PRINCIPLE BARRIERS TO INTERNATIONAL TRADE AND IT'S EFFECT ON LEBANESE FINANCIAL INSTITUTIONS

ALI ISSAM CHAMS1 PhD Candidate, Faculty of Business Administration
Beirut Arab University, Lebanon, ais_84@hotmail.com

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Abstract
This paper provides an overview of the principal barriers of international trade and the sanctions imposed on countries and its effect on the Lebanese economy. Illustrating the barriers effect by two examples one related to decreasing tariffs on imports from Latin America and the other on protectionism system implemented in Europe. Then studying two other cases in the Lebanese market where barriers leave a huge effect on the businesses in Lebanon and giving examples faced in two different businesses in Lebanon in the financial sector. International trade promoted high standard of living for trading nations. Hence, despite its various unpleasant effects to some, it is still the best to practice free international trade since it is being a stimulator of the rise of global economies leaving economies having economic and social benefits. This paper attempts to bring to light to the free-trade and the general barriers international trade faces presently and some examples of the unions between two countries to form the best trade with fewer obstacles. Moreover, I would be lightening on Cash+; money transfer company and relate it to the barriers it faces in everyday business. As well as, giving a quick overview of the banks in Lebanon, we will talk about the offering of trade finance products which cut the risk of exporting products; the substantial risk between the buyer and seller. These cornerstones (banks) are a major pillar in the country leaving space for the neighbor countries’ citizens to benefit from their services too. As well as, relating that to the bans and the sanctions imposed on the Syrian country and the Syrians and concentrating on the effect of the international barriers on Syria as a country and on Syrian citizens and their work relating it to the banking sector in Lebanon. In the last part, an example on a closed versus open economy is mentioned with numbers to end up with why recommendations and solutions listed are important to all nations.

Keywords
International Trade, barriers, sanctions, banks, Syria, Lebanon
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1 PhD Candidate, Faculty of Business Administration, Beirut Arab University, Lebanon

ABSTRACT: This paper provides an overview of the principal barriers of international trade and the sanctions imposed on countries and its effect on the Lebanese economy. Illustrating the barriers effect by two examples one related to decreasing tariffs on imports from Latin America and the other on protectionism system implemented in Europe. Then studying two other cases in the Lebanese market where barriers leave a huge effect on the businesses in Lebanon and giving examples faced in two different businesses in Lebanon in the financial sector. International trade promoted high standard of living for trading nations. Hence, despite its various unpleasant effects to some, it is still the best to practice free international trade since it is being a stimulator of the rise of global economies leaving economies having economic and social benefits. This paper attempts to bring to light to the free-trade and the general barriers international trade faces presently and some examples of the unions between two countries to form the best trade with fewer obstacles. Moreover, I would be lightening on Cash+; money transfer company and relate it to the barriers it faces in everyday business. As well as, giving a quick overview of the banks in Lebanon, we will talk about the offering of trade finance products which cut the risk of exporting products; the substantial risk between the buyer and seller. These cornerstones (banks) are a major pillar in the country leaving space for the neighbor countries’ citizens to benefit from their services too. As well as, relating that to the bans and the sanctions imposed on the Syrian country and the Syrians and concentrating on the effect of the international barriers on Syria as a country and on Syrian citizens and their work relating it to the banking sector in Lebanon. In the last part, an example on a closed versus open economy is mentioned with numbers to end up with why recommendations and solutions listed are important to all nations.

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1. INTRODUCTION

Trade among countries has been known from decades. This international trade has come a long way as far as volume and patterns of trade between nations is concerned. Exporting and international business can be exciting, thrilling and in some cases challenging. In all cases it should be gainful and help a business develop. Doing business internationally is different from doing it at locally. When entering a new country, you have to study it from all business perspectives. Having knowledge about consumers, their culture and preferences is important in order to arrange a marketing plan that is suitable in the country. Moreover, studying the dissimilar laws and regulations is so important too, in order to succeed in the new market. Entering a new market is an opportunity, yet, it is risky since the way you run your business will be determined by the culture of the new market.
Trade barriers had always occurred in many forms in such businesses, leading to cause an obstacle between the two party (seller/buyer). Some of the well-known barriers are: cultural and social, political, tariffs and trade restrictions, monetary, boycotts and the technological barrier. Moreover, we can’t mention international trade and free trade without linking it to economic sanctions, where the developed countries impose sanctions as a foreign policy tool on other countries in order to force them change their behavior. The payers of those sanctions are the citizens of the sanctioned country on the first hand, where they experience a closed economy on the free trade market. A well-known example we can mention here is the sanctions imposed by the United States on Iran. Where the latter is still suffering from the restrictions imposed on it.

