis has made ordinary trade financing very risky. Another reason for the increase in counter trade is that many countries are again responding favourably to the notion of liberalism.

3.2 TYPES OF COUNTER TRADE/CLASSIFICATION OF FORMS

A. BARTER: This is exchange of goods or services directly for other goods or services without the use of money as means of purchase or payment. Barter is the direct exchange of goods between two parties in a transaction. The principal exports are paid for with goods or services supplied from the importing market. A single contract covers both flow, in its simplest form involves no cash. In practice, supply of the principal exports is often held up until sufficient revenues have been earned from the sale of bartered goods. One of the largest barter deals to date involved occidental petroleum corporation's agreement to ship sulphuric acid to the former Soviet union for ammonia area and potash under a 2 year deal which was worth 18 billion euros.

Furthermore, during negotiation stage of a barter deal, the seller must know the market price for items offered in trade. Bartered goods can range from hams to iron pellets, mineral water, furniture or olive-oil all somewhat more difficult to price and market when potential customers must be sought.

B. SWITCH TRADING: Practice in which one company sells to another its obligation to make a purchase in a given country.

C. COUNTER PURCHASE: Sale of goods and services to one company in other country by a company that promises to make a future purchase of specific product from the same company in that country.

D. BUYBACK: Occurs when a firm builds a plant in a country-or supplies technology, equipment, training, or other services to the country and agrees to take a certain percentage of the plants output as partial payment for the contract.

E. OFFSET: Agreement that a company will offset a hard currency purchase of an unspecified product from that nation in the future. Agreement by one nation to buy a product from another, subject to the purchase of some or all of the components and raw materials from the buyer of the finished product or the assembly of such, product in the buyer nation.

3.3 THE ADVANTAGES/ROLES OF COUNTER TRADE IN THE WORLD MARKET

Noted US economist Paul Samuelson was skeptical about the viability of counter trade as a marketing tool, claiming that "unless a hungry tailor happens to find an undraped farmer, who has both food and a desire for a pair of pants, neither can make a trade." (This is called "double coincidence of wants"). But this is arguable a too simplistic interpretation of how markets operate in the real world. In any real economy, Bartering occurs all the time, even if it is not the main means to acquire goods and services.

The volume of counter trade is growing. In 1972, it was estimated that counter trade was used by business and governments in 15 countries, in 1972, 27 countries; by the start of 1990s, around 100 countries. (Vertariu 1992). A large part of counter trade has involved sales of military equipment (weaponry, vehicles and installations).

More than 80 countries nowadays regularly use or require counter trade exchange. Officials of the General Agreement on Tariffs and Trade (GATT) Organization claimed that counter trade accounts for around 5%

of the world trade. The British department of trade and industry has suggested 15%.

3.4 GOVERNMENT POSITION TOWARDS COUNTER TRADE

Government and international organization are concerned about the trend toward counter trade, yet in light of existing competition and the need to find creative ways of financing trade, they exercise very little interference with counter trade.

Defense offset agreements are legal trade practices in the aerospace and military industries. These commercial practices do not need state regulation but, since the purchasers are mostly military departments in sovereign nations. Many countries have offset laws, public regulations or, alternatively, formal internal offset policies. The international names for these commercial practices or parties connected to weapons trade are various; industrial compensations, industrial cooperation, offsets, industrial and regional benefits, balance, equilibrium, to define mechanisms are complex than counter trade, offset agreement are protectionist and distort competition. Counter trade can also be considered one of the many forms of defense offset. Generally, the seller is a government that stipulates that the seller must then agree to buy products from companies within their country. Often, the aim of this process is to even-up a country's balance of trade. This is frequently an integral part of international defence contract.

3.5 THE CONSISTENCY OF COUNTER TRADE TOWARDS INTERNATIONAL TRADE FRAMEWORK.

Counter trade is controversial because it is a trade management practice. However, trade management is widespread, the United Nations estimates that fully 50% of present world trade is managed trade, with counter trade accounting for half of that or 25% of total world trade.

The slow response of government and academia to the institutionalization of counter trade has left most international business students and managers to learn the hard way how to use a trade management mechanism to their own advantage.

