

# Chapter 1

## A Brief Introduction to International Trade

### 国际贸易简介

#### Objectives:

1. To understand the definition of international trade and its significance
2. To understand theories of free trade and protectionism
3. To master the classifications of international trade
4. To master different modes of international trade
5. To know the development of E-commerce

#### 1.1 What is International Trade 什么是国际贸易

The exchange of goods or services along international borders is called international trade. It is the relationship between different countries for the purpose of trade and commerce. According to Wikipedia, international trade is the exchange of capital, goods and services across international borders or territories<sup>①</sup>. It is a business transaction which not only includes tangible goods exchange and foreign manufacturing, but also encompasses the growing services industry in areas such as transportation, tourism, banking, advertising, construction, retailing, wholesaling and mass communications. Business transaction may appear in the section of private business whose main aim is to profit, or in the section of governmental procurement

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① [http://en.wikipedia.org/wiki/International\\_trade](http://en.wikipedia.org/wiki/International_trade)

which is non-profit oriented. In brief, international trade (also known as foreign trade, world trade, global trade or overseas trade), is the fair and deliberate exchange of capital, goods, and/or services between people, organizations and countries across national or regional boundaries. It represents a significant share of gross domestic product (GDP) in most countries.

International trade plays an important role in every country's economy. The balance of trade, or the amount of imports versus exports, drives a country's evaluation of its gross domestic product (GDP) and ultimately impacts the public's perception of the health of the whole economy. More importantly, international trade opens up untapped markets for sellers and increases the home country's productivity as workers are employed to make the goods to sell globally. From a business perspective, the role of international trade is to maximize profits for owners, the single most important mandate for corporations and many other types of businesses. Governments consider the role of international trade from a larger perspective on the health of the economy. The ability of the business sector to manufacture goods for export means that more of the country's workforce is employed, producing a larger amount of inventory. It also means that the country is in a stronger position globally, as it is virtually exporting the country's values and lifestyle along with its products.

International trade is of great significance to China during the past few decades for at least three reasons:

Firstly, foreign trade promotes domestic employment. The international market is very enormous while the domestic market is comparatively limited. So, with foreign trade, a nation can increase its sales of products and thereby create jobs domestically. This is especially true of China, whose exports are producing labor demand intensively. Statistics showed that for each increase in export sales by one hundred million dollars, twelve thousand new jobs were created in China.

#### News related:

##### ***China's global ad campaign (Dec-1-2009, China Daily)***

*The Chinese government has launched a global advertising campaign in an effort to lift the reputation of Chinese-made goods. The 30 second commercial debuted on CNN Asia with the theme "made in China, made with the world". The ad is believed to be the Chinese government's first ever branding campaign and is set to be screened in other markets, including North America.*

Secondly, foreign trade improves domestic living standards and social well-being. According to international trade theory, a key driving force of international trade is cost differentials between countries. A nation can buy goods from a foreign country more cheaply than that produced from home. Thus, foreign trade raises people's living standards and well-being by reducing cost, and increasing ranges of goods and services available to consumers.

Thirdly, competition with foreign companies brings long term improvement in industrial competitiveness. Production efficiencies are upgraded by the introduction into home market of advanced technologies and equipment improvements that strengthen the growth of domestic industries.

China has become the biggest foreign trade economy in the world in terms of trade volume on tangible goods in 2013<sup>①</sup> and is still experiencing a steady growth. Currently speaking, its three biggest trade partners are: EU, the U. S. A. and 10 ASEAN countries. In the process of promoting foreign trade to keep long-term economic development, Chinese government has been exploring and executing a lot of financial measures and policy priorities even trying commercial ads in the Time Square to build confidence and attract foreign investment and support.

## 1.2 Theories of International Trade 国际贸易理论

### News related:

***China trade now bigger than US (11: 03AM GMT 10 Feb 2013, By Garry White, The Telegraph)***

*China has leapfrogged the US to become the world's biggest trading nation, bringing an end to the US's post-war dominance of global commerce.*

*The total value of US exports and imports in 2012 was \$3.82 trillion (£2.4 trillion), the US Commerce Department has revealed. China's customs administration has already announced that the country's total trade last year was worth \$3.87 trillion.*

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① <http://jingji.cntv.cn/2014/01/11/ARTI1389397022704388.shtml>.

*“It is remarkable that an economy that is only a fraction of the size of the US economy has a larger trading volume,” Nicholas Lardy, a senior fellow at the Peterson Institute for International Economics in Washington, told Bloomberg. “The surpassing of the US is not because of a substantially undervalued currency that has led to an export boom,” Mr. Lardy said, pointing out that Chinese imports have grown at a faster rate than exports since 2007.*

*Not only has China managed to post a larger total trading figure, but the breakdown of imports compared with exports also makes for favourable reading in Beijing. China had a full-year trade surplus of \$ 231.1bn with the US posting a total 2012 trade deficit of \$ 727.9bn.*

Although trade has flowed around the globe for thousands of years, it is in modern times that its economic importance has significantly increased. In most countries, international trade now plays a major part in their economies. Over time, economists have developed different international trade theories not only to understand it better but to guide governments in policy making and help businesses to profit from it. In a broader sense, theories could be divided into free trade theories and theories to support protectionism.

