Exports

Exports are the goods and services produced in one country and purchased by citizens of another country. It doesn't matter what the good or service is. It doesn't matter how it is sent. It can be shipped, sent by email, or carried in personal luggage on a plane. If it is produced domestically and sold to someone from a foreign country, it is an export.

For example, American tourism products and services can be exports.

Even though they are produced in the United States, they are exports when they're sold to foreigners who are visiting. If an overseas friend sends you money to buy a pair of jeans on mail to them, that's also an export.

How Do Exports Affect the Economy?

- Most countries want to increase their exports. Their companies want to sell more. If they've sold all they can to their own country's population, then they want to sell overseas as well. The more they export, the greater their competitive advantage. That's because they gain expertise in producing the goods and services. They also gain knowledge about how to sell to foreign markets.
- Governments encourage exports. That's because it increases jobs, brings in higher wages and raises the standard of living for residents. They become happier and more likely to support their national leaders.
- Exports also increase the foreign exchange reserves held in the nation's central bank.
- That's because foreigners pay for exports either in their own currency or the U.S. dollar. A country with large reserves can use it to manage their own currency's value. They have enough foreign currency to flood the market with their own currency. That lowers the cost of their exports in other countries.
- Countries also use currency reserves to manage liquidity. That means they can better control inflation, or too much money chasing too few goods. To control inflation, they use the foreign currency to purchase their own currency. That lowers the supply, making the local currency worth more.

What Do Countries Export?

Businesses are able to export goods and services where they have a competitive advantage. That means they are better than any other companies at providing that product.

They also export things that reflect the country's comparative advantage. Countries have comparative advantages in the commodities they have a natural ability to produce. For example, Kenya, Jamaica and Colombia have the right climate to grow coffee. That makes them more likely to export coffee. India's population is its comparative advantage. They have a large population of people who speak English and are familiar with English laws. That gives them an advantage in skilled yet affordable call center workers. China has a similar advantage in manufacturing. That's because its population has a lower standard of living. They will work for lower wagers than people in other countries.

Import

Imports are foreign goods and services bought by residents of a country. Residents include citizens, businesses and the government. It doesn't matter what the imports are or how they are sent. They can be shipped, sent by email or even hand-carried in personal luggage on a plane. If they are produced in a foreign country and sold to domestic residents, they are imports.
Even tourism products and services are imports.
When you travel outside the country, you are importing those souvenirs.

Imports and the Trade Deficit

If a country imports more than it exports, it runs a trade deficit. Most countries would prefer to import less and export more. In other words, a country would prefer to be a supplier to other countries. Their leaders encourage export-driven economies.

First, it's a fast way to boost economic output, as measured by gross domestic product. That creates jobs and increases wages. In turn, this raises residents' standard of living for residents. That makes them much more likely to vote for their national leaders in democracies. In countries without an elected leader, it means there's less likelihood of a revolution.

Second, imports make a country dependent. That's especially true if it imports commodities, such as food, oil, and industrial materials. Then they rely on a foreign power to keep their population fed and their factories humming.

Third, countries with high import levels must increase their foreign currency reserves. That's how they pay for the imports. That can affect the domestic currency value, inflation, and interest rates.

Fourth, domestic companies must compete with the imports. That can drive many small businesses to bankruptcy.

Economic effects of import and export

Imports and exports may seem like terms that have little bearing on everyday life, but they exert a profound influence on the consumer and the economy. In today's interlinked global economy, consumers are used to seeing products and produce from every corner of the world in their local malls and stores. These overseas products – or imports – provide more choices to consumers and help them manage strained household budgets. But too many imports in relation to exports – which are products shipped from a country to foreign destinations – can distort a nation's balance of trade and devalue its currency. The value of a currency, in turn, is one of the biggest determinants of a nation's economic performance. Read on to learn how these mundane staples of international trade have a more far-reaching influence than most people imagine.

According to the expenditures method of calculating gross domestic product, an economy's annual GDP is the sum total of C + I + G + (X – M), where C, I and G represent consumer spending, capital investment, and government spending, respectively.

While all those terms are important in the context of an economy, let's look closer at the term (X – M), which represents exports minus imports, or net exports. If exports exceed imports, the net exports figure would be positive, indicating that the nation has a **trade surplus**. If exports are less than imports, the net exports figure would be negative, and the nation has a **trade deficit.**

Positive net exports contribute to economic growth, something that is intuitively easy to understand. More exports mean more output from factories and industrial facilities, as well as a greater number of people employed to keep these factories running. The receipt of export proceeds also represents an inflow of funds into the country, which stimulates consumer spending and contributes to economic growth.

Conversely, imports are considered to be a drag on the economy, as can be gauged from the GDP equation. Imports represent an outflow of funds from a country since they are payments made by local companies (the importers) to overseas entities (the exporters).

However, imports *per se* are not necessarily detrimental to economic performance, and in fact, are a vital component of the economy. A high level of imports indicates robust domestic demand and a growing economy. It's even better if these imports are mainly of productive assets like machinery and equipment since they will improve productivity over the long run.

A healthy economy, then, is one where both exports and imports are growing, since this typically indicates economic strength and a sustainable trade surplus or deficit. If exports are growing nicely, but imports have declined significantly, it may indicate that the rest of the world is in better shape than the domestic economy. Conversely, if exports fall sharply but imports surge, this may indicate that the domestic economy is faring better than overseas markets.

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This content has been compiled from various sources from internet. The purpose of this document is to give knowledge of various Commodities to the user.

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