

# Free similarities between international and larger regions trade research paper e...

[Economics](#), [Currency](#)



## **INTERNATIONAL ECONOMIC ANALYSIS**

- Trade history of Saudi Arabia:

The coastal people of Saudi Arabia have been well positioned from the trade due to the benefit of Arabian Peninsula. KSA is an old route of the caravan trade that connects the Mediterranean world with south Asia, Arabia, and East Asia (Encyclopedia Britannica). The trade in Saudi Arabia was generated by pilgrims that came to Medina and Makah. In 1938, with the discovery of oil country started trading with other and after World War 2 through the exports of oil reserves country was able to have higher funds (Saudi Embassy, 1-7).

Average exports in Saudi Arabia have been SAR 226966. 64 million from the year 1968 to until the current year, and import average has been SAR 92675. 28 million. Saudi Arabia average balance of trade has been \$ 134060. 74 million Saudi Arabia riyal since 1968 to 2014. Saudi Arabia produces significant trade surplus on an annual basis and therefore, has always been in a surplus condition due to the exports of oil (Trading economic, 2014). Event the oil shock that occurred in 1973, country exports exceeded the imports' cost. However, in the service sector, country is facing trade deficit on a constant basis. In 2013, the trade surplus in Saudi Arabia has been \$222. 71 million which was lower that 2012. The average gross domestic products in Saudi Arabia have been \$ 192. 97 billion since 1968 to 2013 (Trading Economics).

In 2005, Saudi Arabia became a member of world trade organization, after long time efforts. Japan, China, Canada, and United States have been major trading partners of Saudi Arabia since years. Saudi Arabia has been

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committed with the expansion of ties of trade; country has lead in shaping “constructive collective policy” over Iraq in investment and trade issues (McMillan, 1-16). 2. History of money (Currency) in a Saudi Arabia.

Saudi riyal has been the currency of Saudi Arabia since the foundation of the country. The Hejaz riyal was based on 20 kurus coin of ottoman era. In 1960, the system of currency changed and 1 riyal was equal to 20 Qirsh. In 1963, the halala was introduced; still some riyal bear denomination in Qirsh but this is no longer used commonly. In 1972, 5, 20, 25, and 10 halala was followed. In 1976, Cupro-nickel coins of 1 riyal were introduced that was emblazoned with the denomination of 100 halala; in 1999, bimetallic 1 riyal coins were issues and marked 100 halala as well. In 1953, pilgrim receipts were begun to issue by SAMA (Saudi Arabian monetary agency), for 10 riyal, with 1 riyal following in 1954 and 5 riyal following in 1956. In 1965, agency started issuing 100; 50, 10, 5, and 1 riyal regular bank notes (Banknote News).

In 1983, banknotes of 500 riyal and in 2000, banknotes of 200 and 20 riyal were introduced. In 2007, the fifth series of Saudi riyal was issued. In 1986, the currency was pegged to special drawing right of IMF. As it comes to practice, it is fixed at \$ 1 equal to 3. 75 riyal, which means 1 riyal is equal to \$ 0. 26667. The rate of currency went up to 20 years high after cutting the interest rate by US federal reserve in 2007 (Brown & Worrachate). In 2007, the currency returned to its peg against United States dollar (Pulkrabek & brown 2008). The current rate of riyal is \$ 0. 26643 US. 3. Similarities and differences of trading between regions of large country

- Objective of both trades is exchange of goods and services that is done due to specialization features in producing the products. Internal and international trade is being practiced to have specialized products.
- Aim of both trades is to produce low-cost products and to earn higher profits. In internal trade, people would like to sale products at those places from where they can earn more and in international exporters exports to those countries from they can earn higher profit.
- The aim of both trades is a mutual exchange of goods that are in demand and not available either or available on very small amount (Jain, 112-114).

### **Difference between international and larger regions' trade**

International trade is the exchange of services and goods across nations, and interregional trade include the exchange of services and goods within a country or region. There are several things that make a difference in international and interregional trade (Jain, 112-114).

- The first factor is the ease of mobility because in inter-regional trade capital and labor can move easily from one to another place as compared to international trade.
- Second is the difference of currencies; due to change in currencies international trade is more complex as compared to inter-regional trade.
- Third difference in trading with international countries is that the country has to pay the cost in term of exchange rate, taxes, duties, tariff, and quotas, but this is not the case when comes to inter-regional trade.
- Each country has different production conditions such as different taxation and technology system, different production facilities, social customs, and

labor laws. However, in the same region this problem does not occur.