### 1.2.1 Free Trade Theories 自由贸易理论

Some of the most influential free trade theories have been Mercantilism, Absolute Advantage Theory, Comparative Advantage Theory and Factor Endowment Theory.

Mercantilism was the most ancient and influential trade theory. It dominated the economies of most western European nations from the 1500s through the late 18th century. The main doctrine of this theory was that the economic well-being of a country could be improved by exports alone; imports were to be reduced and, if possible, avoided. All trade was carried out under governmental authority, and the financial wealth of a country was defined by how much gold it accumulated. A major problem with mercantile theory is that the focus on exports at the expense of imports actually hampers the development of international trade.

During the late 18th century, economist Adam Smith developed the theory of absolute advantage, which became the most dominant of the international trade theories of its time. This theory holds that there are benefits to be gained from importing as well as exporting. Further, this theory actually encouraged imports by

maintaining that each country should focus on producing and exporting what it is best at: the goods and services that it has an absolute advantage in producing. National wealth is measured not by owning gold but by the living standards of the populace.

But this theory falters later because it cannot explain why a country with no absolute advantage in producing any product would engage in international trade. When a country has absolute advantage in a certain product, it would export the product and make more money from other countries. Unfortunately, it is flawed. What will happen to trade if one country has an absolute advantage in all products? The theory of absolute advantage incorrectly suggests that no trade would occur.

David Ricardo, an early 19th century British economist, solved this problem by developing the theory of comparative advantage, which stated that a country should produce and export those goods and services for which they are relatively more productive than other countries and import those goods and services for which other countries are relatively more productive than it is. The comparative advantage theory demonstrates that two countries can trade to their mutual advantage even when one of them is more efficient than the other at producing everything and producers in the less efficient economy can compete only by paying lower wages.

The theory of comparative advantage became the foundation of international trade theories. It is often viewed as the most important concept in modern international trade theory. Its central principle is that a country should specialize in exporting and producing products it has a relative, or comparative, advantage in when compared to other nations, and it should import those products with which it is at a comparative disadvantage. For example, a female brain surgeon may be better at both brain surgery and lawn mowing than her neighbor's teenaged son is. However, if the surgeon is comparatively better at surgery than at lawn mowing, she will spend most of her time at the operating table and pay the teenager to mow her lawn.

Thinking from a different perspective, Heckscher-Ohlin theory (H-O theory) holds that natural resources play an important role in international trade. The factor endowment theory brings different natural resources factors into consideration. Trade provides benefits by allowing countries to export goods whose production makes relatively heavy use of resources that are locally abundant while importing goods whose production makes heavy use of resources that are locally scarce. For example, the country which is rich in wine will export wine and the country which is poor in watch-making will import watches. International trade also allows countries to

specialize in producing narrower ranges of goods, allowing them to gain greater efficiencies of large scale production.

Still, new free trade theories emerged with the development of world economy. There are scale economy theory, product life cycle theory, and Porter's national competitive advantage theory. All of them contribute a lot in promoting free trade transaction globally.

### 1.2.2 Theories of Protectionism 保护贸易理论

Trade protectionism is a policy that protects domestic industries from unfair competition from foreign ones. Protectionism stresses protecting local industries and jobs over global and free trade. Lester's theory is the most influential one.

The origin of Lester's trade protectionism lies in the strong external competition faced by Germany's capitalist economic development in the first half of the 19th Century. Lester developed trade protectionism into a kind of "end" and proclaimed that the less developed country must improve its productivity to catch up with the developed nations in order not to be the subordinate little brothers of other dominant nations. Different economies are in different developmental stages where different trade policies go with it. The whole theoretical system is based on the theory of productivity and the theory of national economy, and fully demonstrates the necessity, stage and concrete measures for the protection of trade. It has great historical and practical significance, and has a profound impact on the development of German economic life and economic theory. The protection of German's industry paved the way for the rise of German capitalism. It provides a theoretical basis for the formulation of economic development strategies and economic policies in line with national characteristics.

Keynes developed Super-protective trade theory on the basis of Lester's theory. Different from Lester's purpose to develop the productivity of Germany, the purpose of Keynes' theory is to realize trade surplus and solve the problem of worker's unemployment domestically during the great economic recession broken out during the 1930s in the industrial world. Keynes supports the protection of the obsolete industry of developed industrial countries instead of protecting newly developing industries in the traditional Lester's theory. As to the governmental measures taken to protect national industry, tariff and non-tariff barriers, especially governmental interventions, could be both implemented parallelly. One government could take the

initiative to employ macro-economic regulation and go into other territories to implement its policy and develop its economy.

Strategic trade policy are newly developed to meet the current trade situation. Strategic trade policy refers to trade policy that affects the outcome of strategic interactions between firms in an actual or potential international oligopoly. A main idea is that trade policies can raise domestic well-being by shifting profits from foreign to domestic firms. A well-known application is the strategic use of export subsidies, but import tariffs as well as subsidies to R&D or investment for firms facing global competition can also have strategic effects. Since intervention by more than one government can lead to a Prisoner's Dilemma, the theory emphasizes the importance of trade agreements that restrict such interventions.

