

**CASE #2 EQUIPMENT AND FINANCE TRADE**

TRAINING DEPARTMENT

*[Assigned on 7/19/2021. Execute before 12:00 PM ET NOON on 7/20/2021]*

**CASE #2 EQUIPMENT AND FINANCE TRADE****LEARNING OBJECTIVES**

- 1 – To know more about the sphere of equipment/material trade and definition of trading and equipment trade.*
- 2 – To have an overview of international trading and its policies.*
- 3 – To identify pros and cons of equipment trade industry.*

***International trading is an exchange of goods, services and finances across the international territories or borders, which is an important way to develop strong relationships among various countries to promote development.***

*Trading and Equipment Trade*

Trading is also known as trade finance, which is a way to participate in both local and international financial markets to break customary buy-and-hold investing activity. Traders seek out profit from short-term pricing tactics in both decreasing and rising markets, rather than earning profits from long-term up-trends in the financial markets. Trader is an entity or person in financial market, who is involved in purchasing and selling of financial instruments such as bonds, stocks, derivatives and commodities, within the capability of hedger, speculator, agent or arbitrageur. There are several designations and categories for distinctive types of traders in financial markets, such as Day trader, High-frequency trader, Floor trader, Stock trader, Rogue trader and Pattern day trader.

Equipment trade is a kind of trade in which exchange of equipment takes place within a country or worldwide. The equipment can range from small electronic equipment to heavy construction equipment. Technological advancement, such as information technology, has encouraged the electronic equipment trade activities among several countries of the world. Such trade has a significant impact on the gross domestic product (GDP) in several countries such as United States, China, Germany and etc. The motivation and behavior among the parties involved in international trade is quite similar to domestic trade with more sophisticated policies and trade conditions. International trade is more costly than local or domestic trade, because additional

costs are added such as tariffs, costs linked with legal system, culture or language difference of the country and time costs due to delays in crossing border for trade.

The other difference between international and domestic trade are factors of production, such as labor and capital, which are normally more itinerant within a country than in other countries. Therefore, the international trade is usually restricted in services and goods, and just limited in labor, capital or any other factors of production. The trade in services and goods can also serve as an alternate for trade in factors of production. Rather than importing the factor of production, a country can import goods such as equipment, which can intensify the use of available factors of production. The sphere of equipment/material trade has become wider due to international trade, as now nations can freely exchange their abundant valuable resources worldwide on clear and well-defined terms and conditions.

### *International Trading & Policies*

International trade has become a source of development and relationship development among the countries worldwide, as it promotes political, social and economic prosperity. It is a branch of economics and, when it is combined with international finance, it becomes international economics. Trading is an economic process that helps a product in market search, where certain risks need to be managed by the trader. Through global trading activities, the consumers and countries are able to have exposure to the new global products and markets. Nearly, all kinds of products are available on the global market, such as food, spare parts, jewelry, equipment, currencies, water, oil & gas, clothes etc. The services are also traded in the international market through transportation, banking, consulting and tourism.

All the products or services bought from an international market are known as imports and all the products or services sold to an international market are known as exports. The exports and imports play critical role in the current account of any country in terms of balance of payments. Due to industrialization and advanced technology a boom in equipment trade has been observed in the international market, which has strengthened the international trade system. An increase in global trade is important for the persistence of globalization, as without global or international trade the countries would become restricted to the services and goods produced within their own territories.

The international trading policy is also known as commercial policy, which is a set of regulations and rules that are designed to change flows of international trade, predominantly to limit imports. All the countries have some kind of unique trade policy, which is formulated by the public officials in best favor for their country. The main aim of this policy is to boost country's international trade and to make trading activities go smoother by setting clearly defined goals and standards, which can be easily understood by the possible trading partners. There are several regions in which groups of countries are working together to develop trade policies that are mutually beneficial for them. The international trade policy might involve various complicated kinds of actions, such as the reduction of tariffs or removal of quantitative constraints. As per geographic dimension, there are multilateral, regional, bilateral and unilateral liberalization. There can be a customs union, free trade area or a free economic area in regional or bilateral reform.

