Facultat d'Economia i Empresa

External trade (Comerç Exterior)

Code: 102324
Academic year: 2021-2022

Grup 4
Fall term

Midterm Exam

(Duration: 90 minutes)

Problem 1 (2.5 points)

Provide a short description of the following concepts and their domain of application in the theory of external trade:

1) Active temporary importation under bond
2) CITES
3) ITC
4) VER
5) Credit FAD

Suggested answers:

1) **Active temporary importation under bond.** Waiver for a tariff (duty) on an imported product/good, when this product turns to be a fundamental and unique piece for producing a final product/good (e.g., a machine) that will be exported later. The commitment to be exported is crucial.

2) **CITES.** Certificate of good health for importing plants or animals in the EU.

3) **ITC.** Index of competitiveness trend (or tendency). This index allows for disentangling the sources of competitiveness at country level by referring to an index of relative prices (IPR) and an index of relative exchange rate (IRX). The index is calculated as follows:

$$ITC = \frac{IPR x IRX}{100}$$

By construction, the competitiveness of the country increases (decreases) when the value of the index ITC decreases (increases).

4) **VERs.** Voluntary (vertical) export restrictions. It is a trade policy involving the willingness of a country to limit export as an international compromise. Example: VERs on textile products in Asian countries to avoid an excessive dumping of international prices in exchange of other (usually trading) benefits.

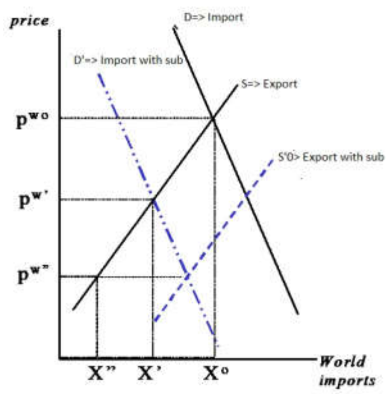
5) **Credit FAD.** State-to-state money transfer. This policy has been active in Spain since 1977. As for as the trading perspective, by means of the credit FAD the Spanish government transfers money to other countries (usually developing countries) with the commitment that those countries will purchase goods and services from Spanish producers.

Problem 2 **(4 points)**

2.a) The government of a big trading no-EU country (and not member of the WTO) thinks of overcoming the difficulties associated with the current pandemic situation by pushing its export flows. In order to evaluate the impact of this policy, the prime minister of this country appoints a group of experts to analyse the situation and suggest the most suitable policy to get to the expected final outcome. In particular, it is interested in learning if this policy can somewhat harm its trading partners.

According to the information discussed in class, please outline the content of the report and provide the proper arguments (discussing them with a graph) to endorse your conclusion.

Suggested answer:
Being a no-WTO country, the most suitable policy is the subsidy to exports. The subsidy to exports increases the quantity of exported goods, but the condition to be a big country in the international market results in dropping the international selling prices and this can harm the trading and not trading partners. A general graph of reference can be:



2.b) Given the outcome of that report, the prime minister of the government decides to explore different alternatives to enlarge the number of trading partners and signing international agreements. In particular, the prime minister is interested in having privileged commercial relationships with the EU since it is a relevant international trading actor. He asks to the same group of experts for providing a clear suggestion: thinking of signing FTA with the EU or even considering the possibility to sign a customs union agreement still with the EU.

Let us help the group of experts by outlining the pro-cons of the two options. In addition, please outline the relevant changes that the current trading policy of this country entailed by the two options under exam.

Suggested answer:

FTA: free trade agreement. Two or more countries decide to freely trade among them, but they apply different trade policies to third countries.
Customs Union: it is an FTA agreement but all partners decide to adopt a unique external trade policy versus third countries.

Both the option implies to take away any tariff (or quotas) when trading with partners. In the case to opt for the customs union, the country loses the capacity to establish the trade policy towards third countries independently.
Furthermore, being the EU part of the WTO, there are limitations in adopting monetary trade policies (like tariffs or subsidies). In particular, subsidies to export are forbidden with the exclusion of agricultural products.