Worldwide organizations had appeal from decades backward to make it easier to trade between a country and another. Agreements set by these organizations had made it clear and helped in cutting many barriers that would affect the trading system.

The purpose of this article is to show how did the international trade barriers and the sanctions turned to have a negative effect on the Lebanese economy. The Lebanese cases studied are based on interviews done with individuals who have direct relation to the businesses; an interview with the CEO of Cash+, and other two interviews with an assistant manager and a customer service officer of two different banks. No adequate numerical data were given by the companies. The literature review will show how could barriers be eliminated by signed agreements between countries, based on research study done previously.

2. LITERATURE REVIEW

The rise of global markets for standardized products has enabled businesses to furnish demands in new markets with existing products.

Government influence has always been one of the main drivers in which it helped in decreasing the trade barriers and swing to a new style market with open economy. The outsourcing and importing at low costs had shown a huge difference. As well as, the trading of higher quantities has had proven the gain of new economies of scale, both had shifted the cost advantage drivers to a new experience. The increase of competition had risen between the new companies and the old ones in a country as the rising trade between nations and the foreign direct investment did forming a new bond between countries and organizations. The key of success in open markets is when government opens its door to other economies and put fair trade policies that suit the two parties. As also the low cost of production attracts companies to do business overseas, not forgetting to add here the accelerated technology that is helping in the quick distribution of free initiatives through new income of improved mobility and communication. Many governments had used trade policies in order to control what enters and exists their country from imports and exports and to keep track on their international economic position.

From here, the barriers occurred and governments used it as guiding principles for the imports and exports. Liberalization of barriers has been the best face and driver of globalization in all trading forms. Accessing the markets is known to be one the main simulators that encourage exports industries to be productive. For example, in 1978 China has recorded the highest GDP growth in the world (around 10%). Its act to be liberalized market had helped in this growth leading to decrease the poverty rate in the country.

When talking about liberalization trade, we have to think about the different policies and levels a country has reached. Linking that to the stage of development, culture and other political factors is a must in order to know where a country is. Moreover, we should always remember that most countries had shifted to trade liberalization and reduced barriers with the interference of an important international organization that is world trade organization (WTO). This organization till today still has capabilities on enforcing trade agreements and seeks new possibilities of liberalization. Another two important trade agreements where members share common foreign and internal trade policies are European Union (EU) and North American Free Trade Agreement (NAFTA).

The benefit level of liberalized international trade differs between country and another. However, closing an economy that may insulate it from shocks can also mean stagnation in growth and even more severe internal crises.

3. THE MAJOR TRADE BARRIERS IN INTERNATIONAL TRADE

No doubt that the international trade is one of the most important factors of increasing the GDP of a country, which is the main purpose most countries seek for to enter new markets to sell their products in. Taking such an opportunity has many obstacles a country will face. These obstacles are known as trade barriers, where the dominant countries are the rich ones. Enforcing international policies and standards are what we are talking
about. When adding cost to the products entering and existing a country, in general its leading to decrease the overall economic efficiency; the ability of a party to produce a particular good or service at a lower marginal and opportunity cost over another. Those restrictions imposed by a country on imports are said to be a protective policy of the domestic production. Where others see that as a barrier on the free trade. Here below listed the most known barriers worldwide:

- Cultural and Social Barriers
- Political Barriers
- Tariffs and trade restrictions
- Monetary Barriers
- Boycotts
- Standards/ Non-Tariff Barriers
- Anti-dumping Penalties
- Technological Barriers

Let’s take a deeper view on the most recognized and active ones, starting with:

3.1 Cultural and Social Barriers

Nations are different in their cultural and social lifestyles. The values, norms, habits, and tastes sometimes differ between a city and another in the same state, wouldn’t it differ from country to another! People like different food, different clothes, different home styles, etc. these main differences effect the trade between one country and another forming a barrier to some imports entering a certain country. For example: Language varies from country to country. Some countries have more than one official language, such as in Canada, they speak English and French. Also be aware that there might be different dialects. You don't need to necessarily learn the entire language, but it is recommended to learn key words or phrases, such as hello, please, and thank you. Body or non-verbal language also says a lot and can be interrupted differently. Such as eye contact, shaking hands, the way you sit, and how you eat or drink. Another example we can mention here that US people like comfortable furniture with simple covered sofas, while people in France looks after the old carved wood style.