It is not surprising that companies have no specific policy or strategy concerning counter trade. Some deliberately downplay counter trade feeling, that is only a small part of their international operations and thus is not wroth the trouble of species policy and strategy formulation.

Others are interested in counter trade perhaps even enthusiastic about its possibilities as a marketing tool, but have not been able to develop an effective strategy due to inexperience, confusion, intercompany conflict, or lack of intercompany coordination.

3.6 PREPARING FIRMS FOR COUNTER TRADE

The majority of counter trade transactions are consummated by counter trade specialists who are outside the corporation. However, increasingly companies consider carrying out counter trade transaction in house. If this can be done, the need for steep discount may decrease and the profitability of counter trade may improve.

The most favoured counter trade arrangement from the buyer's perspective should be identified. The company should find out why this particular arrangement is the most favoured.

The basic policies and strategies outlined here represent and attempt to classified and compare the counter trade practices of select world most successful companies and might be used by other companies to evaluate the emergence of the sufficed counter trade though the effectiveness of the company advantage policy varies. There are also some cases in which the company begins to follow a mutual advantage policy.

Companies which have counter trade with "problem" countries usually hate counter trade; depend on how difficult their experiences are, they will either approach counter trade with extreme caution or wish it would disappear.

3.8 ATTITUDES OF INTERNATIONAL ORGANIZATIONS TOWARD COUNTER TRADE

Association or corporations are increasingly using counter trade as a competitive tool to maintain or increase market share. The complexity of the transactions requires careful planning in order to avoid major corporate loses. Management must consider how he acquired merchandise will be disposed of, what the potential for market disruption is, and to what extent counter trade goods fit in with the corporate mission. There is a positive attitude toward counter trade among the sample of firms surveyed. Most who took part in the survey believe that counter trade is a permanent feature in the world trading scene, and many also thought that it would spread even further. The responses to questions regarding attitudes to counter trade were:

- 75% - counter trade is here to stay.
- 62% - counter trade will grow and spread into the future.
- 56% - counter trade is an innovative response
- 53% - firms should in counter trade only if necessary.
- 41% - counter trade is a powerful marketing tool.
- 41% - firms should take the initiative in counter trade deals.
- 30% - counter trade is an inefficient form of international trade.
- 19% - counter trade conflicts with GATT principles.

- 16% - counter trade should be discouraged.
- 3% - counter trade is a temporary phenomenon

SELF ASSESSMENT EXERCISE:

What is counter trade and their various forms?

4.0 CONCLUSION

The greatest benefit to be derived from counter trade was an increase in sales volume by 56% of respondents. Other benefits recorded by a majority of the respondents were that counter trade allowed entry into difficult markets (64%), it overcomes credit difficulties (54%), it foster long-term customer good will (53%), it increases the firm's overall competitiveness (52%), and allows a better use of capacity (51%).

5.0 SUMMARY

The difficulties in re-selling the counter trade goods was seen as the major reason for not counter trading (74%), other reasons were no in-house use for the counter traded goods (66%), a lack of knowledge about counter trade (64%), the complex negotiations involved (62%), the time consumed in negotiations (60%), problems with pricing (59%), and a general increase in uncertainty. Counter purchase, offset and switch was the major forms of counter trade in which the respondents firms engaged. Barter and compensation occurred much less frequently.

6.0 TUTOR-MARKED ASSIGNMENT

- Discuss the roles and benefits of counter trade.

- Identify the major drawbacks to counter trade.

ANSWERS TO SELF ASSESSMENT

Counter trade means exchanging goods or services with are paid, for in whole or part, with other goods or services, rather than with money. A monetary valuation can however be used in counter trade for accounting purposes.

- Counter trade encompasses;
  - Barter
  - Switch trading
  - Counter purchase
  - Buyback
  - Offset

7.0 REFERENCES/FURTHER READING

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MODULE ONE

UNIT 1 TUTOR-MARKED ASSIGNMENT QUESTION

- Critically distinguish between a country Absolute Advantage and Factor endowment.

ANSWER

COMPARATIVE ADVANTAGE/FACTOR ENDOWMENT

The United States also produces both crude oil and wheat, but its opportunity cost is lower than Saudi Arabians. Having smaller reserves of oil and more than ten times the arable land, the united states has to give up only a few barrel of oil (compared with Saudi Arabians innumerable barrels of oil) to produce a bushel of wheat.

