Department of Management Studies
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4th Lecture

FOREIGN TRADE

Trade is the lifeline of a nation. What does the term Foreign Trade mean? It is simply the trade carried on between two or more countries. It is an exchange of capital, goods and services across international borders. This kind of trade can be undertaken by an individual or by the Government of a country.

Foreign trade is nothing but trade between the different countries of the world. It is also called as International trade, External trade or Inter-Regional trade. It consists of imports, exports and entrepot. The inflow of goods in a country is called import trade whereas outflow of goods from a country is called export trade. Many times goods are imported for the purpose of re-export after some processing operations. This is called entrepot trade. Foreign trade basically takes place for mutual satisfaction of wants and utilities of resources.

NATURE OF FOREIGN TRADE

- **Import:** When a country sources and buys goods or services from another country it is termed as import trade.

  For example, India imports electronic goods from China
- **Export:** When a country sells its goods and services to another country thereby sending the goods and/or services from the home country to another country it is termed as export trade.

  For example, Gems and Jewelry
- **Entrepot:** It is also known as "Re exports". It is when a country imports goods from another country and then sells it to a different country. This involves both import and export.

  For example, India may import oil from Iraq and export some of it to Bhutan.

NEED AND IMPORTANCE OF FOREIGN TRADE

Following points explain the need and importance of foreign trade to a nation.

1. Division of labor and specialization

Foreign trade leads to division of labor and specialization at the world level. Some countries have abundant natural resources. They should export raw materials and import finished goods from countries which are advanced in skilled manpower. This gives benefits to all the countries and thereby leading to division of labor and specialization.

2. Optimum allocation and utilization of resources

Due to specialization, unproductive lines can be eliminated and wastage of resources avoided. In other words, resources are channelized for the production of only those goods which would give highest returns. Thus there is rational allocation and utilization of resources at the international level due to foreign trade.

3. Equality of prices

Prices can be stabilized by foreign trade. It helps to keep the demand and supply position stable, which in turn stabilizes the prices, making allowances for transport and other marketing expenses.

4. **Availability of multiple choices**

Foreign trade helps in providing a better choice to the consumers. It helps in making available new varieties to consumers all over the world.

5. **Ensures quality and standard goods**

Foreign trade is highly competitive. To maintain and increase the demand for goods, the exporting countries have to keep up the quality of goods. Thus quality and standardized goods are produced.

6. **Raises standard of living of the people**

Imports can facilitate standard of living of the people. This is because people can have a choice of new and better varieties of goods and services. By consuming new and better varieties of goods, people can improve their standard of living.

7. Generate employment opportunities

Foreign trade helps in generating employment opportunities, by increasing the mobility of labour and resources. It generates direct employment in import sector and indirect employment in other sector of the economy. Such as Industry, Service Sector (insurance, banking, transport, communication), etc.

8. Facilitate economic development

Imports facilitate economic development of a nation. This is because with the import of capital goods and technology, a country can generate growth in all sectors of the economy, i.e. agriculture, industry and service sector.

9. Assistance during natural calamities

During natural calamities such as earthquakes, floods, famines, etc., the affected countries face the problem of shortage of essential goods. Foreign trade enables a country to import food grains and medicines from other countries to help the affected people.

10. Maintains balance of payment position

Every country has to maintain its balance of payment position. Since, every country has to import, which results in outflow of foreign exchange, it also deals in export for the inflow of foreign exchange.

11. Brings reputation and helps earn goodwill

A country which is involved in exports earns goodwill in the international market. For e.g. Japan has earned a lot of goodwill in foreign markets due to its exports of quality electronic goods.

12. Promotes World Peace

Foreign trade brings countries closer. It facilitates transfer of technology and other assistance from developed countries to developing countries. It brings different countries closer due to economic relations arising out of trade agreements. Thus, foreign trade creates a friendly atmosphere for avoiding wars and conflicts. It promotes world peace as such countries try to maintain friendly relations among themselves.

MAJOR FACTORS THAT NECESSITATE FOREIGN TRADE

- **Uneven Distribution of Natural Resources** Every country in the world is geographically different from another. This means that because of the differences in climate, soil, minerals and other factors, some countries can grow some crops better than others. This creates a requirement for surplus home crops to be exported and deficient ones to be imported.

- **Human Resources and Specialization Diversity in human resources** as well as natural resources makes some countries more suitable to the production of particular goods that other countries are not equipped to produce. The people, their skills – inherent and learnt, availability of raw material, climatic conditions give countries an advantage over others. This is another reason that necessitates Foreign Trade.
- **Economic Development** There is often diversity in the economic growth rate of different countries. While some countries are developed, some are underdeveloped and some others are developing. Underdeveloped and developing countries depend on for capital which further increases the need for Foreign Trade.
- **Theory of Comparative Cost** The theory of comparative cost states that a country must focus on what it can produce, depending on its natural resources, human resources and economics, at the lowest cost possible. This promotes ideal division of labor and international specialization leading to better standard of living across countries all over the world. In this manner, the theory of comparative cost encourages Foreign Trade.

PROBLEMS OF FOREIGN TRADE IN BANGLADESH

- **Legal Constraints:**

The first and the foremost problems in foreign exchange operations arise due to legal constraints. Since foreign trade indicates exchange of goods and services between two countries and each country has its own laws, rules and regulations, which are different from other countries, so problems arise in foreign exchange operations.

For example, an exporter of Bangladesh receives an L/C from the importer of England in which the goods will be shipped in American ship and delivered in China. In this case according to which country's law the dispute, if arise, will be settled, is a problem.