The four primary tools used in protectionism are tariffs, subsidies, quotas, and currency manipulation. There are advantages and disadvantages for the protectionism. On one hand, if a country is trying to grow strong in a new industry, tariffs will protect it from foreign competitors. That gives the new industry's companies time to develop their own competitive advantages. Protectionism also temporarily creates jobs for domestic workers. The protection of tariffs, quotas, or subsidies allows domestic companies to hire locally. This benefit ends once other countries retaliate by erecting their own protectionism. On the other hand, In the long term, trade protectionism weakens the industry. Without competition, companies within the industry have no need to innovate. Eventually, the domestic product will decline in quality and be more expensive than what foreign competitors produce.

Due to the drawbacks of protectionism, anti-protectionism comes into force. They realize protectionism lowers international trade for everyone. One of the strongest tools in anti-protectionism is the free trade agreement. It reduces or eliminates tariffs and quotas between trading partners.

### 1.3 Classifications of International Trade 国际贸易的分类

The classifications frequently used by nations to trade with each other are as follows:

#### 1.3.1 Import Trade, Export Trade, and Transit Trade 进口贸易、出口贸易和过境贸易

In terms of the direction of goods and service, it can be divided into exporting,

importing and transit trade.

Exporting is likely to be the simplest way to enter a foreign market. There are two types of exporting: direct exporting and indirect exporting. Direct exporting involves establishing an export department or even an overseas sales branch. It provides a continuous presence and easier control for the exporter in the buyer's country but obviously means more expenses. A company can also sell its products abroad indirectly through middlemen or export agents. Export agents seldom produce goods themselves. Their purpose is to bring together buyers and sellers and help them handle international transactions. They make their money through a commission of the selling price. Many agents specialize in specific kinds of business. The principal advantage of using an export agent is that the company does not have to deal with foreign currencies. The major disadvantage is that because the export agent must make a profit, the price of the product must be increased or the domestic company must provide a larger discount than it would in domestic transaction. Indirect exporting involves less investment and is therefore less risky, which enables small firms with limited capital and product diversification to export very easily.

Importing, opposite to exporting, is the process of purchasing goods and services from other nations. Like exporting, importing can be either indirect or direct. Indirect importing is the purchase of foreign goods through domestic middlemen, while direct importing is the direct purchase of goods from overseas market. Indirect importing is convenient but limited in the selection of goods and less profitable. Direct importing is economical but more complicated than buying from importing middlemen.

Transit trade refers to the business connected with the passage of goods through a country to their destination. According to the transit trade agreement, most countries will not charge anything to facilitate the free transaction of commodities internationally.

### 1.3.2 Visible Trade and Invisible Trade 有形贸易和无形贸易

Trade in tangible commodities is routinely called visible trade for that the exchange of goods and merchandise is tangible and commodities can be seen by naked eyes. In contrast, invisible trade involves the exchange of services, technology or capital between countries. Invisible trade includes transportation, tourism, and insurance, etc. Nations such as Greece and Norway have large maritime fleets, which can provide cheap and convenient transport service. While at sea, when goods are



vulnerable to risks and losses, marine ocean insurance will cover most risks and losses that occur during the sea transport. Even a country who possesses little in the form of exportable commodities or manufactured goods, he has mild sunny beaches attracting people around the world. Tourism chain offers accommodation, meal, road or rail transport and tour guide service. All these various forms of invisible trade are as important as visible trade for some nations. Both visible trade and invisible trade consist of one nation's balance of payment.

### **1.3.3 Free-liquidation Trade and Barter 自由结汇贸易和易货贸易**

On terms of settlement, trade could be conducted by the way of free settlement through the media of cash or documentary credit. While barter is the exchange of goods without the media of money. Though barter is an ancient way of trading, it is still used among countries. When one country lack of foreign currency, and in bad need of certain commodities at the same time, barter is feasible. When Chinese government helped Thailand to build high-speed railways, the bartered goods is rice. While a nation is in debt crisis, they still have to perform the contracted deals. Not only underdeveloped countries, developed countries would also occasionally employ barter trade to reduce trade deficit.

### **1.3.4 Direct Trade, Indirect Trade and Extrepot Trade 直接贸易、间接贸易和转口贸易**

When there is a direct exchange of goods or services between the offering country/region and the buying country/region, it is called direct trading. When goods could not be shipped directly for a certain reason like natural disaster or political reason, products must be conducted through a third nation/region. Three parties are involved in indirect transaction. Before 2008, the trade between mainland China and China Taiwan was usually done through China Hong Kong. For the mainland and Taiwan, the transaction was called indirect trade. For companies in Hong Kong, the transaction was called Extrepot Trade.

### **1.3.5 Bilateral Trade, Multilateral Trade and Triangular Trade 双边贸易、多边贸易和三角贸易**

Bilateral trade is the exchange of goods between two nations promoting trade and investment. The two countries will reduce or eliminate tariffs, import quotas, export

restraints, and other trade barriers to encourage trade and investment.

Likely, Multilateral trade is the exchange of goods among many nations on regulations and agreements.

In early American settlement, goods came from two main sources: England and Africa. This came to be known as Triangular Trade. A ship leaving Africa for America would contain hundreds of enslaved people, tightly packed in horrific conditions for the journey to their new “home”. Once in America, the ship would unload the slaves and take on any or all of molasses, rum, sugar, or tobacco and then head to Great Britain, completing the Triangle. Today’s triangular trade is a kind of trade conducted among three seaports or three nations or territories.

