

International Trade

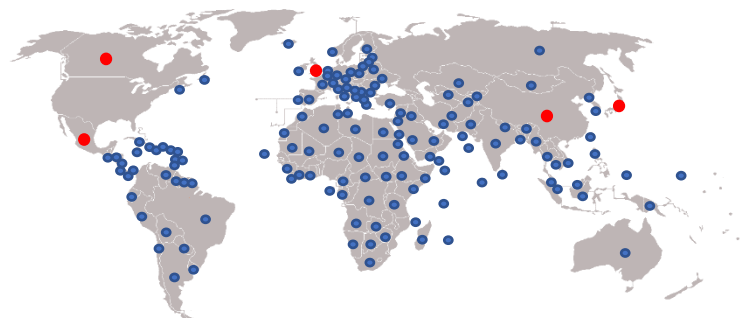
International trade is the flow of goods and services between countries. When a business purchases product from another country, it is called an **import**. When a business makes a product and sells it to another country, it is called an **export**. International trade increases the number of goods consumers can choose to purchase, typically reduces costs, and increases competition among businesses worldwide.



Every product or commodity traded globally is categorized by **Harmonized System (HS) Codes** which helps determine what the **tariff**, or duty, is on a product. Basically, a tariff is the tax on a product. Both imports and exports can have tariffs assigned to their category. HS Codes are six-digit numbers which remain the same for each country and are recognized for the category of product or commodity. Governments can add an additional four numbers (for a maximum of ten digits) to allow for more in-depth classifications. However, the first six digits must remain the same. The chart below lists various items, their HS code, and the tariff. Note that the tariff rate can dramatically increase the purchaser's cost.

| Item | HS Code – U.S. | HS Code - Japan | Cost | Tariff | Final Cost |
|------------------------------|----------------|-----------------|----------|--------|------------|
| Men's coat with fur hood | 6201.11.0010 | 6201.11.100 | \$40.00 | 12.8% | \$45.12 |
| Men's coat without fur hood | 6201.11.0020 | 6201.11.200 | \$40.00 | 9.1% | \$43.64 |
| Steering wheel (for vehicle) | 8708.94.5000 | 8708.94.000 | \$730.00 | 25.0% | \$912.50 |
| Garden or similar umbrellas | 6601.10.0000 | 6601.10.000 | \$10.00 | 4.3% | \$10.43 |

Businesses in the United States export their products and services throughout the world. In the map below, red circles represent the U.S.'s top trading partners. The blue circles indicate all the countries that U.S. businesses sell to.



HS Codes eCommerce Harmonized System Codes." 2. HS Codes, www.export.gov/article?id=eCommerce-Harmonized-System-Codes.

Free Trade Agreements, www.trade.gov/fta/.

"Japan's Tariff Schedule as of January 1 2018." Japan Customs, www.customs.go.jp/english/tariff/2018_1/index.htm.

Investopedia, www.investopedia.com

U.S. Census

One way tariffs can be reduced or eliminated is through **Free Trade Agreements** (FTAs). These are agreements between governments can dramatically decrease tariffs. FTAs reduce the cost of trade, open up new markets, and provide protection for businesses. The U.S. currently has FTAs with the following countries:

- Australia
- Bahrain
- Canada
- Chile
- Colombia
- Costa Rica
- Dominican Republic
- El Salvador
- Guatemala
- Honduras
- Nicaragua
- Israel
- Jordan
- Korea
- Mexico
- Morocco
- Oman
- Panama
- Peru
- Singapore

Illinois exports over \$64 billion worth of merchandise to 233 countries throughout the world, including Canada, Mexico, China, Germany, Japan, and Australia. Roughly half of all Illinois exports are to countries the United States has an FTA with. Illinois ranks first in the Midwest and fifth in the nation for the amount of exports.

International trade is important to the United States as exports support an estimated 10.7 million jobs. On the other hand, imports help lower prices and increase choices for companies and families. However, sometimes the lower costs of importing products from overseas markets can hurt American companies which may result in businesses closing and workers losing their jobs. In Illinois, close to \$136 million worth of products were imported from other countries. When companies can import raw materials from other countries, it helps them remain competitive in global markets. In Illinois, an estimated 1 in 5 jobs is dependent upon international trade.

Another term used in international trade is a **quota**. Governments can impose rules or regulations to limit trade. **Quotas** are restrictions which limit the amount or monetary value of goods that a country imports or exports during a time period. Generally, quotas are in place to protect a country's industries, national security, or natural resources.

Overall, international trade is important to countries. The relations governments have with each other can affect its rules, regulations, along with the trade of goods and services.



HS CodeseCommerce Harmonized System Codes." 2. *HS Codes*, www.export.gov/article?id=eCommerce-Harmonized-System-Codes.

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