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PERCEPTION OF TRADER TOWARDS INTERNATIONAL TRADE: A DIAGNOSTIC STUDY

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ABSTRACT

In this article the authors have identified the significant factors that influence international trade in the light of traders. Foreign exchange transaction may prove to be helpful in managing currency risk which is associated with import and export of goods. The significance of multi-national firms over international trade has been discussed along with the impact of balance of payment over international trade and the measures taken by the government to create a balance in balance of payment and balance of trade. The considerations of countries while determining exchange rates have been elaborated in this paper. The numerous factors that affect decision making for International Traders and the rectifications are also discussed in this paper. The paper also discusses how various aspects induce an industry to change its course or completely shut down and how to deal with these lingering threats. On the basis of literature reviewed the variables that have been selected that may influence international trade include; trade quotas, brand name, WTO, NAFTA, SAFTA, ASIAN, GATT, e-commerce, international payment systems, product specialization, home industry, foreign reserves, government regulations, international market, dumping duties, trade policies, social crises, economic crises, balance of payments, change in value, and supply than demand. A questionnaire will be developed on the basis of above-mentioned variables. The respondents of questionnaire will be the traders in the international market, importers and exporters. The data will then be handled by the use of SPSS. Regression analysis will be conducted to identify the significant variables that have major impact on international trade. At the end the recommendations will be mentioned for getting maximum benefit from international trade.

Keywords: Perception of Trade; International Trade; Exchange Rate; Factors.

INTRODUCTION

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The term international trade refers to the exchange of goods and services between the two countries. World's economy gets boost from the activity of international trade. Due to international trade prices of the goods that are traded and the supply and demand of goods are highly affected by the global events. The consumers of different countries get an opportunity to use the goods and services that are not available in their home country. Any product sold in the global market by the home country is an export and any product purchased from the global market by the home country is import (Parikh, 2004). In this article the authors have analyzed all the factors that can influence positively or negativly on international trade of the countries.

Multinational firms also have a significant impact over the international trade of the world. Multinationals are the most persuasive types of firms. A firm has to be said as a multinational if it has assets and employees in more than one country. If distinction has to be created on above mentioned reasons then there are almost 61000 companies in the world that qualifies as multinational firms. The management of a multinational firm is conceptual, critical, and typical in comparison of management of a local firm (Guillen, 2005). Governments of all the countries try to attract multinational firms. It is very important to analyze how far the positive effect offsets the cost of the allowance, which the host country gets because of the arrival of multinational firms.

International trade is also affcted by foreign exchange rate risk. Foreign exchange transactions may prove to be helpful in administration of the currency risk. Currency risk that is connected with exporting and importing goods denominated in foreign currency, investing or borrowing overseas, repatriating profits, converting foreign currency denominated dividends, or settling other foreign currency contractual arrangements (Sivakumar & Sarkar, 2006).

Balance of payment of a country is highly affected by international trade and it also affects the overall international trade of the world. Balance of payments is composed of two things; the current account and the capital account. Transactions associated with trade of goods and services, investment incomes, and the capital account are known as current

accounts, whereas financial flows like purchase of bonds or equities of foreign direct investments are termed as capital accounts (McCarthy, 2004).

The measures taken by the governments to restrain trade are basically those steps that are taken to obstruct limit or even eliminate market competition. Normally trade restraints are imposed on any particular industry, occupation or commercial transactions. Thus trade restraints affect particular occupations, industries, or commercial transactions. Despite the fact that it is supposed to be an illegality but still a restraint of trade may be legal or illegal. The legality or illegality of a restraint depends upon intentions and effects of those restraints. Restraint of trade has a vast variety. Restraint of trade ranges from private activity like contracts to contracts between the two parties for a particular product or service or to government regulation like licensing requirements or determining of quotas. Common parties that are normally used as trade restraints are non-competition clause, exclusive dealing arrangements, and price discrimination.

Along with all the factors discussed above currency is also one of the most important factors that influence international trade. International trade is also affected by the nature of currency. In this competitive world a country must have sufficient currency to survive successfully. Here the term currency is not referred to as paper money that is commonly being used. Any medium of exchange that can be used to purchase or sell goods or services can be termed a money but not necessarily money (Bahmani-Oskooee &Techararanachai, 2001)

Bank reserves of a country also play a very positive influence on international trade and are also highly affected by international trade. Bank's holdings in the form of deposits in accounts with central bank of the country are known as bank reserves. The currency that is physically held with the bank's vaults along with bank's holdings in the form of deposits in accounts with central bank of country is known as bank reserves. Average reserve maintenance along with reserve requirements can provide a very safe buffer against fluctuations of the money market (Arestis & Glickman, 2002).