2.c) After having analysed the report submitted by the experts in a very careful way, the prime minister thinks that the FTA is a good first step. In order to make a pilot experiment, the prime minister charges a company exporting food and beverage to explore the potential advantages of this agreement by simulating the following test: exporting 10 kg of strawberries to Ireland for a total value of the merchandise of 350€.
According to the available information, the import of strawberries inside the EU is subject to the following rules: certify the quality of the merchandise with the SOIVRE certificate and the merchandise has to pass the SANIM inspection. In addition, the import of strawberries is subject to a compound tariff: 15% ad valorem + 5 €/kg with a minimum of 50 €. Transport costs achieve the value of 50€ and the TVA this import is subject is 23%.

In the light of the previous information, please compute the final cost for an importer in Ireland under the circumstances of importing from (a) a country enjoying an FTA and (b) out of an FTA.

In the same wake, outline the bureaucratic duties, exporting and documents to be produced by the exporter under the two hypotheses.

Suggested answer;

Exporting 10kg of strawberries to Ireland.

Value of the merchandise: 350€

Tariff to be paid without FTA: 15%(350) + 5x10= 102,5€ with a minimum of 50€.

Importing conditions: SOIVRE certificates and SANIM inspection always due for no EU members.

a) FTA with the EU

Value of the merchandise	€ 350,00
Transport	€ 50,00 [1]
Total value subject to TVA	€ 400,00
TVA (23%)	€ 92,00
Total including TVA	**€ 492,00**

b) no FTA with the EU

Value of the merchandise	€ 350,00
Transport	€ 50,00 [1]
Tariff	€ 102,50
Total value subject to TVA	€ 502,50
TVA (23%)	€ 115,58
Total including TVA	**€ 618,08**

Certificates are needed in both cases because we are importing products from outside the EU. Also, not being a customs union, customs are there. The single administrative document (DUA) has to be presented at the customs of import in Ireland.

[1] It could be intended as national and international transport as well as only national or only international.

Problem 4 **(3.5 points)**

Consider the following data referring to import and export data of a sample of European countries (source: Eurostat):

Exportations		
	2018	**2019**
Bulgaria	72232	76884
Romania	398410	427644
Slovenia	38889	40525

Importations		
	2018	**2019**
Bulgaria	69434	73038
Romania	430895	468524
Slovenia	34996	36432

GDP		
	2018	**2019**
Bulgaria	109743	119772
Romania	951729	1059803
Slovenia	45863	48393

1) Compute the trade balance, the export quota, the index of competitiveness and the index of openness.
2) Discuss the previous results for each country and argue which one is the most competitive economics.

Suggested answers:
Refer to the document in attachment

Problem # 3

Exportations		
	2018	**2019**
Bulgaria	72232	76884
Romania	398410	427644
Slovenia	38889	40525

Importations		
	2018	**2019**
Bulgaria	69434	73038
Romania	430895	468524
Slovenia	34996	36432

GDP		
	2018	**2019**
Bulgaria	109743	119772
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Trade balance (X-M)

	2018	**2019**	
Bulgaria	2798	3846	Bulgaria and Slovenia record a trade surplus
Romania	-32485	-40880	Romania is experiencing a trade deficit
Slovenia	3893	4093	

Export quota (X/Y)*100

	2018	**2019**	Bulgaria and Slovenia are countries
Bulgaria	65,8	64,2	in which the weight of export is a relative
Romania	41,9	40,4	important part of GDP. Their dependence
Slovenia	84,8	83,7	from the int'l market is quite serious

Index of competitiveness (X/(X+M))*100

	2018	**2019**	
Bulgaria	51,0	51,3	The weight of the export
Romania	48,0	47,7	and the import in the overall trade
Slovenia	52,6	52,7	flow ir quite balanced

Trade Openess (X+M)*100/Y

	2018	**2019**	
Bulgaria	129,1	125,2	Bulgaria and Slovenia are small open economies
Romania	87,1	84,6	
Slovenia	161,1	159,0	

All in all, Bulgaria appears as the most solid economy in this period.
Trade balance is positive and the relative weight of exports -even if quite superior to the expected threshold of reference- seems being relatively sustainable. Of course, the country still exhibits an important dependence from the rest of the world.
Instead, Romania is definitely the less competitive economy.