Thus, in the production of wheat, the united states has a comparative advantage; that is, it has the ability to produce a given product at a lower opportunity cost than its trading partners.

Factor endowment consists of differences in capital, labour and land. For example, a rich nation like the united states has a large amount of expensive capital equipment hence can specialized in goods such as chemicals, automobiles. Other nations with an abundant labour supply like Japan finds it efficient to concentrate on making television sets, which require the assemblies of components by hand.

ABSOLUTE ADVANTAGE

If a nation is the sole producer of an item, it has an absolute advantage over all other nations in terms of that item. Another absolute advantage exists when one nation can make something more cheaply than its competitors.

An absolute advantage is a nation’s ability to produce a particular product with fewer resources (per unit of output) than any other nation. This absolute advantage might exists because for instance the Saudis have been growing wheat far longer than people in the united states or because the Saudis are simply more talented.

UNIT 2 TUTOR-MARKED ASSIGNMENT QUESTION

- Critically discuss the major instrument of the 1945 Uruguay Round.

ANSWER

LEGAL INSTRUMENT AT URUGUAY ROUND

The legal instrument embodying the results of the Uruguay round of multilateral trade negotiations were adopted in Marrakech on 15^{th} April, 1994. The complete set covers the legal texts, the ministerial decisions and the Marrakech declaration, the signatory countries, as well as the individual agreements, the schedule of specific commitments on services, the tariff schedule for trade in goods, and the plurilateral agreements. Schedule in the original language only. The World Trade Organization (WTO) deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.

The trade in goods involve agreement on implementation of article VII of GATT 1994 (Customs valuation), agreement on Reshipment Inspection (RSI) and others.

UNIT 3 TUTOR-MARKED ASSIGNMENT QUESTION

- Discuss succinctly the three key components of international trade

  <u>**ANSWER**</u>

COMPONENTS OF INTERNATIONAL TRADE

International trade refers to the exchange of capital, goods and services across international borders or territories.
International trade is quite wide. It involves not only merchandising, importing or export but trade in services, licensing and franchising as well as foreign investments.

ONE OF THE MOST CONTROVERSIAL COMPONENTS OF INTERNATIONAL TRADE IS THE LOWER COSTS OF PRODUCTION OF DEVELOPING NATIONS.

There is currently a great deal of concern over jobs being taken away from the united states, members countries of the European union and other developed nations as countries such as China, Korea, India, Indonesia and others produce goods and services at much lower costs. Both the United States and the European Union have imposed severe restrictions on imports from Asia nations to try to stem this tide.

Clearly, a company that can pay its workers the equivalent of dollars a day, as compared to dollars an hour, has a distinct selling advantage. Nevertheless, American and European consumers are only too happy to lower their costs of living by taking advantage of cheaper imported goods.

SPECIALIZED INDUSTRIES

Even though many consumers prefer to buy less expensive goods, some international trade is fostered by a specialized industry that has developed due to national talent and/or tradition. Swiss watches, for example, will never be price- competitive with mass produced watches from Asia. Regardless, there is a strong market among certain consumer groups for the quality, endurance and even “snob appeal” that owing a Rolex-Patek-Philip or Audemars Piquet offers.

German Cutlery, English bone, China, Scottish wool, fine French silks such as Hermes and other such products always find their way onto the international trade scene because consumers in many parts of the world are willing to foster the importation of these goods to satisfy their concept that certain countries are the best at making certain goods.

VOLUME AND VALUE OF GOODS SAY OIL

Total net oil imports in 2010 are over 96 million barrels per day (U.S. Energy Information Administration figures Imports crude oil, natural gas liquids and refined products). At a recent average of $114 per barrel per day. The natural resources of a handful of nations, most notably the nations of OPEC, the Organization of Petroleum Exporting Countries, are swept onto the international trade scene in staggering numbers each day, and consumer nations continue to absorb this flow. Other natural resources contribute to the movement of international trade, but none to the extent of the oil trade.

Despite complaints about trade imbalances, effects on domestic economics, currency up heavals, and loss of jobs, the reality of goods and services continually crossing borders will not go away.

