ACCOUNTING AND FISCAL ASPECTS REGARDING INTERNATIONAL TRADE

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Although subject to short term fluctuations as a result of the business cycle, the value of trade has continued to grow, reflecting the increased significance of trade and globalization. This paper focuses on the importance of accounting harmonisation on international trade showing the fiscal framework regarding trade in Romania. The study also presents the situation of exports and imports in our country in the last years, showing that the volume of goods and services trades is raising, leading also at the entire economy to grow.

Key words: trade, INCOTERMS, IFRS, fiscal policies
JEL code: F40, M41

1. Introduction

The global economy has grown continuously since the Second World War. Global growth has been accompanied by a change in the pattern of trade, which reflects ongoing changes in structure of the global economy.

The level of economic development of the various countries and the degree of diversification and specialization of their production are the main factors determining the role that each country has in the world economy and reflect the place that each country has in the international division of labor.

To be able to understand the importance of trade, first of all we have to give a short definition about what this means. International trade can be explained as the exchange of capital, goods, and services across international borders or territories. Actually, almost every kind of product can be found on the international market starting from food, clothes to jewelry, wine, stocks etc. Services as tourism, consulting or transportation can also be traded in the international market. [4]

Without international trade, nations would be limited to the goods and services produced within their own borders. A product that is sold to the global market is an export, and a product that is bought from the global market is an import. Imports and exports are accounted for in a country's current account in the balance of payments.

As any country has its weaknesses and strengths in different industries and for each product category, which are reflected as deficits or surpluses of the trade balance, the specialization is based on the dynamic changes in the structure of production, on the structural transformation of consumption or on investment development processes. From this point of view, a country's specialization is the result of an ongoing effort to make better use of its specific strengths in an environment that goes through permanent transformation.[1]

2. Trade theories – first step in understanding trade patterns

Global trade allows wealthy countries to use their resources - whether labor, technology or capital – more efficiently. Because countries are endowed with different assets and natural resources (land, labor, capital and technology), some countries may produce the same good more efficiently and therefore sell it more cheaply than other countries. If a country cannot efficiently produce an item, it can obtain the item by trading with another country that can. This is known as specialization in international trade. [4]

The core subjects of trade theories are the pattern and volume of trade: which goods are traded by which countries, and how much of those goods are traded. These questions had been investigated by various international trade theories, mainly, Ricardian approach, HO theory and the alternative theories of comparative advantage.

There have been several models for international trade which tried to explain the trade patterns and the implication trade has for both countries. As a prelude to discussing modern trade theory, it is useful to consider the relations between trade and structural change in the model that first set forth in a rigorous manner the basis and benefits of international trade, the classical model.

The first attempt to explain how trade occurs was the model British classical economists Adam Smith created. He displays trade taking place on the basis of countries exercising absolute cost advantage over one another. This was de basic model but, after some time another question rise: But what happens if one country has absolute advantage in both good? The answer was first provided by David Ricardo.

The Ricardian model focuses on comparative advantage, which arises due to differences in technology or natural resources: to increase the gains from trade countries should specialize where they have the greatest absolute advantage (if they have absolute advantage in both goods) or in their least absolute disadvantage (if they have an absolute advantage in neither good).

According to this theory, each country should move to specialize in the production of its comparative advantage good and then export the excess of the production of that good to the other country in exchange for the other good. This will lead to the increase of world output because more goods will be produced, so the volume will rise. Also the welfare rises, because the real GDP of the country increased, so the citizens will be able to expand their consumption of goods and increase their standard of living. Furthermore, it is something that occurs as a direct consequence of free market activity.

Taking into consideration all presented above we can say that the classical model has some problems in explaining real facts. For exemple, it is really hard to believe that one country will specialize only in the production of the good in which it has comparative advantage; countries will continue producing also the other good, importing and producing in the same time. This extreme predictions doesn't hold in real world.

The inconsistency between reality and theoretical predictions from the classical model provided economists reasons to search alternative explanations of comparative advantage. Swedish economists Eli Heckscher (1919) and Bertil Ohlin (1933) go further in trying to explain the comparative advantage, arguing that its source is due the differences in the allocation of production factors.[3] This is how the HO model appeared.

The Heckscher-Ohlin model has long been the central model of international trade theory, and it consists of two countries, two goods, and two factors of production. The model's prediction regarding trade patterns is that each country will export the good that intensively uses the factor of production it has in abundance, and will import the other good. More precisely, the country with higher relative proportions of a particular input factor will specialize in producing the good that intensively uses that factor, and import the other good. So we can say that the HO trade model is centered around the idea that relative factor abundance and intensity is what drives trade patterns between countries.

