IMPLICIT CONSTRAINTS AND BARRIERS TO INTERNATIONAL TRADE

Joseph C. Purcell, Ben T. Ott, and Charles Williams

Most of the barriers to international trade addressed under trade liberalization initiatives are explicit. These are overt government actions to prohibit or restrict international trade. In addition, there are numerous implicit barriers or problems encountered in international trade that do not exist, or are of lesser importance in domestic markets. Insight and understanding of these problems will expedite international trade. This paper summarizes some of the important implicit barriers to international trade with suggestions for improving the competitiveness of the USA in export markets.

LANGUAGE BARRIERS

It is fortunate for Americans that English is the most commonly used language in international commerce, since they are unique in their reliance on one functional language. In contrast, with the exception of the United Kingdom, many Europeans have mastered two or more tongues, while the Japanese have developed multilingual skills as their domination of international commerce and finance increases.

For the seller, multi-fluency provides a decided advantage, as international contractual agreements are often written in two or more languages. Sellers with the ability to communicate in the prospective buyer's own language, enhances the seller's competitive position. This is especially important in a competitive international marketplace.

A first requirement for acquiring and improving language skills is that of identifying the more important targeted markets and their working languages. Americans have two options for coping with language barriers: the most obvious and acceptable is to improve language skills with education. Another option is for American firms to employ citizens of the targeted markets to sell their products. When the stakes are high both options are desirable.

Another communication barrier to international trade is a different set of weights and measures. Most of the world employs the metric system, which is a handicap for USA firms selling in many targeted export markets. Prices quoted in different currencies for different units of measure require a dual translation. One obvious solution is that the USA adopt the metric system.

Cultural differences among nations may also be a limitation on international trade. It is important that sellers prepare products to conform with the preferences of people in targeted export markets. In many cases promotional activities may be necessary to familiarize people in targeted export markets with new or modified products.

CREDIT AND FINANCIAL RISK

Credit and financial risks are much more pronounced in international trade than in a domestic market, which erects another barrier. Added to the usual inherent risk of product price variation, there is also the risk of variation in currency exchange rates. Changes in currency exchange rates may also exist where there are no language barriers; as in trade between the USA and UK.

Distance and time are also of great importance in international trade. The lapse of time for moving commodities depends both on the distance and mode of transportation; which may include truck, barge, or rail in the seller country; ocean freight; and truck, barge, or rail in the receiving country. In the case of high unit value and perishable products, air freight movement will greatly reduce the elapsed time.

Differences in laws and legal systems between countries constitute an implicit barrier to international trade, over and above laws pertaining explicitly to international commerce. The seller can address these obstacles, however, through knowledge of the laws that may have an impact on the movement of products in targeted export markets. In the case of food products, different health or safety standards may exist in foreign markets. An example is the recent EC ban on meat imports produced by animals implanted with growth hormones, specifically applying to meat imports from the USA.

Accounting and business practices differ among nations, of which sellers or their representatives should be familiar in the targeted export markets. Likewise, buyers should be knowledgeable of the accounting and business practices of exporting countries.

Besides direct seller-buyer interactions, international banking systems play an important role in international trade. Banks buy and sell currencies and transfer funds from buyers' account to sellers' account. Letters of Credit in international trade substitute a bank's credit worthiness for that of the buyer. Under this system, a bank verifies or underwrites the buyer's financial ability to pay when appropriate documents are presented to the bank. The Letter of Credit precludes the necessity of sellers being familiar with the financial condition of buyers in foreign countries. In addition to letters of credit, bid and performance bonds are often needed to expedite international trade. Thus, the international banking system reduces the financial risk and expedites international trade.

Buyers also face additional risk in international transactions, especially under advance cash payment, which includes both quantity and quality of product contracted. Shrinkage (moisture loss), spillage, inferior quality, foreign materials, and spoilage are among the risks incurred by buyers. These risks are especially important in trade in agricultural commodities and food products, and may be partially alleviated by penalties and premiums in the purchase contract and administered by third party arbiters. Also, attaining an image of reliability on the part of sellers expedites international trade.

POLITICAL AND ECONOMIC RISKS IN INTERNATIONAL TRADE

Political and economic risks abound: unstable governments, civil strife and revolt, terrorist activities, military confrontations among nations, unstable economies, and changing laws or restrictions on both imports and exports.

The USA government and others have disrupted international trade already in progress. Most noteworthy are the USA-imposed export embargoes. A 1974 embargo on soybean exports was imposed to constrain price increases and preserve supplies for the USA market. A subsequent embargo was imposed in 1980 against the USSR for unacceptable (to the USA) military aggression. These actions conveyed the image of the USA being an unreliable supplier.

Government instability and the unreliability of buyers and sellers impede international trade. Traders may not trade during civil strife or revolt within a country. Terrorist activities may also impede international trade for both air and sea transport. Military confrontations limit or prohibit international trade among other nations as well as the combatants.

International debt also has an impact on international trade. Nations or producers within debtor nations are encouraged to increase exports and limit imports in order to service debts. A recent example of international debt limiting imports, and encouraging exports, are the sanctions imposed on several Latin American nations by the International Banking System. Improved productivity in these countries should encourage the International Banking System to lift these sanctions. Such actions would improve export opportunities for other countries.

Unstable economies are characterized by high rates of price inflation and unstable currencies. This increases the risk of sellers doing business in these countries. Several Latin American nations, as well as others around the globe, have been subjected to extremely high rates of price inflation. Economic stability and stable currencies would enable these countries to engage in a higher level of international trade.

The 1988-89 European Community ban on meat imports from animals treated with growth hormones threatens to reverse prior progress to liberalize international trade. The USA has threatened to ban a like amount of imports from the EC in retaliation. Although the EC ban was under the guise of protecting the health of EC consumers, it is typical of implicit barriers to international trade.

SUMMARY

In addition to the explicit barriers imposed by nations on international trade, implicit barriers also abound. Barriers to international trade include the financial risks related to distance, lapsed time, and currency exchange rates. Knowledge on the part of traders of the financial reliability of their trading partners is reduced by distance and different languages. However, the International Banking System plays an important role in expediting international trade. Also, the USA educational system can improve the language capability of its citizens.

Political and economic instability around the globe is another major set of implicit barriers to international trade. These include hot and cold confrontations among nations, terrorist activities, changing consumer safety standards, and the like. Addressing and finding solutions to these implicit barriers to international trade will obviously enhance the benefits to be derived from comparative advantage across international boundaries.

Joseph C. Purcell is Professor of Agricultural Economics, Georgia Experiment Station, University of Georgia; Ben T. Ott and Charles Williams are Vice Presidents, International Division and Agribusiness Division, respectively, C and S National Bank, Atlanta, Georgia, USA.

REFERENCE

Proceedings: Southeastern Conference on International Trade, April 29-30, 1988, Atlanta, Georgia, USA. Sponsored by the Institute of Continuing Legal Education in Georgia.