### **1.3.6 Goods Trade, Service Trade, Processing Trade and General Trade**

#### **商品贸易、服务贸易、加工贸易和一般贸易**

The two pairs of classification are formed on the basis of trading subjects or trading commodities. The buying and selling of tangible goods is goods trade. Similarly, service trade is to offer various services like insurance, transportation and tourism, etc. China is a big country of processing trade for that we process and assembly goods for other countries because we have skilled labour and skills. Compared with processing trade, if a company exports goods that are manufactured 100% from all the domestic materials, it is called general trade. Similarly, if a company imports product manufactured 100% from a certain foreign nation, it is also a transaction of general trade.

### **1.3.7 Roadway, Seaway, Airway and Mail Order 陆上贸易、海上贸易、航空贸易和邮政贸易**

On different ways of transportation, trade could be named accordingly. Different transports entail different advantages and disadvantages for the transportation of goods. Seaway trade is the most popular one in terms of trade volume. And airway is usually the most expensive one. With the coming of e-commerce, mail ordering is booming for personal commodities.

## **1.4 Different Modes of International Trade 国际贸易的方式**

International trade has been yearly restricted to cargoes in a narrow sense until

the Uruguay round of GATT started in 1986, which for the first time developed traditional international transactions as well as transactions including technology and services. And this definition is accepted by most countries. The most common sense of international trade is ordinary trade. Besides that, various forms play different roles and have their own merits.

#### **1.4.1 Ordinary Trade 普通贸易**

Generally speaking, this kind of trade is what we mean in common sense. It refers to the exports or imports that are conducted under a single contract, that is, the sales or purchases under one contract. One contract has no relation with another, each being independent in its operation. Each time an export or import transaction is under way, new terms are negotiated and a new contract is concluded. Unit price, quality, quantity, packing, delivery of and payment for the goods should be made accordingly to execute a new contract. Approximately two thirds of the international trade is conducted with this mode. Most newly established small companies, mediate-sized companies and big companies conduct businesses in this way though they may combine it with other modes of trading. The main content of this book will introduce the main aspects concerned in this simple trade.

Though such a traditional way in dealing with foreign trade business has been most popular, in certain circumstances, it could not meet the growing need of the current world. There are also many other trade forms to compliment the one mentioned above. Namely, they are distribution and agency, consignment, fairs and sales, auction, tendering, counter trade, and processing and assembling trade, etc.

#### **1.4.2 Distribution and Agency 经销和代理**

In international trade, distribution is often based on an agreement between a supplier and a distributor. Distributor is the middleman between manufacturer and retailer or customers. The seller (supplier) authorized the rights of purchase, sale and allocation to the buyer (distributor) within specific areas or regions and periods.

The distributor is an independent contractor, assumes all risks and obligations, such as bad debt, expenditure, maintenance. The supplier can enjoy the foreign distributor's providing full after-sale services, but sometimes it may lose the control of goods and reduce the sales benefits.

There are three types of distribution: sole or exclusive distribution which is

specially selected, selective distribution which may select many suitable resellers and intensive distribution where there are a wide variety of available wholesalers or retailers who are willing to sell and stock the goods in a given market area.

Agency is dealing with a contractual relationship when an agent is authorized to act on behalf of another (also called the principal) to create a legal relationship with the third party. The agent is a person or legal entity who acts as a representative of a firm or individual in a particular market. But, usually, an agent negotiates purchases and sales under authority but does not take title to the goods dealt.

There are three types of agent including general agent, exclusive agent (sole agent) and commission agent.

General agent is authorized to be a universal agent in specific market area. It may do all business or non-businesses activities related to the principal, such as negotiating contracts, establishing credit, advertising, arranging for shipping and setting up overseas offices. Exclusive agent means that the principal only choose one as his agent in one particular area or region. For example, we have Exclusive Agent of Shoes & Jerseys Co. Ltd. ([http://cn.tradekey.com/product\\_view/id/1013846.htm](http://cn.tradekey.com/product_view/id/1013846.htm)); while for the commission agent, there may be a lot in the importing country.

A similarity between distribution and agency is that both of them serve the same economic function in international trade.

But they are different in the following aspects.

Position: the agent promotes sales on behalf of the principal. The distributor purchases the products from the seller and resells products on his own.

Remuneration: The agent gets commission on sale from the principal, while the distributor earns profits from the difference between purchase and sales price.

Market control: By distribution, the supplier has weak market control, although the contract can provide report on clients. On the other hand, the principal can learn the market very well from the agent.

Risk: The risk of distribution is born by the distributor, while the principal of agency has to take risk.

### 1.4.3 Consignment and Fairs & Sales 寄售和展卖

Consignment is usually understood as that the consignee (the consignment seller or the party to which products are sent) pays the consignor (the person with item to sell or the party by which the goods are consigned) only after the sale, from its proceeds.

Fairs and Sales combines the fair or exhibition with sales. The seller can sell goods on fairs or exhibitions. There are The World Expositions, auto fairs, vegetable exhibitions, flower exhibitions, toy fairs, and etc.

#### 1.4.4 Auction and Tendering 拍卖和招投标

Auction is the process of buying and selling goods by offering them up for bid, taking bids, and then selling the items to the winning bidder. International auction is a method of international trade which is usually organized by special organization, such as auction houses. According to relative laws and regulations, the auctioneer sells the goods to the buyer who bids the highest price at scheduled time.