Unlike the classical model, the HO model predicts that in equilibrium each country will continue to produce some of both good, so no complete specialization occurs. Also, on HO model, strict assumptions should be made about the nature of tastes of each country, otherwise the result will be inconclusive.

There are two further implications about how prices and trading patterns change. One is that if a country's factor endowments change, its trade will change as well. The other is that this change would also affect the international price, especially if our world consists of only two countries.

If the relative price of the two traded goods changes for any reason, then the factor that is used relatively more intensively in the good that is now more expensive will benefit. The factor that is used relatively more intensively in the good that is now cheaper will lose. [5]

Taking into consideration the gains from trade, according to the Stolper-Samuelson theorem, the owners of the abundant factor gain but the owners of the scarce factor lose if trade is liberalized. However, the owners of the abundant factor gain more than the owners of the scarce factor lose in the sense that the owners of the abundant factor could compensate the owners of the scarce factor for their losses and still be better off.

Hence, while some people gain and some people lose from trade, the economy as a whole still gains from trade in the Heckscher-Ohlin model first, because the amount of goods produced in the world increase and also because after trade, each country consumes a bundle of goods which was not attainable in autarky; this thing implies a higher standard of living for each country as a whole.

Trying to explain the apparent shortcoming of the HO model, some economist developed new theories of international trade pattern. These new theories take into account things such as multiple countries, goods and factors, technology and production differentiation, and human skills being more or less general than the HO model, trying to explain trade for a narrow class of product. However, none of this theories is as complete in its structure as the HO model.

The first theorem discussed is the human skills theory which is the closest to the HO model taking into consideration the ideas which is based on. This theory explains the trade patterns based on the fact that differences in endowments and intensities of skilled and unskilled workers exists. This is what gives the country the comparative advantage: a country with large endowments of high skilled labor will have a comparative advantage in the production of the goods that are relatively intensive in skilled labor. This theorem solves Leontief's paradox by the fact that, US having high trained and educated workers that another country its exports will be skilled labor intensive. This explanation still holds in the real world today, proving that countries with high degree of skilled labor will trade especially with counties that faces the same characteristics ;

The second attempt of explaining the world trade patter was the product life cycle theory which is focused on manufactured goods. Vernon Raymond,[14] said that the comparative advantage for manufactured good will change over the time from one country to another because of the product life cycle. The country which invented the good will export the good to the rest of the world because it has comparative advantage in the production, but after a while, after the product become more standardized , the comparative advantage will move to countries where manufacturing goods are lower. This model can explain the Leontief paradox but also has limited applicability because it is used only on the trade in manufactured products. It is not possible for this theorem to make general assumption about the entire world and also about the time when the comparative advantage changes from one country to another. This is why, we consider this model to be one which is not applicable all the time in the real world, this being the a weakness in the product life model.

3. International trade framework in Romania

Over the past 15 years Romania's exports have been rising, by increasing nearly seven times, from 7.4 billion euros in 1998 to 49.6 billion at the end of 2013. In the same time, exports have supported the economy and will remain one of the main engines of growth for Romania, as analysts expected, given the recovery in the euro area economies, the main trading partners.

As we can see, exports have reached a historic point in 2013 reaching about 50 billion euros, helped by the great agricultural production and the development of new production lines in the industry. Manufacture of electrical equipment, automotive or woodworking annual rate recorded double-digit growth in 2013, including orders from outside the euro area.

Also, agriculture has contributed grain exports to rise in 2013. Exporters of agricultural raw materials in Romania started in the last two years of aggressive export campaign, so that Romanian goods were able to make their place in the regional markets.

In 2013, in comparison with 2012, exports to the other 27 European Union (EU28) countries increased with 8.8%, registering a weight of 69.6% in total exports. Partner countries holding the first 10 places in the total amount of exports in the period 01.01-31.12 2013 (representing 62.7% of total exports) were the following: Germany (18.6% of total exports), Italy (11.5%), France (6.8%), Turkey (5.1%), Hungary (4.9%), United Kingdom of Great Britain and Northen Ireland (4.1%), Bulgaria (3.4%), Netherlands (3.1%), Russian Federation (2.8%) and Spain (2.4%).