The global economic system is thus characterized by a growing level of integrated services, finance, retail, manufacturing and nonetheless distribution, which in turn is mainly the outcome of improved transport and logistics, a more efficient exploitation of regional comparative advantage and a transactional environment supportive of legal and financial complexities of global trade.

UNIT 4 TUTOR-MARKED ASSIGNMENT QUESTION

* Carefully discuss the rent for surplus theory of international trade.

ANSWER

THE RENT FOR SURPLUS THEORY

This theory has its origin with the classical economists just like the theory of comparative cost advantage; it was first propounded by Adam smith. According to him, a country carries out that surplus part of the produce of their land and labour for which there is no demand; it gives a value of these surplus by exchange them for something else, which may satisfy a part of their wants, and increase their enjoyment. The important aspect of the rent for surplus theory include:

- International trade does not necessarily reallocated factors of production but enables the output of the surplus resources to be used to meet foreign demand.
- The population density of a country largely determines its export potential since the total volume of production is based on available labour so also is internal consumption level as well as what will be the surplus to be exported.
- The surplus productive capacity of resources enables farmers to produce export crops without necessarily compromising the production of food crops which enter into the domestic market.

MODULE TWO

UNIT 1 TUTOR-MARKED ASSIGNMENT QUESTION

- Certain arguments surround the impositions of restriction in international trade. Discuss.

ANSWER

Why nations impose restrictions on international trade are:

l. Infant industry argument: Nations imposed restrictions in order to protect new or infant local industries from foreign competition with respect to long-standing but similar large industries.

m. **Revenue argument**: Nations imposed duties or restrictions in order to earn enough revenue to execute other projects locally. This is particularly so in the case of the imposition of import duties.

n. **Balance of payments**: Some countries imposed restrictions to improve their balance of payments via import restrictions or to correct balance of payments deficits. Measures taken here include those which restrict import.

o. **Anti-dumping argument**: Countries take measures to prevent the dumping of cheap commodities in their countries

p. Employment simulation argument

q. Changing pattern of consumption argument

r. Bargaining power argument

s. Self-sufficiency argument

t. Self-reliance argument

u. Recovery from depression argument

v. Strategic sector argument

UNIT 2 TUTOR-MARKED ASSIGNMENT QUESTION

- Discuss the new issues in the WTO negotiation as they affect Third World countries.

<u>ANSWER</u>

NEW ISSUES AND THEMES

(1) **Trade in Services** – 'Development' should have the same force as security in Africa XXI so that Third World countries can reserve their rights to make and enforce laws, regulations and practices that they consider proper for their development. Third World countries that are already heavily dominated and marginalized require this protection.

(2) **Trips (trade-related intellectual property right** –technology): many aspects of these rights require fuller discussion and agreement. National laws on TRIPS should not be allowed to come under international review, or be a subject for the settlement of disputes. Third World regarding the technological monopoly of the advanced countries means that TRIPS would aggravate this desperate situation. The Third World must produce a sound collective agenda on these issues of trade in services and TRIPS.

(3) **TRIMS (trade-related investment measures** – on foreign investment): these must not restrict national capacity for attracting foreign direct investment (FDI), or for directing it to sectors according to national proprieties. In spite of this pious hope, however, it is clear that the Third World must produce a joint agenda on TRIMS.

(4) **MAI (Multilateral Agreement on Investment**): Third World countries must insist on their sovereignty over all foreign investment. This is because MAI, TRIPS and TRIMS are the most controversial and unacceptable aspects of the new WTO system. Third World countries must struggle against these issues now and demand redress.

(5) **Labour Standards** – These should be governed by the international Labour Organization (ILO) Conventions and not come under the WTO system.

The implementation of current WTO agreements on these issues will, therefore, constitute a major setback for Third World countries. This is why these issues have to be scrutinized and raised for fuller discussion and necessary modifications in the national interest of member-states before they can be accepted and implemented by Third World countries.

UNIT 3 TUTOR-MARKED ASSIGNMENT QUESTION

* Discuss in two paragraphs how the Uruguay Round of GATT contributes to the recolonisation of the Third World trade.

ANSWER

Firstly, the GATT-WTO system is imposing 'liberalism without border's which amounts to a fundamental attack on the sovereignty of Africa and other Third World countries, especially as these new trade rules are being imposed without full and transparent discussion and the assent of the poor countries. This was how the original GATT and Bretton Wood systems were imposed in the postwar years when most Third World countries were still colonies. They are, thus, being treated like colonies all over again.