The most common trade barriers that are observed in international trading are: Subsidies, Quotas, Taxes, Tariffs, Voluntary Export Restraint and Embargo. All these barriers are developed by the international policy makers to control balance of payment accounts. When countries have regular trade with each other, they frequently establish trade agreements. The trade agreement makes the trading path smooth, as it helps in sharing the desires of both parties and also facilitates in effective and strong trade relationships. There are several trade agreements, which are designed to encourage free trade that are beneficial for establishing good and long lasting trade relationships. The product safety regulations of every nation is different from other nations; therefore, the representatives of that nation can demand a right to check or inspect the goods such as equipment, food, spare parts, jewelry, medicines and etc. to make sure that the products supplied are in accordance to the product safety standards that they follow within their boundary.

### *Pros and Cons of Equipment Trade Industry*

If we consider the pros and cons of equipment trade industry then we will come to know that there are more pros than cons, because this industry is helping several nations in getting high quality equipment for all purposes on easy terms and conditions. Some of the major pros and cons of this industry are discussed below:

**Pros:**

The terms and conditions of equipment trade industry are quite simple and easy, which makes it popular. Through equipment trade industry, countries are able to get new equipment quickly, this helps in attaining higher sales, which is not possible in domestic or private equipment selling techniques. This industry has helped the multinational and national corporations in generation of huge cash flows. The main advantage of having equipment trade industry is this that the corporations do not need to manage any kind of marketing activity, as all these activities are managed by the dealer, which encourages greater level of flexibility. Greater level of international growth is attained by the nations with an evolution of equipment trade industry, as the exporting companies are now able to accomplish higher levels of sales that were not possible in domestic markets. Return on investment and business risk spread are some of the most critical benefits or pros of having equipment trade industry.













**Cons:**

The exchange rates keep on fluctuating, which maximizes the business trading risk among the nations, as it becomes difficult for them to manage and forecast foreign currencies in trade. The value of existing liabilities or assets can get affected due to currency fluctuations, which could ultimately result in less competitive business, suddenly resulting in a loss of revenue. Equipment trade industry can get affected by the political risks. The government of any country has the power to change trade regulations, contracts, or laws governing an investment, which can have poor impact on the trading activities among the nations at large. Cultural and credit risks are also the two major cons of equipment trade industry, which can have devastating effect on firms engaged in equipment trade businesses.

**KEY TAKEAWAYS**

- Trade finance is an activity observed in both domestic and international financial markets to end customary buy-and-hold investing activity.
- Equipment trade is a way to exchange equipment among nations or within a country through balance of payment accounts.
- An international trading is an exchange of goods, services and finances across the international territories or borders.
- It is an international trade that has helped the nations in development of strong relationships that encouraged industrialization and globalization.
- Some of the most common trade barriers in international trade are: Quotas, Taxes, Subsidies Tariffs, Embargo and Voluntary Export Restraint.
- A commercial policy is another name for international trading policy, which is based on a collection of regulations and rules designed to manage flows of international trade, mainly to restraint imports.

**EXERCISES**

1. The international trade policy might involve various complicated kinds of actions, such as the reduction of  or removal of quantitative .
2. The trade agreements make the trading path .
3. The difference among international and domestic trade is the   , such as labor and capital. (3 blanks)
4. Briefly define trading. What are the designations and categories for distinctive types of traders involved in trading activity? 
5. Define the 'equipment trading' term? 
6. What are the two main features of international trading policy? 
7. Identify two pros and two cons of equipment trading industry? 
8. What is the role of import and export in country's balance of payments (BOP) account? 
9. What kind of impact does the international trading policy have on the overall country's economy? 
10. Name some of the critical trade barriers observed in international trade? 