To better understand the considerations of a country while determining the exchange rate policy and monetary policy of that country first monetary policy and exchange rate

policy have to be understood. The exchange rate is the price of foreign currency in terms of local currency which determines inflation rates. Decision of determination of exchange rate is a very critical decision because international trade and economy of a country is affected by many channels due to exchange rate. Inflation can also be determined through foreign currency because of cost side. Thus it has significant effect on effective demand on goods and services because of price (Frenkel & Taylor, 2005).

China is a leading industrial country with over 500 percent increase in trade over the last decade. While it may be a leading exporter in the market, China has also increased its imports up to 40% from countries such as Taiwan, Russia, South Korea and Singapore. In Pakistan during the last few years the units of knitwear industry have reduced to 500 from 1500 and this decrease is still in continuation. There are numerous factors that compel an industry to shut down. Buyer insolvency, credit risk, regulatory risk and political risk are some of the factors affecting these shifts. Thus it is very important to find out the perception of international traders over the significant factors that influence international trade.

LITERATURE REVIEW

Multinational firms work in other countries successfully and profitably because governments of the host countries facilitate them. Without the support and favorable relations with the government of host country multinational companies cannot survive. It is difficult to understand the distinction between vertical and horizontal expansion by the multinational companies which have a major impact on international trade. The major reason behind vertical expansion is competitive advantage in host countries. When transportation cost is high, currency exchange rates are unfavorable, or the sales to host country while producing in home country is unfeasible only then vertical expansions take place. Major reasons behind increasing exposure of firms to foreign exchange risk in the current era are adoption of foreign exchange transactions, the rapid globalization of national economies and the attempts by multinationals to seek investment opportunities and markets beyond their immediate borders (Hagelin & Pramborg, 2002).

Adler and Dumas (1984) elaborates that even those firms, whose entire operations are in the home country may face foreign exchange risk. Depending upon the maturity risk exchange rates during the contracts are quoted as spot exchange rates, value today exchange rates, value tomorrow exchange rates or forward exchange rates by multinational firms (Silvia, 2006). Where the maturity date is two business days after the trade date is known as a spot exchange rate. Transactions with spot exchange rates are commonly referred as spot contracts.

Foreign exchange transactions where the maturity date is the same date as the trade date the exchange rates applicable are termed a value today exchange rate. Transactions with a value today exchange rate are commonly referred to as value today contracts. Foreign exchange transaction where the maturity date is the business day after the trade date is known as a value tomorrow exchange rate. Value tomorrow exchange contracts are transactions for value tomorrow. Foreign exchange transaction where the maturity date is more than two business days after the trade date is referred as forward exchange rate. Transactions for all such maturity dates are commonly referred to as forward exchange contracts (Hagelin & Pramborg, 2002). A forward margin may be a positive or a negative number. Forward margin is a positive number when I is added to the spot exchange rate. Where as a forward margin is a negative number when it is subtracted rom the spot exchange rate. Foeriegn exchange rates and currency values hold core importance for an International trader who wants to shift his industry. The view of obtaining maximum revenue with minimum costs depends greatly on the value of the currency and inflation. These are also the reasons why a trader looks for a new market to expand his business to avoid dormancy in his business.

Majority of the countries on so many goods have not imposed any formal import quotas in the last few years. But in fact there has been a continuous increasing trend in the various kinds of export restraints (Turner & Tuveri, 2006). A restriction set by the government on the quantity of goods that can be exported out of a country during a specified period of time is known as a voluntry export restraint. These restraints are typically implemented upon the insistence of the importing nations. Currency is a form of money, where money serves as a medium of exchange. Currency as a symbol of money helps to store value. It also acts as a standard of value. The value of currency depends upon the nature of

currency. There are several considerations to be kept in mind while choosing the currency in which the company should trade. The most important point of a currency is liquidity of the currency and its volume. If it is less than the required volume then it leads to deflation. On the other hand if the liquidity is more than the required volume then it will lead to inflation. Currency is evolved from two basic innovations; first is the use of counters to assure that shipments arrived with the same goods that were shipped, second is with the use of silver ingots to represent stored value in the form of grain.