4. Identify “ Greater Arab Free Trade Area -formed in 1997 by fourteen nations of the Arab League, since expanded to eighteen members”, and describe what it is relative to the concepts of an FTA and a Customs Union

The regional integration idea among Arab emirates is an old one. In 1953, the first agreement of facilitation of trade was approved. In 1957, the constitution of an economic union project was approved. In 1964, signing of the fundamental decision of creation Arab common market was done. In 1981, an agreement for the promotion and facilitation of trade between Arab states was signed. Moreover, an agreement was concluded in 1997 by fortune Arab countries, and the aim of that agreement was the attainment of “ greater Arab free trade area” . The main condition was to remove the nontariff barriers and progressive tariff removal on “ intra greater Arab free trade area” in producers (Abedini & Peridy, 848-872). In 1988, the working of GAFTA came into force through the approval of 18 countries. Iraq, Libya, Qatar, Bahrain, Kuwait, Oman, Sudan, United Arab Emirates, Tanzania, Egypt, Lebanon, Syria, morocco, Jordan, Yemen, and Saudi Arabia was implementing the agreement. Later on, more countries joined with these countries. GAFTA has several positive effects on trade.

There is relevancy between the concepts of “ Greater Arab Free Trade Area” and “ Free Trade Area”. Both these have been designed to leverage the exchange between countries. Moreover, the purpose of both agreements is to eliminate the trade barriers through the elimination of trade fees, tariff, and quotas. Moreover, during the analysis it has been observed that countries have association with the GAFTA and FTA contracts has a positive

impact on trade flow (Kepaptsoglou, Karlafris & Tsamboulas, 1-13). The concept behind the Customs Union is same as to reduce or eliminate the trade barriers through elimination tariff, but in customs union agreement common external tariff is imposed to non-member countries on imports. However, all of them are designed to promote trade among members. 5. Risk with exchange rates when they are fixed (or pegged) and risk with exchange rates when they float Everything has some pros and cons associated with it so as with exchange rates. Analyzing the risk associated with exchange rate has been an interesting and complex topic for finances. Mostly countries especially emerging markets prefer to fix their exchange rate because it has a lower risk associated with it as compared to floating. However, fixed exchange rates are difficult to handle and have risk of a speculative attack (Cecchetti, Schoenholtz, and Fackler, 498-504). Handling of fixed exchange rate is not easy because it demands government to make larger reserves of foreign currency, and these reserves have the opportunity cost. Diverse economic policies are followed by the countries following fixed exchange rate that in result have different rates. This means that if currency is in deficit, then the country is unable to gain competitive advantage. However, as the worth of the currency is increasing, then the country will be unable to gain the advantage of charging higher prices. In other words, some countries will gain competitive advantage and some not. Imports and exchange controls are imposed with pegged exchange rate that increases the risk of restrictions.

Multiple countries prefer floating exchange rates in order to determine the currency value of the country. However, floating exchange rates cater the

risk of volatility, and the risk premium is higher as compared to fixed exchange rate (Gagnon and Hinterschweiger, 60). Floating exchange rate also cater currency exchange rate risk due to uncertainty. Due to floating exchange rate the fiscal policy becomes less effective. Due to the uncertainty lack in investment can occur at internal and international level. Risk of speculation associated with floating exchange rate and can damage the economy stability.

6. Why do countries repay their foreign debts (when they do)? Why do not countries repay their foreign debts (when they do not)?

**There can be different reasons to repay foreign debt some have been explained below:**

- Countries that go back to pay their debts many have held their out of the country assets held by a foreign lender.
- Countries may in the future have to face cut-off in capital flow due to the poor reputation of repayments, and this thing may force them to repay their debts.
- Countries repay their debts because they may have fear that they have to suffer from the lack of benefits of international trade. It has been encountered through literature that trade limit punishments encourage debtors to pay their debts (Rose, 189-206).

Debtors pay these debts when paying is reduced. For example, when the domestic currency is in stronger position debtors pay foreign debts because they have an advantage of paying less. Country may choose to default due to lack of ability, or they do not want to repay their foreign debts (O'Brien).

Therefore to is essential for the lender to analyze the ability of the countries

when lending money to them. Due to increased exchange rates many countries are not able to repay their foreign debts and sometimes due to lower exports. Countries do not pay their debts when the currency is in depreciation as during this circumstances, countries have to pay a larger amount.

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