3.2 Political Barriers

The political situation in a country can be the main cause of a barrier, where the government of the unrest country deals with these circumstances by closing doors on the firms of other counties. A simple example could be the firm's own country's relations with other countries. Or we can say political instability such as terrorism, riots, coups, civil war, and insurrection can completely disrupt business operations in a country for long periods of time.

3.3 Tariffs and trade restrictions

When adding restrictions on international trade, the first three barriers to think about are: tariffs where duty or taxes are imposed on goods, services and products entering the country, which in its turn leave foreign competition. The second is Quotas where the country decides how much amount is allowed for a product to enter a country in order to keep supporting domestic products. The third one is Embargoes where a ban is put on a certain product not allowing it to enter or exit a country.

These kinds of barriers are usually implied for certain reasons, some of which are protecting domestic employment, protecting consumers, small industries, national security,….

An example of this kind of barriers South Korea may place a tariff on imported beef from the United States if it thinks that the goods could be tainted with disease.

3.4 Monetary Barriers

A government can effectively regulate its international trade position by various forms of exchange control restrictions. A government may enact such restrictions to preserve its balance of payments position or specifically for the advantage or encouragement of particular industries. Three barriers should be considered:

- Blocked currency: Government restrictions are the main purpose for this barrier, where the government forbid the buyer to pay the seller with other currencies than its local currency. This act is for the support and protection of the country’s currency.

- Differential exchange rate: The government uses this clever way to refuse the unwanted imports to enter the country. The essential mechanism requires the importer to pay the varying amount of domestic
currency for foreign currency with which to purchase products in different categories. Such as desirable and less desirable products.

- **Government approval for securing foreign exchange**: Countries experiencing severe shortages of foreign exchange often use the government approval before doing any transaction. As in Latin America and some EU countries, such transaction was not allowed to be made without getting the government approval. Thus importers who want to buy foreign goods must apply for a foreign exchange permit that is permission to exchange an amount of local currency for foreign currency.

  A good example that could be mentioned here is the US Dollar currency which is a freely smooth currency to trade with. While the Lebanese pounds are one blocked currency that is primarily used in the domestic market and it is not openly traded in a forex market. This nonconvertible currency tends to lead its country not to participate in the international trade.

In short, the benefits of barriers, and mainly tariffs are uneven. Because barriers are taxes, used by the governments as burden on the importers in order to help protect the domestic products. Local businesses will be happy for the reduction in competition; import prices are artificially inflated. In short, tariffs and trade barriers tend to be pro-producer and anti-consumer.

4. **THE KEYS TO FREE-TRADE**

   As the ITA says, “Eliminating one barrier can open opportunities for a whole industry.”

   And as the president of the United States Obama begins his second term, “This is the right moment for the United States and the European Union to work together even more closely on a number of issues relevant to both their domestic and foreign policy agendas.

   The most immediate way to boost our transatlantic relationship is to follow through on an EU-US free trade agreement.”

   So from here we could say that organizations and agreements in many regions and in the world started working to ease barriers to trade, and more countries are joining together to promote trade and mutual economic benefits; eliminating tariffs and other barriers could increase annual economic growth of every parity. These groups and unions main purposes are helping in the reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis.

   Organizations and agreements had been spread all over the world, to enhance this kind of trade. Here to mention some of the popular ones: GATT, EU, NAFTA, IMF, ITC, GCC, US-China trade agreement and others. Below I will illustrate on two of the big organizations and agreements between various countries that supported the free-trade and a briefly.

4.1 **General Agreement on Tariffs and Trade (GATT)/ WTO**

   GATT has established a strong and prosperous multilateral trading system through rounds of trade negotiations in order to become more liberal. But by the 1980s the system needed a thorough overhaul. This led to the Uruguay Round, and ultimately to the WTO that consisted of 30 agreements with demonstration on lower customs duty rates and services market-opening. Non-discrimination that included goods, services and intellectual properties (such as trade secrets) laws and covenants was one of the top rules.

