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International Trade and Finance Speech

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The relationship between the international trade and foreign exchange rates is a contradictory issue. For many decades, prominent economists and policy makers have been trying to come up with the best decision making the country's economy work efficiently. Some adherents support the idea that the impact of free economy is detrimental, the others focus on its positive consequences.

The main issues of the problem of the relationship between the international trade and foreign exchange rates are related to a surplus of imports, the effects of international trade to GDP and domestic markets, and government choices in regards to tariffs and quotas.

A trade surplus can be defined as "a part of the larger economic concept of balance of trade, which refers to the difference in value between a nation's imports and exports of goods and services" (Hall, n.d.). In cases when a country's export exceeds its import, economists speak of a favorable balance of trade, or trade surplus. Experts state that the major surplus industries in the USA are the ones producing "aircraft and aircraft equipment, construction machinery, and chemicals and related products (Hall, n.d.). Many economists argue that the surplus of imports brought into the USA is extremely unsuitable for the domestic producers. The major reason is that this economic phenomenon causes falling prices and decreasing sales generated by the U.S. producers, and, therefore, it makes lower their income.

To illustrate the benefits and drawbacks of the surplus of imports, the trade policies between the USA and China can be researched. China's trade surplus has been dramatically increasing recently. On the one hand, pro-China's trade policies have led to the decrease of jobs in the auto-parts and tire manufacturing. Moreover, researchers predict desperate troubles with future employment in the above-mentioned industries. On the other hand, surplus of imports is beneficial for the country's consumers who can buy goods on low prices. Moreover, Caron Beesley, a community moderator of the online newspaper "SBA.gov", notes that importing goods overseas does not always weaken the country's economy. She claims, "for every dollar spent on a Chinese-made item, 55 cents go to U.S. businesses for services such as marketing and sales" (Beesley, 2012). This fact suggests that international trade, and importing goods in particular, substantially contributes to the country's economy. First, it promotes the development of the domestic businesses. Secondly, the consumers enjoy low prices and unique goods from other countries such as raw silk, diamonds, natural rubber, petroleum, "artisan crafts, furniture, shoes and clothing, and food and beverage products" (Beesley, 2012). Caron Beesley argues that the profit on these deals can grow up to 700 per cent (Beesley, 2012). Therefore, imports coming in from China, as well as from other countries, are favorable for the USA.

The second key issue of the problem is the consequences of promoting international trade. Economists note that the international trade causes three major effects, such as rising of GDP, development of the country's domestic markets and, particularly, it provides university students with wider range of goods and services.

The third key point of the issue is related to government choices in regards to tariffs and quotas. Tariffs can be defined as the taxes that are added to

the cost of imports. The U.S. government provides tariffs to protect infant industries (The basics, 2011). Moreover, the country's government uses tariffs to manipulate the activity of buying and selling goods with foreign countries. For instance, to develop trade relations with a country, the government can decrease tariffs on importing goods from this country. To illustrate, in 2006, China's trade surplus was $232 billion comparatively with $124 billion in 2003, and $39 billion in 1995. The explanation of these results is simple: the U.S. government gave China Most Favored Nation trade status.

The next main idea is the role of foreign exchange rates in the international trade. According to a dictionary, an exchange rate is "the rate at which the currency unit of one country may be exchanged for that of another" (Exchange rate, n.d.). For instance, foreign exchange rate is the value one can buy or sell one U.S. dollar for a certain amount of Russian rubles, European Euros, British pounds, or Japanese yen. This rate can become different, or it may be fixed at a certain level to another currency (Exchange rate, n.d.). In fact, economists argue that the fluctuations have a detrimental effect. For example, Marc Auboin and Michel Ruta state that in great majority of cases "exchange rate volatility has a negative (even if not large) impact on trade flows" (Auboin & Ruta, 2011). On the other hand, consumers have an opportunity to purchase goods from abroad on low prices if they are produced and sold more cheaply there.

A country's exchange rates are affected by six major factors, such as differentials in inflation, differentials in interest rates, current account deficit, public debt, terms of trade, and political stability and economic performance. There is an extremely strong connection between interest rates, inflation and exchange rates. Central banks control inflation and exchange rates via interest rates. Rising interest rates involve foreign

investors in the country's economy, providing increasing the exchange rate. On the contrary, declining interest rates make smaller exchange rates in the state (Six things, 2010).

To sum up, the relationship between the international trade and foreign exchange rates is the subject of severe debates. Many economists and policy makers focus on the great negative impact of the surplus of imports. They stress that rising imports are extremely unsuitable for the domestic producers mentioning infant industries, domestic unemployment, and the losses of the domestic businesspersons' income among its detrimental consequences. On the other hand, their opponents argue that import restrictions would weaken the U.S. national economy. Moreover, they assure that international trade, and importing goods particularly, substantially contribute to the country's economy. Despite these severe disputes, one category of the U.S. citizens is satisfied. In fact, the surplus of imports is beneficial for the country's consumers who can buy goods at the low prices.