- **Geographical Location:**

From the geographical viewpoint, Bangladesh is not located in such a place to trade vigorously. We have encompassed by India from three sides. And India enjoys a strong industrial base compared to us. Due to economy of scale India can produce the same quality products at a cheaper price.

- **Limited Skilled Manpower:**

Performing the foreign exchange activities is a very tough job because it involves proper communication with the client, various banks of the country as well as abroad. A single error may cost thousands of dollars. In Bangladesh there is limited skilled manpower, who can understand and handle the foreign exchange dealings well.

- **Limited Export Base:**

Bangladesh has a very limited export base. It does not have the sufficient supply of raw materials needed to use in the production process. If Bangladesh has the local raw materials, it would be able to use them in the production process. But unfortunately the country has to import the raw materials required in various production processes. As a result, production cost increases and consumers has to spend more to avail that particular product.

- **Lack of Stable Policy:**

Policy and structure are an integral part of any kind of operation. It will suggest us how to perform the operation. But if the policy continues to change frequently it is not easy to plan and perform also. With the changes of Government new policies are formed, which is very difficult to cope with. It is hard for the business organizations and businessmen to settle themselves. They are always deviated from the old track, and have to run after the new track. This is another problem of our country.

- **Political Instability:**

Another major problem to conduct foreign exchange business is the political instability of a country, as the political stability is essential for smooth foreign exchange operations.

- **Problems in UCPDC Guidelines:**

According to the Article 4 of the Uniform Customs and Practices for Documentary Credit (UCPDC), all parties concerned with L/C must deal with documents not with goods. This may cause problem, as the bank must have to make payment after the presentations of necessary documents, whether or not the goods are delivered to the importer.

- **Absence of Policy, Rules and Regulations of Foreign Exchange Operations as per Islamic Shariah:**

There is no international Policy, Rules and Regulations of Islamic Banking Regarding Foreign Exchange Operations, so the Islami Banks has to face problems in foreign exchange operations. Absence of Islami Money Market: There is no Islami money market in Bangladesh as well as in the world to deal with Foreign Exchange Operations.

- **Other Problem:**

Whenever an importer comes to the bank to issue a L/C in his favor, he has to deposit a certain amount, known as L/C margin. After receiving of the export documents from the exporter the importer pays the rest amount. But up to this time this L/C margin amount is kept by the bank without giving any return to the importer, so it is a loss for the client. He could invest this money anywhere else and could earn some return. The importer adds this loss this loss with his production cost so the product price goes up that has to borne by the ultimate customers.

EXPORT-IMPORT POLICY IN BANGLADESH

CONDITIONS FOR REGULATING IMPORT:

1) In case any restriction is imposed on import of a particular commodity, Bangladesh Tariff Commission shall strictly monitor production of that industrial unit regularly;

2) The industrial units shall have to move towards progressive manufacture actively.

3) The price of finished product is excessively higher than the rise in the price of the raw materials in the international market, the ban on the import may be withdraw on the recommendation of the concerned Bangladesh Tariff Commission;

4) Goods from Israel shall not be importable

GENERAL CONDITIONS OF IMPORT OF GOODS

1) H.S. Code number
2) No Objection Certificate on the basis of Right of Refusal
3) pre-shipment inspection

4) Import at competitive rate
5) Import on C&F or CFR, CPT, FOB, CIF, CIP, DAF, DES, DEQ and DDU basis
6) Import by mentioning "Country of Origin
7) Inscription of Name, Address and TIN of Importer

The following goods shall not be importable:

(1) Maps, charts and geographical globes which do not indicate the territory of Bangladesh in accordance with the maps published by the Department of Survey, Government of the People Republic of Bangladesh;

(2) Horror comics, obscene and subversive literature including such pamphlets, posters, newspapers, periodicals, photographs, films, gramophone records and audio and videocassette tapes etc;

(3) Books, newspapers, periodicals, documents and other papers, posters photographs, films, gramophone records, audio and video cassettes, tapes etc. containing matters likely to outrange the religious feelings and beliefs of any class of the citizens of Bangladesh;

(4) Unless otherwise specified in this order, goods of secondary or sub-standard quality or below standard or old, used, reconditioned goods or factory rejects and goods of job-lot/stock-lot;

(5) Unless or otherwise specified in this order, all kinds of waste;

(6) Goods (including their containers) bearing any words or inscriptions of a religious connotation the use or disposal of which may injure the religious feelings and beliefs of any class of the citizens of Bangladesh;

(7) Goods) bearing any obscene picture

(8) Import of live viper and any item prepared from swine is banned.

EXPORT PROHIBITED PRODUCTS

Unless otherwise stated, products prohibited under this Export Policy cannot be exported.

1. **Products under Conditional Export**

Products which are exportable under some conditions can be exported only after fulfilling those conditions.

2. **Export of samples subject to fulfillment of the following conditions:**

a) The product is not export illegal;

b) A maximum of US$ 5,000 worth of products (except medicine) based on FOB Price (free on board) per exporter per year)

c) Products sent as samples free of cost; provided that in case of medicine the maximum shall be(1) US$ 30,000 if there is no export L/C (letter of credit), or (2) 5% of the total value of the L/C or US$ 5000, whichever is less. Bangladesh Bank can increase these limits examining each case, if necessary

d) For 100% export-oriented garment industries, a maximum of US$ 7,500 worth of samples of readymade garments per year;

e) Bond Commissioner or diamond producing/ diamond-studded jeweler processing farms registered as producers with VAT Commissioner, under National Board of Revenue can send abroad cut and polished diamond/diamond- studded jeweler worth of US$ 50,000 annually

f) Promotional materials of any price or weight;

g) Gift parcel worth of US$ 1,000 or equivalent in Bangladeshi Taka.