There are many famous auction houses around the world. The major auction houses are Christie's, Sotheby's, Lyon & Turnbull, Bonham's, and etc. Besides that, there are also Internet auctions like eBay, coIndustry.com, and etc.

Types of auction includes English auction (ascending price auction), Dutch auction (descending price auction) and sealed bid auction (All bidders simultaneously submit bids so that no bidder knows the bid of any other participants).

##### News related:

##### **Stamp Attracts Record Price (2010-01-31, China Daily)**

*Chinese stamp dating from the Qing Dynasty fetched HK \$5.25 million, a record high price for Chinese stamps, at an auction in Hong Kong. The stamp belongs to a well-known type of red revenue stamp printed with the small words "1 dollar". Reportedly, there are only 32 stamps of its kind in the world. The last time that the stamp was sold was in November, 1986. Twenty-four years later, it attracted more than 20 bidders.*

Tendering is a procedure to generate competing offers from different bidders looking to obtain business projects in works, supply, or service contracts under a contract. It includes two parts. One is invitation to tender, and the other is submission of tender.

#### 1.4.5 Counter Trade 对销贸易

Counter trade is a resourceful way to arrange for the sales of goods from the seller to a company in a country that does not have the resources to pay for it in hard currency. It is a reciprocal trading arrangement in which the seller is required to

accept goods or other instruments or trade in partial or whole payment for its products. Besides tangible product, the objects of counter trade can include service, technology, and so on.

Types of counter trade include barter, compensation trade, counter purchase, switch trade and offset trade.

Barter is an exchange of products or services directly for other products without use of money as means of purchase or payment.

Compensation trade (buy back) means that one party provides the other with equipment and technology, the payment of which is made by the goods manufactured with the equipment and technology, or by other goods.

Counter purchase refers to the sale of goods or services to a country by a company that promises to make a future purchase of specific goods from the country. In this way, each side of the transaction is settled separately on foreign exchange. Therefore, one transaction can go forward even though the second transaction needs time.

Switch trade is conducted by using a third party. For instance, company A in Poland has a counter purchase agreement with Greece, therefore, it gets a counter purchase credit valued US \$ 150,000. But the company cannot find the suitable goods in Greece. Then, from the Polish company, at a discount, the third party buys the credit at US \$ 225,000. Meanwhile, the third party switches this credit to Portuguese merchandiser at US \$ 235,000. The Portuguese merchandiser can use this credit to buy what he needs in Greece. In this transaction, the third party can earn US \$ 10,000 profits.

Offset trade is similar to counter purchase. For example, party A agrees to use the whole or partial sale proceeds to purchase products or services in party B's company. The difference from counter trade purchase is that party A can buy from any company in that country, not just from party B.

The advantage of counter trade is to reduce the risks, provide mutual benefits, gain entry into new markets, attract new buyers, and create stability for long term sales. The disadvantages are that the barter is often useless and unsalable goods and it often affects a country's production.

#### 1.4.6 Processing and Assembling Trade 对外加工装配贸易

It refers to the business activity of importing all or part of the raw and auxiliary materials, parts and components, accessories, and packaging materials from abroad,

and exporting the finished products after processing or assembling. The finished products are processed or assembled based on the requirement of foreign customers. And processor is paid with salary, management fee and cost of material.

It has been a major trend in IT industry, especially in China. Usually, China's main export markets of processing and assembling trade include USA, EU, Japan, China Taiwan province, AFTA (ASEAN Free Trade Area) and Korea. It plays a significant role in gaining foreign exchange, attracting foreign investment, enlarging job opportunities and accumulating industrial upgrading.

Types of processing and assembling trade include:

(1) Processing with customer's materials: the processor does not have to make foreign payment for the import, and charges only the foreign party's processing fee.

(2) Processing with import materials: under this type, the processor makes foreign exchange payment for the import materials and parts, and exports the finished products after processing. It is different from the previous one in the following aspects: commercial benefit, risk, relationship, ownership.

(3) Assembling with provided parts: It's similar to the first one. The assembling enterprise assembles the provided materials and parts according to the requirement, standard, and draft supplied by the customer, and then exports the finished products to the foreign customer who will sell the products. The assembling enterprise gets salary and fee from the foreign customer. If the additional costs of materials and parts occur, the foreign customer should make the payments.

Domestic enterprise sets up joint venture, cooperative business or wholly owned subsidiary overseas to process and assemble products. It is an output of capital, technologies, equipments and talents. In recent years, overseas processing and assembling trade has been developed dramatically in China. Not only state-owned enterprises, but also private enterprises are willing to adopt this trade form. Through overseas processing and assembling trade, China's enterprises can enlarge their export volume, learn advanced management skills from foreign partners, establish reputation and enhance the competitiveness abroad.

## 1.5 Cross-border E-commerce 跨境电子商务

Countless innovations devised in the past have changed business environment tremendously, but no one can compare the coming of modern information technology,

especially the internet technology. Furthermore, few technologies have changed business so comprehensively and dramatically and had such a profound and lasting impact on international trade as the multimedia and internet development brought to us. With the development of modern science and technology, paperless trade is tremendously popular and more environment friendly. Now we click a mouse to make a business transaction and the speed of business transaction can be as fast as a click.