The level of bank lending, deposit rates and the quantity of credit and deposits are also influenced by reserve requirements in the long run. The key issues to be decided are; what level of reserves is required, whether they are remunerated in the form of interest, and whether they can be averaged over some specified period of days. Minimum reserves requirements are set by the central banks of some nations. Banks commonly wish to hold some reserves even when no requirements are set. This is called desired reserves, against unexpected events. Unexpected events may be payment of checks written by the depositors or excessive withdrawals of the account holders.

The nature of the currency of any country plays a very important role in the economy as well as in the iternational trade of any country. The currency of those countries that are backed by gold or foreign exchange comparatively the chances of inflation in those countries are very low. Another very important factor that determines inflation is the reserves level of the country. Reserve levels have their own importance to run banks efficietly and effectively. Bank reserves also supports the countries to meet the domestic requirements.

The interaction between Trade and Competition Policy is another issue faced by WTO and it addresses how domestic and international competition policy instruments, such as antitrust or competition laws interact with international trade. Under the Doha Ministerial Declaration (2001), the study work within the Working Group on the Interaction between Trade and Competition Policy (WGTCP) focused on clarifying the following factors.

- Core principles, procedural fairness, non-discrimination and transparency
- Modalities for voluntary cooperation

- Support for progressive reinforcement of competition institutions in developing countries through capacity building.

Rules and procedures by which different national currencies are exchanged for each other in world trade are known as international monetary systems. Such a system is necessary to define a common standard of values for the world's currencies. Gold standard was the first modern international monetary system. Gold was the only standard of value under this system. According to this system a nation that exported more than its imports would receive gold in payment of the remaining balance. This influx of gold increased the prices of gold resulting in decrease of domestic currency value. The world supply of money would necessary limited by the world's supply of gold which is major defect of that system. On the other hand any unusual increase in gold supply, such as the discovery of a gold mine, would cause the prices of those products to rise abruptly that were exchanged with gold.

International trade is affected by exchange rate through many channels. Inflation and monetary policy are significantly affected by exchange rate and up to some extent exchange rates are also affected by monetary policy. Those countries that have not chosen permanently fix exchange rate their monetary policy based upon trinity of a flexible exchange rate can work well in the long run (Braun, 2008).

In the formulation of monetary policy clear policy implication does not how ever end the debate about how exchange rate should be taken into account. Even if one excludes capital controls and sterilized exchange market intervention from consideration because they are not effective or attractive ways to de-link exchange rate movements from the domestic interest rate, some crucial questions remain. How should the instruments of monetary policy the interest rate or a monetary aggregate react to the exchange rate? Should policy makers avoid any reaction and focus instead on domestic indicators such as inflation and real GDP? Or is "the rule of thumb" that "a substantial appreciation of the real exchange rate furnishes a prima facie case for relaxing monetary policy". However, if one accepts the trinity concept of monetary policy in an open economy, then the role of the exchange rate in the preparation of monetary policy should be considered (Taylor, 2007). Higher interest rates have also a

significant impact on lower wage rates which results in lower consumption. This aspect has been ignored many a times.

If the countries are sufficiently small so that each alone has no effect on the prices in market outside its border, then GATT negotiations can't help the governments of these countries to get more out of what they don't really want. The first statement holds under the standard conditions of tariff analysis, and remains valid whether governments are concerned only about real national income or value as well the distributional consequences of their tariff choices (Cologne, 2002).

DATA COLLECTION AND ANALYSIS

On the basis of the literature that has been studied some variables have been selected. On the basis of those variables a questionnaire has been developed. The questionnaire was responded by the international traders to find out which variables have significant impact over international trade according to the traders. The questionnaire has been attached as an annexure at the end of the paper through which the data has been gathered. The data that was collected through questionnaire was handled by using SPSS to check the relationship between the variables and to check the dependence of international trade on the independent variables according to international traders. The regression analysis has been applied to check the direction of the variables. Direction of the variables will guide that which variable has positive impact and which variable has negative impact on the international trade. The importance of the variable can be seen through the significance level.