   Let’s see a case solved by WTO:

   One of the latest issues was the substantial tariffs on bananas imported from Latin America known as the banana war. The exports had to pay ‘176 per ton of bananas.

   An agreement that reduced the tariffs was made in 2012 as a solution to this. The banana price is expected to fall up to 11pc after the historic agreement was signed between the European Union and 10 Latin American countries which will further on lead to the end of the 20 years banana war. This deal has concluded the World’s longest trade dispute and has been followed by eight separate cases dealt by the World Trade Organization (WTO).

4.2 **The European Union**

   The 28 European countries are one of the world’s successful unions to achieve a balanced and progressive trade policy to harness globalization. The main EU factors were: free-tax trading among members, open new opportunities to the poor countries in education and jobs and creating sense of unity among the engaged countries with the help of the united currency. EU trade policy helps to create new jobs and new trade and investment opportunities for big and small companies. Also, trade agreements cut prices and widen choice, while keeping the EU’s high standards for consumer protection, social rights and
environmental rules. The EU’s economy is ahead of the United States where the EU GDP in 2015 is €14,600 billion.

With just 6, 9% of the world’s population we could find out that EU’s trade accounts are for around 20% of global exports and imports with the rest of the world. Over 62% of EU countries total trade is done with other EU countries.

The EU is one of the three largest global players for international trade followed by the United States and China. In 2014 the EU’s exports of goods were equivalent to 15% of the total world and employment has also been hit by the global economic crisis, and the turbulence in the Eurozone.

Let’s take a case of the trade in EU in the agricultural industry:

The agricultural industry is facing a problem in spite of the reduction in tariff rates. The EU Common Agricultural Policy (CAP) is still imposing substantial tariffs on many agricultural markets with the aim is to increase prices and increase the income of the domestic farmers of Europe. Almost 54 of dairy products having tariff rates more than 75%.

In this case the protectionist measures have actually benefited the EU farmers as the domestic subsidies of the CAP will help by giving an advantage in exports.

We can simply say that free trade is encouraged by a number of agreements and organizations set up to monitor trade policies. I will end this chapter by what was followed up by European Commission President Jose Manuel Barroso after President Obama’s declaration mentioned above giving a strong endorsement to these talks, saying "a future deal between the world's two most important economic powers will be a game-changer, giving a strong boost to our economies on both sides of the Atlantic.

5. POST-COLD WAR SANCTIONS

The economic sanctions have always been one of the important arts or ways the U.S. communicates through with foreign countries as a ban or punishment to enforce the latter to positively respond. The United States had imposed the foreign policy on dozens of countries. The purpose of the sanctions is mostly economic, political, and military penalty. Replacing a government, fighting terrorism and protecting human rights are said to be the main concerns for imposing this punishment. Adding here, that sanctions had put barriers and limitations on exports and imports, blockage on bank accounts (freezing accounts), blockage on financing, increasing tariffs, import quota decreases and other similar actions. So putting pressure on a certain country would have a reflection on the whole economy including the citizens and their businesses. As witnessed lately in Syria; the sanctions imposed on the government and country, had left citizens arguing and facing negative returns. Moreover, we can mention here the big impact on the Lebanese economy and the Lebanese businesses as we will show and illustrate later below.

6. CASH+ AND TRADE BARRIERS

In this chapter, we will see how the bad political circumstances of a country effects businesses of another country when barriers interfere.

Cash+ is a financial services institution established on the 1st of May 2017. It is mainly specialized in international money transfer. The company was opened under the authorization of the central bank with a circular approval. Highlighting on the barriers mentioned in this paper above and linking it to this Lebanese business, we will see and illustrate that the only two are Political and Monetary barriers.

Coming to the first barrier, the political barrier focusing on the sanctions implied on certain countries or certain people. And as we all know, especially for financial institutions this is a harmful act leading the companies to lose a huge amount of work.

Below is a scenario of daily limitations on job:

Transferring to some segments in Syria is forbidden because of the U.S sanctions imposed on the country.

Second, are the compliance and AML regulations. This type of barrier could be under the monetary barrier. This sector is subject to multiple and complex legal and regulatory compliance requirements that span international boundaries - all of which have implications for storage, backup and the security and integrity of data. AML and compliance has been a worldwide act to be subjected in every business nowadays, and applying this requirement needs professional qualified people.