E-commerce is booming around the world. In 2010, the United Kingdom had the biggest e-commerce market in the world when measured by the amount spent per capita. The Czech Republic is the European country where ecommerce delivers the biggest contribution to the enterprises' total revenue. Almost a quarter (24%) of the country's total turnover is generated via the online channel. Among emerging economies, China's e-commerce presence continues to expand every year. With 384 million internet users, China's online shopping sales rose to \$ 36.6 billion in 2009 and the Chinese retailers have been able to help consumers feel more comfortable shopping online. China's cross-border e-commerce is also growing rapidly. E-commerce transactions between China and other countries increased 32% to 2.3 trillion Yuan ( \$ 375.8 billion) in 2012 and accounted for 9.6% of China's total international trade. In 2013, Alibaba had an e-commerce market share of 80% in China.

### 1.5.1 What is E-commerce 何为电子商务

According to Wikipedia, Electronic commerce, commonly known as E-commerce or eCommerce, is trading in products or services using computer networks, such as the Internet. Electronic commerce draws on technologies such as mobile commerce, electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems. Modern electronic commerce typically uses the World Wide Web for at least one part of the transaction's life cycle, although it may also use other technologies such as e-mail.

Since 1979 when Michael Aldrich demonstrated the first online shopping system, E-commerce has had a history of more than 40 years. But it didn't start to boom until the turning of the 21 century. In 2013, US eCommerce and Online Retail holiday sales reach \$ 46.5 billion, up 10 percent. And in 2014, Overstock.com processes over \$ 1 million in Bitcoin sales. India's e-commerce industry is estimated to have grown more than 30% from a year earlier to \$ 12.6 billion in 2013. US eCommerce and Online



Retail sales projected to reach \$ 294 billion, an increase of 12 percent over 2013 and 9% of all retail sales.

### 1.5.2 Why E-commerce 为什么开展电子商务

**Various options and large catalogs:** Contemporary electronic commerce involves everything from ordering “digital” content for immediate online consumption, to ordering conventional goods and services, to “meta” services to facilitate other types of electronic commerce. Amazon.com offers a catalog of 3 million books on the internet and every customer has access to books published anywhere around the world.

**Flexibility:** E-commerce is recognized for its ability to allow business to communicate and to form transaction anytime and anyplace. Whether an individual is in the US or overseas, business can be conducted through the Internet. The power of e-commerce allows geophysical barriers to disappear, making all consumers and businesses on earth potential customers and suppliers. EBay is a good example of e-commerce business where individuals and businesses are able to post their items and sell them around the Globe.

**Low transaction cost:** Cost can be lowered in the way that there is no need to build big and decorated shopping stores or malls to demonstrate goods and to hire sales representatives in physical stores. Warehouses and inventories are much cheaper than that in big malls and department stores. On the other hand, the automation of customer service lowers costs, which makes it possible for a company to offer products at a lower price.

Due to the above mentioned advantages, it is simple and convenient to have access to any goods and services internationally.

### 1.5.3 Types of E-commerce 电子商务的类型

There are two major types of E-commerce transactions: business-to-customer (B2C) and business-to-business (B2B).

B2C, or online retailing, consists of selling retail items on the Internet. It is a form of non-shop retailing.

B2B consists of selling goods and services from one business to another. For example, IBM sells consulting services to a local bank through the Internet. B2B E-commerce has already been at least five times as big as B2C business. The point is that while the potential of the B2C business market is measured in billions, B2B

E-commerce is measured by trillions.

#### 1.5.4 Future of E-commerce 电子商务的前景

Due to its advantages and speed, the convenience of E-commerce is destined to grow in a faster speed. Economists have theorized that E-commerce ought to lead to intensified price competition, as it increases consumers' ability to gather information about products and prices. Research by four economists at the University of Chicago has found that the growth of online shopping has also affected industry structure in two areas that have seen significant growth in E-commerce, bookshops and travel agencies.

With the advance of E-commerce, there is an increasing number of companies that make things and sell those things directly to consumers through the Internet, eliminating the intermediary companies that once shipped and store the goods. We would buy goods directly from producers and manufacturers instead of from intermediaries. This change would have a profound effect on local shopping malls, downtown malls, and retailing in general.

### 1.6 How to Study the Course 如何学习本课程

The objective of this book is to sum up the experiences and principles, generalize and concise international business rules and norms, analyze and introduce the standard procedures, techniques and various methods to conduct business internationally in a systematic way. So the course is to train learners in three aspects: knowledge, language and skills that are required for the practice of international trade.

After learning the course, learners will be equipped with knowledge in the following areas: commodity name, quality and quantity of goods, packing, price terms, cargo transport, insurance, payment, commodity inspection, claim, arbitration, negotiation, and performance of contracts, etc. Language is naturally acquired during the process of studying. Practical skills including negotiation, problem analysis and solving, communication in oral and written form, preparing various documents and some management skills would be trained in daily life practice. The ultimate goal after studying the subject is to use these techniques skillfully to guide our practice in practical work.

