

International Business and Trade

Chapter 5 – The Global Trade and Investment Environment

The global trade and investment environment is a complex, interconnected system that drives economic growth and development. This environment facilitates the exchange of goods, services, and capital across borders.

At the end of this lecture, students should be able to:

- Discuss the global trade and investment environment.
- Discuss the political economy of international trade.
- Explain the international monetary fund.

Global Trade, also called as **International Trade**, is the exchange of goods and services across international borders. The global trade and investment environment is a **complex, dynamic system** of cross-border exchange of goods, services, and capital, driven by economic, political, social, and environmental factors. It is a core pillar of the global economy, facilitating growth, specialization, and interdependence among nations.

International Investment is the movement of capital across borders, primarily through Foreign Direct Investment (FDI), which involves firms investing in foreign facilities, and portfolio investments in overseas markets.

Under **Political Influence**, governments can influence trade through various policy instruments (trade barriers), including:

- **Tariffs:** Taxes levied on imported goods.
- **Quotas:** Direct restrictions on the quantity of a good that can be imported.
- **Subsidies:** Government payments to domestic producers to help them compete against imports.
- **Non-tariff barriers:** Regulations, standards, and administrative procedures that can hinder trade.

Global Investment Environment has these key aspects.

- **Foreign Direct Investment (FDI)** - FDI occurs when a firm invests directly in new facilities to produce or market in a foreign country, either through greenfield investments (new operations) or mergers and acquisitions. This creates jobs, facilitates technology transfer, and integrates economies.
- **Government Influence on Investment** - Like trade, governments encourage or discourage FDI through policies like investment liberalization (expanding areas open to foreign investors) or through restrictions specified in "negative lists" based on national interest.
- **Global Capital Markets** - Globalization has increased the interconnectedness of world economies, allowing investors wider access to foreign markets and a broader range of investment options to manage risk and profit, such as foreign stocks via ADRs, global mutual funds, and ETFs.

Challenges that affect the Global Trade include the following.

- **Geopolitical Tensions** - Issues like trade wars, sanctions, export controls, and foreign investment controls are increasingly influencing corporate strategy and creating uncertainty.
- **Environmental Sustainability** - There is a growing focus on the links between trade/investment and the environment. Policies are emerging that aim to align trade with natural resource management and the transition to a circular and low-carbon economy.
- **Slowing Growth and Policy Coordination** - Global economic growth is projected to slow, with subdued investment and structural challenges. There are calls for stronger international policy coordination to navigate persistent trade tensions and fiscal strains.
- **Digital Trade and Supply Chains** - New trade and investment deals are reshaping the landscape, with an emphasis on digital trade, the resilience of global value chains (GVCs), and the governance of international supply networks.

International Monetary Fund

The **International Monetary Fund (IMF)** is a global organization of 191 member countries that promotes international monetary cooperation, secures financial stability, facilitates global trade, encourages high employment and sustainable growth, and reduces poverty, essentially acting as a global economic watchdog and lender of last resort.

History of IMF

The IMF was established in 1944 at the Bretton Woods Conference, along with the World Bank, to rebuild the international monetary system after World War II.

The **key functions of IMF** are *Surveillance, Lending, and Capacity Development*.

- **Surveillance** monitors members' economic health, identifies risks, and offers policy advice.
- **Lending** provides financial resources to countries with balance of payments problems to help them stabilize economies and adjust policies.
- **Capacity Development** offers technical assistance and training to build strong economic institutions and manage economies better.

Other factors about the IMF:

- **Membership** - Nearly every country in the world is a member.
- **Funding** - Members contribute funds based on their economic size, giving larger economies more voting power and access to resources.
- **Conditionality** - Loans often come with requirements for policy changes (conditionality) to address underlying economic issues, signaling confidence to private investors.

Member countries of the IMF have access to information on the economic policies of all member countries, the opportunity to influence other members' economic policies, technical assistance in banking, fiscal

affairs, and exchange matters, financial support in times of payment difficulties, and increased opportunities for trade and investment.

In 1995, the International Monetary Fund began to work on data dissemination standards with the view of guiding IMF member countries to disseminate their economic and financial data to the public. The International Monetary and Financial Committee (IMFC) endorsed the guidelines for the dissemination standards and they were split into two tiers: The General Data Dissemination System (GDDS) and the Special Data Dissemination Standard (SDDS).

GDDS

The **General Data Dissemination System (GDDS)** is an International Monetary Fund (IMF) framework helping member countries improve their national statistics (economic, financial, socio-demographic) by providing guidance on data quality, compilation, and public dissemination.

SDDS

The **Special Data Dissemination Standard (SDDS)** is an International Monetary Fund (IMF) initiative to guide countries accessing capital markets in providing timely, comprehensive, and reliable economic/financial data to the public, focusing on data quality (coverage, frequency, timeliness, access, integrity) and transparency through metadata posted on the Dissemination Standards Bulletin Board (DSBB), improving market function.

International Business and Trade

Chapter 6 – International Commercial Terms

In any business transaction commercial terms are very important because these clarify the extent of rights and responsibilities which should be assigned to every party in the agreement. Each of the party involved becomes aware of their rights and duties.

International Commercial Terms, or **INCOTERMS**, are globally recognized rules published by the International Chamber of Commerce (ICC) that define the responsibilities, risks, and costs for buyers and sellers in international trade, specifying who handles delivery, insurance, customs, and transport, thereby preventing misunderstandings in contracts.

At the end of this lecture, students should be able to:

- Identify and explain the Incoterms and uses of the terminologies being used in the industry.
- Understand the rules of modes of transport between the buyer and sellers.

The eleven (11) International Commercial Terms (INCOTERMS).

The seven (7) Incoterms 2020 rules for any mode(s) of transport are:

EXW - Ex Works (insert place of delivery)

FCA - Free Carrier (Insert named place of delivery)

CPT - Carriage Paid to (insert place of destination)

CIP - Carriage and Insurance Paid To (insert place of destination)

DAP - Delivered at Place (insert named place of destination)

DPU - Delivered at Place Unloaded (insert of place of destination)

DDP - Delivered Duty Paid (Insert place of destination).

The four (4) Incoterms 2020 rules for Sea and Inland Waterway Transport are:

FAS - Free Alongside Ship (insert name of port of loading)

FOB - Free on Board (insert named port of loading)

CFR - Cost and Freight (insert named port of destination)

CIF - Cost Insurance and Freight (insert named port of destination)

The application of the INCOTERMS is primarily used in:

- The distribution of goods

- Issues involving regulation of transport charges
- Identifying and defining the place where transfer of merchandise will take place and the transport risks involved to justify to owners for support and the chance for damage to goods when shipped to its destination.
- Determining the obligations of both seller and the buyer.
- Identifying the cost relative to the transaction and the one who will shoulder it.
- Identifying the risk involved in the delivery of goods.
- Making international commercial transactions more to adapt to the most contemporary commercial practices.