Moreover, we have the different exchange rate which is of the same family barrier. It is also one of the obstacles I face in my everyday job due to the exchange rates variation between the local and the foreign currency.
Finally, to say that these are the barriers affecting the business, where the other five barriers; Cultural and social, Tariffs and trade restrictions, Standards, Boycotts and Technology has nothing to do with my business yet.

7. THE LEBANESE BANKING SECTOR AND SANCTIONS EFFECT

The Lebanese Central Bank had committed to the sanctions that were imposed on Syria as a country yet forced to apply the bans on the citizens in order to stay on the safe side. The central bank had declared and specified a list of requests for banks in order to apply. The banks and specifically the compliance departments were forced to work seriously and cautiously in order to protect the banking sector and its reputation in Lebanon.

What were the results behind this?
The unstable political circumstances in Syria had created international political barriers, leading to a negative effect on the Lebanese economy. The sanctions imposed on Syria and the limitations given to Syrian banks to deal with other banks abroad, had been an opportunity for the banking sector in Lebanon where Syrians have always had the Lebanese banks as a spare door to go through, yet, the effect of the war in Syria had left a disrupt in the business operations of the two countries.

A good example here are the sanctions imposed on Syria as a country leaving an effect on the Syrian citizens who are unable today to deal with Lebanese banks as before; they are unable to request a wire transfer nor issue a letter of credit against their purchasing orders. The institutions are not allowed to do the transfer through any correspondent bank, to prevent from penalties.

As we can add here, that the banks were banned of issuing credit cards that Syrians used to issue from Lebanese banks for the absence of it in their local banks. The banks in Lebanon had also stopped issuing new credit cards to its Syrian clients, since the cycle of this transaction is as a wire transfer.

8. CONCLUSION

If free trade was bad!!!
In free trade, everyone wins. A good example I have passed through while researching, the free economies of the world (like South Korea) which is considered wealthy and backed by the world's number one superpower, and the controlled economies of the world (like North Korea) where we can say it is a small, impoverished and isolated country. The findings showed huge difference between the open economy of South Korea and the closed one of North Korea, where the records of exports ($552.6B- $4.71B respectively) and imports ($514.2B- $4B respectively) and the GDP growth difference which is 1.9% is also noticeable. Moreover, the internet users’ numbers were a good evidence to show the percentage of educated and open society in N. Korea where it’s less than 0.1 versus that in S. Korea where it was above 81.5 which is a huge difference, leading the N. Korea to a poor economy.

Now let’s look at it from the moderate countries as Lebanon; if we wake up and no clothes are being imported from Turkey or China to us, if laptops or smart devices are not being imported from China… What would happen then? *Simply the economic would melt down.*

Now coming to the solutions and their adequacy we can say that agreements should always be the source of peace between economies of different nations. An agreement should not be a talk without a walk. A good example I would mention here in the G8, which I believe that most agreements in this group were a mere ink on paper, nothing more. As an opposed person I have one question, one big question; what has the G8 done for poverty in Sub-African countries? Where has the G8 fought for human rights and better environmental protections?

Isn’t the aim of this group was to tackle important contemporary topics including economies issues and giving solutions and protection?! I believe that this group had a different aim i.e. have the authority to exploit developing countries resources.

Well the barriers mentioned previously in this paper should be eliminated, if not to be well-balanced in order to help all economies grow and survive. Tariffs and other restrictions should be decreased or removed. Political barriers should be eliminated and should be replaced by good relations helping the under developed and poor economies instead of putting blocks. Cultural and social barriers should not be walls between the economies, religious and other cultural habits should not affect the relations between countries with the help of education. Technology should be linked to the education levels that should be raised by the poor countries with the help of their government and other nearby countries. Coming to the monetary barrier, this barrier is being restrained with
the international acceptance of the dollar and euro currencies which is making worldwide trade easier than before. All countries should involve and accept one of these currencies in order to maintain and succeed in trading. Finally, the political barriers where citizens of a certain country (as for Syrians above) should not hold the barriers burden of their government. Sanctions should be reduced and should not extend to reach citizens of the country banned, since this impact will be held by every individual inside and outside his country.

Still we can add that the agreements between the countries should include all solutions and be clear to both sides in order to help in spreading the free-trade between all countries and raising standards of economy of late ones.

Ending with saying that if protectionism should still occur it should be only rational to keep protecting the domestic economy as maybe for raw materials.

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