## Words and Expressions

productivity	[prɒdʌk'tɪvəti]	<i>n.</i> 生产力
inventory	['ɪnvəntəri]	<i>n.</i> 库存
tariff	['tærɪf]	<i>n.</i> 关税
due	[dju:]	<i>adj.</i> 到期的
quotas	['kwəʊtəs]	<i>n.</i> 定额
agent	['eɪdʒənt]	<i>n.</i> 代理人; 经纪人
patent	['peɪnt]	<i>n.</i> 专利
trademark	['treɪdmɑ:k]	<i>n.</i> 商标
royalty	['rɔɪəlti]	<i>n.</i> 专利税
exclusive	[ɪks'klʊ:sɪv]	<i>adj.</i> 独家的
pool	[pu:l]	<i>v.</i> 合资经营; 联营
equity	['ekwɪti]	<i>n.</i> 普通股; 股票
nationalization	[,næʃnəlaɪ'zeɪʃən]	<i>n.</i> 国有化
optimize	['ɒptɪmaɪz]	<i>v.</i> 优化
optimization	[,ɒptɪmaɪ'zeɪʃən]	<i>n.</i> 优化
conclude	[kən'klu:d]	<i>v.</i> 签订(合同)
distributor	[dɪs'trɪbjʊtə]	<i>n.</i> 经销商
remuneration	[rɪ,mju:nə'reɪʃən]	<i>n.</i> 赔偿; 赔偿金
principal	['prɪnsəpl]	<i>n.</i> 委托人
consignee	['kənsaɪ'ni:]	<i>n.</i> 代销人
consignor	[kən'saɪnə]	<i>n.</i> 发货人; 委托人
proceeds	['prəʊsi:dz]	<i>n.</i> 收益; 实收款项, 货款
bid	[bɪd]	<i>n.</i> / <i>v.</i> 投标
offer	['ɒfə]	<i>v.</i> 出价
reciprocal	[rɪ'sɪprəkl]	<i>adj.</i> 互惠的
barter	['bɑ:tə]	<i>n.</i> 以货易货
intermediary	[,ɪntə'mɪdiəri]	<i>n.</i> 中间商
tangible goods		有形商品
social well-being		社会福利
undervalued currency		货币贬值

trade surplus	贸易盈余
trade deficit	贸易赤字
mercantilism	重商主义
absolute advantage theory	绝对优势理论
comparative advantage theory	相对优势理论
factor endowment theory	要素禀赋理论
Heckscher-Ohlin theory(H-O theory)	赫克歇尔-俄林定理
Adam Smith	亚当·斯密
David Ricardo	大卫·李嘉图
industrial competitiveness	产业竞争力
economy of scale	规模经济
Lester's trade protectionism	李斯特贸易保护理论
super-protective trade theory	超保护主义理论
obsolete industry	夕阳产业
newly developing industry	朝阳产业
macro-economic regulation	宏观经济调控
strategic trade policy	战略贸易政策
foreign currency	外汇
currency manipulation	外汇管控
anti-protectionism	反贸易保护主义
the final product	制成品
wholly owned operation	独资公司
regional trade agreement (RTA)	区域贸易协定
multilateral integration	多边一体化
free trade area	自由贸易区
customs union	关税同盟
common market	共同市场
economic union	经济同盟,经济共同体
ASEAN	东南亚国家联盟
CAFTA(China-ASEAN Free Trade Area)	中国-东盟自由贸易区
NAFTA	北美自由贸易区
tariff reduction	关税减让

processing trade	加工贸易
favorable trade	贸易盈余, 贸易顺差
service trade	服务贸易
invisible trade	无形贸易
Lylord's of London	伦敦劳合社
invitation to tender	招标
submission of tender	投标
import and export mix	进出口商品结构
primary product	初级产品
finished industrial product	工业制成品
Uruguay round	乌拉圭回合
GATT	关贸总协定
sole distribution	独家经销
selective distribution	特约经销
intensive distribution	一般经销
general agent	总代理
exclusive agent(sole agent)	独家代理
commission agent	一般代理; 佣金代理
Christie's	佳士得拍卖行
Sotheby's	苏富比拍卖行
Lyon and Turnbull	(伦敦)里昂和坦布尔拍卖
公司	
Bonhams	伦敦邦汉姆拍卖行
compensation trade	补偿贸易
counter purchase	回购
switch trade	转手贸易
offset trade	抵消贸易
processing with customer's materials	来料加工
processing with import materials	进料加工
assembling with provided parts	来件加工
English auction	英式拍卖; 升价拍卖
Dutch auction	荷兰式拍卖; 降价拍卖
sealed-bid auction	密封递价拍卖
transaction cost	交易成本

## Exercises

### I . Questions

1. What are the differences among foreign trade, international trade, overseas trade and world trade?
2. What is the significance of foreign trade to a country?
3. What is the theoretical basis of foreign trade in your opinion?
4. On December 11, 2001, China became a member of WTO. What is the significance of China's entry? Try to analyze this from your own perspective.