Secondly, the new GATT-WTO system has effectively marginalized Africa and the rest of the Third World and their development interest are neglected by it. There is a pre-occupation with free trade matters to the neglect of the important goal of development, which is the priority of the Third World countries. By treating trade and liberalization as an end itself, rather than a means to a large end, the GATT-WTO system is either ignoring or distorting the legitimate priorities of the poor countries- in the repressive and exploitative manner of the former colonial system, which underdeveloped Africa and the rest of the Third World;

UNIT 4 TUTOR-MARKED ASSIGNMENT QUESTION

* Discuss the nexus between economic argument for free trade and qualitative argument.

ANSWER

ECONOMIC ARGUMENTS FOR FREE TRADE

Classical economic analysis shows that free trade increases the global level of output because free trade permits specialization among countries. Specialization allows nations to devote their scarce resources to the production of the particular goods and services for which that nation has a comparative advantage. The benefit of specialization coupled with economies of scale increase the global production frontier.

QUALITATIVE ARGUMENTS

Free trade policies are often associated with general laissez-faire economic politics and parties, which permit faster growth. Voluntary exchange, by virtue of its voluntary nature, is assumed to be beneficial (extante) to the parties involved (why else would they engage in the exchange?). Thus, the restriction of voluntary exchange restricts commerce and ultimately the accumulation of wealth.

MODULE THREE

UNIT 1 TUTOR-MARKED ASSIGNMENT QUESTION

- Name three items in the Third World agenda for change in the WTO

ANSWER

- Demand for effective governance of the global economy, with particular reference to trade, international capital flows (especially speculative short-term capital), technology, environmental protection, foreign debt, termination of SAP's and the activities of TNCs;

- Review of the status of the Multi-Fibre Agreement, agriculture and mineral products in GATT-WTO;

- Demand for the implementation of international agreements reached in the context of the negotiations for the Uruguay Round of GATT, e.g. on trade and environment development of local capacity as pre-condition for full participation in the new trading system, etc;

UNIT 2 TUTOR-MARKED ASSIGNMENT QUESTION

* Write short not on each of the following

a. Export

b. Capital flows

c. Unrequited transfer.

ANSWER

EXPORT

In the example of the Suzuki importation stated above, Nigeria imported while Japan exported. One country's export is another country's import. Today, the dominant export of Nigeria is crude petroleum. Like imports, exports are either visible (crude oil, iron ore, coal, etc) or invisible (e.g. shipping, insurance, etc). Those engaged in exportation would normally want to repatriate their exports proceeds which are earned in foreign currencies.

CAPITAL FLOWS

Like goods and service which are trade or exchange by people across national boundaries, capital funds also move across national borders. A wealthy Nigerian, for instance, may want to purchase real estate, shares, stocks, or may want to set up a business in the United Kingdom. In such a situation, he would have to move the equivalence of his naira sum to the United Kingdom where the Naira is not a legal tender and therefore not a medium of exchange and

UNREQUITED TRANSFERS

Unrequited transfer are resources transfer across borders, but are not reciprocated with corresponding settlements. They are not to be paid for e.g. gifts, home remittance, etc.

UNIT 3 TUTOR-MARKED ASSIGNMENT QUESTION

- Examine the comprehensive objectives of Multinational Investment Guarantee Agencies (MIGA).

ANSWER

OBJECTIVES OF MIGA

The MIGA has the following objectives:

7. Its primary objective is to encourage the flow of direct foreign investment into developing member countries.
8. It provides insurance cover to investors against political risks.
9. The MIGA's guarantee programme to protect investors against four types of non-commercial risks. They are: any danger involved in currency transfer, expropriation, war and civil disturbance and breach of contract by governments.
10. It insures only few investments including the expansion of existing investment. Privatization and financial restricting.
11. It provides promotional and advisory services to the governments of developing countries to enable them to increase the attractiveness of their investment climate.
12. Another objective of the MIGA are to establish among global banking and finance markets of its members.

UNIT 4 TUTOR-MARKED ASSIGNMENT QUESTION

- Discuss the major functions of UNCTAD.