Regression

TABLE 1

Model Summary

Model	R	R Square	Adjusted R Square
1	.964[a]	.930	.904

TABLE 2

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
	Regression	55.563	21	2.646	36.048
	Residual	4.184	57	.073	
	Total	59.747	78		

TABLE 3

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.949	.739		5.343	.000
	Trade Quotas	.064	.038	.110	1.681	.098
	Brand name	.151	.033	.275	4.516	.000
	WTO	.036	.035	.043	1.027	.309
	NAFTA	.018	.034	.021	.522	.604
	SAFTA	-.011	.027	-.016	-.413	.681
	ASIAN	-.006	.038	-.007	-.160	.874
	GATT	-.036	.023	-.064	-1.619	.111
	e-commerce	.110	.024	.249	4.533	.000
	International payment systems	.117	.034	.201	3.448	.001
	Product specialization	.034	.038	.059	.892	.376

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Home Industry	.051	.028	.078	1.840	.071
Foreign Reserves	.012	.016	.031	.758	.451
Government Regulations	.019	.046	.022	.418	.677
International Market	.045	.027	.069	1.631	.108
Dumping Duties	-.050	.038	-.055	-1.312	.195
Trade Policies	.095	.044	.108	2.190	.033
Social Crises	.009	.020	.017	.440	.661
Economic Crisis	.049	.040	.056	1.213	.230
Balance of Payments	.155	.047	.183	3.331	.002
Change in Value	.158	.045	.169	3.491	.001
Supply than demand	-.008	.046	-.010	-.182	.857

a. Dependent Variable: International Trade

The research equation that we can have there on the basis of above mentioned analysis:

$Y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6$

X1 = Brand name

X2 = e-commerce

X3 = International Payment System

X4 = Trade Policies

X5 = Balance of Payments

X6 = Change in value

CONCLUSION

This paper focused on the different variables that directly affect international trade According to the perception of traders. A questionnaire designed over twenty two variables was filled and on the basis of that six variables have a significant effect over international trade. On the basis of regression passed brand name, e-commerce, international payment system, trade policies, balance of payments, and change value or value addition are the most significant variable that effect international trade.

Balance of payments is also a critical factor. As balance of payments is inversely proportional to balance of payments thus the countries should pay attention towards this as well reason being when the balance of trade is in surplus the balance of payment will be in deficit. On the other hand if the balance of trade is in deficit then the balance of payment will be in surplus. This phenomenon directly affects the foreign exchange rate and hence affects the prices of imports and exports. This at the same encourages the countries to go for specialization means to produce maximum in which they are specialist. Thus in other words it can also be said that international trade helps to improve productivity. But still opponents of free global trade insist that it leads to inefficiencies for the developing nations as they prefer to import rather to produce. However, it cannot be denied that international trade support countries to fully utilize their resources up to the extent that they balance of payments and balance of trade becomes balance rather than deficit or surplus.

This paper has also focused on the risk of foreign exchange that the countries face. The increasing number of foreign players in the international market along with substantial increase in the trade of foreign exchange has caused competition and rate determination on the basis of demand and supply. Only those countries can survive without international trade that are abundant in natural resources, fortunate in their climate, and are potentially well in technology. But despite the above mentioned fact it is doubtful that any country may enjoy the standard of life that they could enjoy in the presence of imports and exports. International trade helps all the countries to specialize in the fields in which they are good. It also helps in optimal utilization of resources thus helping in reduction of prices and economic growth. But at times governments restricts foreign trade to protect the domestic industry.

Thus from the whole discussion it can be concluded that while determining the trade policy a country must inculcate international payment system, balance of payments, international monitory policy, inflation rate, employment rate, interest rates rate etc. This paper has tried to create a link between that factors that should be given top priority while determining international trade policy. The indirect effect that may have advantages as compared to direct effects because it results in fewer and less erratic fluctuations in the economic activities.

In the annual report to WTO member on the developments in the international trading environment, published in 24th November 2010, Director-General Pascal Lamy called for increased vigilance to three potential dangers facing world trade.

- An increase in protectionist pressures generated by global imbalances, at a time when the political consensus in favor of open trade and investment is already under strain from stubbornly high levels of unemployment in many countries.
- The danger of a steady accumulation over time of measures that restrict or distort trade and investment
- The challenge of managing the trade and investment impacts of stimulus and bail-out measures taken in response to the crisis.

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