### II . True or False

1. International trade is the exchange of goods between nations. ( )
2. Countries trade with each other partly because there is a cost advantage. ( )
3. International trade can greatly expand the market, which enables the suppliers to take advantage of economies of scale. ( )
4. Exchange rate fluctuations may bring forth many problems for international trade. ( )
5. When we provide shipping insurance service for foreigners, it can be seen as an example of invisible trade. ( )
6. Trade surplus means that a country's imports exceed its exports. ( )
7. Trade forms include both direct ones like exportation and importation and indirect ones like agency and distribution. ( )
8. Counter-trade means the exchange of goods for goods. ( )
9. In counter-purchase, the value of counter-trade goods has to equal that of the export. ( )
10. The goods exported on the consignment remain the title to the exporter. ( )

### III . Multiple Choice

1. The cost for the production will decrease if the goods are produced on a large scale. This is called \_\_\_\_\_.

- A. economy of scale  
C. specialization
- B. variety of style  
D. patterns of demand
2. \_\_\_\_\_ refers to an exchange of services or assets between countries.  
A. Invisible trade  
C. International trade
- B. Visible trade  
D. Balance of trade
3. Invisible trade consists of such items EXCEPT \_\_\_\_\_.  
A. transportation services across national borders  
B. foreign tourist expenses  
C. insurance services across national borders  
D. product exchange across national borders
4. In terms of the direction of goods and service, it can be divided into the following except \_\_\_\_\_.  
A. exporting  
C. transit trade
- B. importing  
D. extrepot trade
5. If a company imports products manufactured 100% from a certain foreign nation, it is called \_\_\_\_\_.  
A. importing  
C. processing trade
- B. general trade  
D. goods trade
6. On terms of settlement, most of international trade is \_\_\_\_\_.  
A. free-liquidation trade  
C. ordinary trade
- B. barter  
D. service trade
7. Which of the following is not the advantages of e-commerce? \_\_\_\_\_.  
A. Low transaction cost  
C. Great transaction quantity
- B. Flexibility  
D. Simple and convenient
8. \_\_\_\_\_ is the difference between the values of the goods and services that a country exports and the value of the goods and services that it imports.  
A. Trade balance  
C. Trade deficit
- B. Trade surplus  
D. Trade barrier
9. Which is not correct about the trade form of agency? \_\_\_\_\_.  
A. An agent does not need to have a stock  
B. Generally speaking, agents are usually paid by commission  
C. An agent acts as a middleman between the principal and the customer  
D. An agent can operate out of the marketing area authorized by the principal
10. Which is WRONG about the differences between agency and distribution?

- \_\_\_\_\_.
- A. A distributor buys from the principals
  - B. A distributor takes title to the goods
  - C. Under distribution, there is no contractual relationship between the principal and the customers
  - D. A distributor gains the profit from commission
11. Who has the exclusive right of selling the goods in a marketing area at the price he fixes? \_\_\_\_\_.
- A. Consignor
  - B. Exclusive distributor
  - C. Exclusive agent
  - D. Bidder
12. As to the exclusive agent and exclusive distributor, which is correct? \_\_\_\_\_.
- A. The former is sales relationship, the latter is agency relationship
  - B. The former is agency relationship, the latter is sales relationship
  - C. They both are agency relationship
  - D. They both are sales relationship
13. In international trade, the goods exported are “paid for” by a counter-supply of goods and the value of the counter-trade goods is equal to that of the export goods. We called this \_\_\_\_\_.
- A. full compensation
  - B. switch trade
  - C. counter-purchase
  - D. consignment
14. In international trade, the seller ships the goods to the buyer when there is no purchase made, the seller retains title to the goods until the buyer sold them. This is \_\_\_\_\_.
- A. bidding
  - B. Agency
  - C. consignment
  - D. auction
15. As to consignment, the ownership of goods belongs to the \_\_\_\_\_.
- A. agent
  - B. consignee
  - C. consignor
  - D. distributor
16. Which description of consignment is correct? \_\_\_\_\_.
- A. Consignee can sell the goods according to his own will
  - B. It is a spot transaction (即期交易, 现汇交易) with real goods
  - C. The relation between the consignor and consignees is sale relationship
  - D. All expenses and risks of goods are undertaken by consignor before the goods are sold
17. How is the price in bidding decided? \_\_\_\_\_.
- A. By the buyers



- B. By the offers
- C. By the sellers
- D. By choosing the most advantageous one from the offers of bidders

#### IV. Case Analysis

1. Chinese delegation arrives for 5th China-US dialogue (2013-07-10, China Daily)

WASHINGTON—A Chinese delegation led by Vice Premier Wang Yang and State Councilor Yang Jiechi arrived in Washington Tuesday for the fifth China-US Strategic and Economic Dialogue (S&ED), which will start Wednesday.

**Question:** Why do Chinese trade delegates visit other countries regularly? Please analyze the reasons behind the phenomenon.

2. Company A in China was going to export light industrial products to country B. The products had been stocked for a long period. It was overstocking. Therefore, through deep negotiations, the parties decided to sell the products overseas by consignment. When the products were delivered to B's company, A found that the competition of these products was very keen. Although the consignee made great efforts to sell the products, the sales were not satisfied. At last, A had to ship the products back to China.

**Question:** Please analyze the case and explain what we can learn from this case.

3. Read the following news and answer the question.

Shanghai to build free port (2009-12-16, China Daily)

*Shanghai plans to build an international free port by 2020 to make the city an international shipping center and an attraction for customers across the country, China Economic Weekly reported Tuesday. It will be the mainland's first free port. Shanghai's municipal government decided to develop the area around the Yang Shan bounded port and continues the development to its 3 bonded zones and 3 ports during China's 12th Five-year plan.*

**Question:** What is the significance of building such a free port for both Shanghai and China?

**Answers:**

II. 1-5 FTTTT 6-10 FFFFT

III. 1-5 AADDB 6-10 ACABD 11-15 BBCCC 16-17 DD