ANSWER

PRIMARY FUNCTIONS OF THE UN CONFERENCE ON TRADE AND DEVELOPMENT

(v) To promote international trade between countries with different socio-economic systems, especially for accelerating the economic development of LDCs.

(vi) To formulate principles and policies of international trade and related problem economic development.

(vii) To make proposals for putting the said principles and policies into effect, and to take such steps which may be relevant towards this end (Bakare, 2003).

(viii) Generally, to review and facilitate the coordination of activities of other institutions within the UN System in the field of international trade and rated problems of economic development.

MODULE FOUR

UNIT 1 TUTOR-MARKED ASSIGNMENT QUESTION

- Discuss the financial strategies that are involved in currency risk management.

ANSWER

FINANCIAL STRATEGIES

In countries where currency values are likely to drop financial managers of the subsidiaries should:

- Avoid paying advances on purchases orders unless the sellers pays interest on the advances sufficient to cover the loss of purchasing power.
- Not have excess idle cash. Excess cash can be used to buy inventory or other real assets.
- Buy materials and supplies on credit in the country in which the foreign subsidiary is operating, extending the final payment date as long as possible.

- Avoid, giving excessive trade credit. If accounts receivable balances are outstanding for an extended time period, interest should be changed to absorb the loss in purchasing power.

- Borrow local currency funds when the interest rate charged does not exceed US rates after taking into account expected devaluation in the foreign country.

UNIT 2 TUTOR-MARKED ASSIGNMENT QUESTION

- Examine the various sources of competitive advantage from a global strategy.

ANSWER

EFFICIENCY

- Economics of scale from access to more customers and markets.
- Exploit another country's resources – labour, raw materials. Extend the product life cycle older products can be sold in lesser developed countries.
- Operational flexibility – shift production as costs, exchange rates, etc. change over time.

STRATEGIC

- First mover advantage and only provider of a product to a market
- Cross subsidization between countries.
- Transfer price

RISK

- Diversify macroeconomic risks (business cycles not perfectly correlated among countries).

- Diversify operational risks (labour problems, earthquakes, wars).

LEARNING AND REPUTATION

- Broadened learning opportunities due to diversify of operating environments.

- Cross over customers between markets – reputation and brand identification.

UNIT 3 TUTOR-MARKED ASSIGNMENT QUESTION

- Discuss some of the principles of economic cooperation you know.

ANSWER

THE PRINCIPLE OF COOPERATION ARE:

- Sovereign equality of the member states and mutual advantage.
- Linking of national economic, development plans with ECO's immediate and long-term objectives to the extent possible.
- Joint efforts to gain freer access to markets outside the ECO region for the raw materials and finished products of the member states.
- Effective utilization of ECO institutions, agreements and cooperative arrangements with other regional and international organizations including multilateral financial institutions;
- Common endeavours to develop a harmonized approach for participation in regional and global arrangements.
- Realization of economic cooperation strategy and exchange in educational, scientific technical and cultural fields.

UNIT 4 TUTOR-MARKED ASSIGNMENT QUESTION

- Discuss the attitude of international organization towards counter trade.

ANSWER

ATTITUDES OF INTERNATIONAL ORGANIZATIONS TOWARD COUNTER TRADE

Association or corporations are increasingly using counter trade as a competitive tool to maintain or increase market share. The complexity of the transactions requires careful planning in order to avoid major corporate loses. Management must consider how he acquired merchandise will be disposed of, what the potential for market disruption is, and to what extent counter trade goods fit in with the corporate mission. There is a positive attitude toward counter trade among the sample of firms surveyed. Most who took part in the survey believe that counter trade is a permanent feature in the world trading scene, and many also thought that it would spread even further. The responses to questions regarding attitudes to counter trade were:

- 75% - counter trade is here to stay.
- 62% - counter trade will grow and spread into the future.

- 56% - counter trade is an innovative response
- 53% - firms should in counter trade only if necessary.
- 41% - counter trade is a powerful marketing tool.
- 41% - firms should take the initiative in counter trade deals.
- 30% - counter trade is an inefficient form of international trade.
- 19% - counter trade conflicts with GATT principles.
- 16% - counter trade should be discouraged.
- 3% - counter trade is a temporary phenomenon