Table 1- FOB Exports (trading partners by groups of countries)

	2009	2010	2011	2012	2013
TOTAL	**29084**	**37360**	**45274**	**45056**	**49564,2**
EUROPE	**25706**	**32969**	**39298**	**38456**	**41885,8**
European Union (EU-28)	21600	27013	32160	31601	34506,8
EFTA	655	575	645	673	866,3
Other Europe countries	3450	5381	6492	6182	6512,7
ASIA	**2030**	**2519**	**3380**	**3235**	**3749,4**
Near and Middle East	1108	1303	1872	1705	1933,6
Other Asian countries	922	1216	1507	1530	1815,8
AFRICA	**706**	**926**	**1279**	**1790**	**2053,2**
North Africa	527	545	823	1297	1576,2
Other African countries	179	381	455	494	476,9
AMERICA	**598**	**900**	**1269**	**1481**	**1799,6**
North America	366	641	945	973	945,4
Caribbean and central	137	111	60	105	387,7

America					
South America	95	147	264	403	466,6
OCEANIA	**20**	**22**	**37**	**73**	**61,5**
UNSPECIFIED COUNTRIES EXTRA EU	**26**	**24**	**12**	**20**	**14,7**

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In the same time, Eugen Sinca [8] points out that even in the export has raised in 2013 because of the industry and agriculture sector, Romania's performance in exports remains modest if you put it in a regional context. Czech Republic, a country with a population of two times lower than of Romania, has double exports, which indicates the need for investment today. Romania also needs to invest much more than 0.5% of GDP in research and development and to gradually increase exports with high technology, which in 2012 had a share of only 6.3% of total exports to 16 - 17% in the Czech Republic or Hungary. Pharmaceutical, chemical, aeronautical, electrical equipment are key areas to which attention should be directed Romanian and foreign investors"

Looking at the imports level in the last year we can see that, imports from the other 27 European Union (EU28) countries increased with 4.0% registering a weight of 75.7% in total imports. Partner countries holding the first 10 places in total amount of imports (representing 66.9% of total imports) were the following: Germany (18.6% of total imports), Italy (11.0%), Hungary (8.2%), France (5.7%), Poland (4.4%), Russian Federation (4.3%), Austria (4.0%), Netherlands (3.7%), China (3.6%), Turkey (3.4%).

Table 2 - CIF Imports (trading partners by groups of countries)

	2009	2010	2011	2012	2013
TOTAL	**38953**	**46869**	**54948**	**54684**	**55268,1**
EUROPE	**32598**	**39425**	**46056**	**46377**	**47935,0**
European Union (EU-28)	28472	33978	39951	40167	41864,8
EFTA	450	532	539	610	572,0
Other countries in Europe	3676	4916	5566	5599	5498,2
ASIA	**4976**	**6053**	**7004**	**6383**	**5589,1**
Near and Middle East	291	334	363	386	330,2
Other countries in Asia	4684	5719	6641	5997	5258,9
AFRICA	**293**	**279**	**325**	**412**	**355,2**
North Africa	191	141	179	189	210,1
Other countries in Africa	102	138	147	223	145,1
AMERICA	**1066**	**1090**	**1549**	**1485**	**1348,9**
North America	596	629	738	886	737,9
Caribbean and central America	76	64	202	173	151,5
South America	394	397	609	426	459,6
OCEANIA	**19**	**22**	**12**	**24**	**17,7**
UNSPECIFIED COUNTRIES EXTRA EU	**2**	*	**1**	**3**	**22,2**

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4. International Standards – general rules applying to the international trade

INCOTERMS

The rules or terms of delivery of goods were and are regulated by a series of international rules that serve as a benchmark for the business world.

We can not help notice that the evolution of modern society, characterised by increased freedom of action, provides the entrepreneurs, regardless of the geographic area where they come from, a wide range of functional integration in the foreign trade systems, be it a single market such as the European Union or an international one. But these commercial transactions are subject to some common rules established and applied uniformly globally or regionally, that serve as a benchmark all over the business world. Knowing these rules is important for all the categories of participants in foreign trade because they affect the value of goods that are traded within the Community and internationally [12].

Since 1928, on the initiative of the International Chamber of Commerce in Paris (ICC), in order to provide traders with a set of international rules for interpreting the trading terms most commonly used in the international trade and thus help simplify the transactions for the negotiation of the sale of goods and the nconclusion of the commercial agreement there has been developed a series of six terms of delivery or

commercial terms which setting up rules for the uniform interpretation of obligations, risks and responsibilities in international sales, especially as they were uncertain and contradictory.

Later, in 1936, the International Chamber of Commerce in Paris has published a series of international rules concerning the delivery, called INCOTERMS (International Commercial Terms) that include 11 international trading terms [13] also known as "delivery clauses", rules that were able to define the seller's and the buyer's obligations better and more completely than in 1928,

Starting 1 January 2011 the new version of Incoterms 2010 came into force, aimed, in particular, at a better understanding and ease of use of the delivery terms (The agreements concluded before such date remain governed by the previous forms of Incoterms rules).In fact, the delivery term is one of the essential terms of an international commercial agreement, thereby regulating the transfer of goods and risks from seller to buyer, including the legal and economic consequences generated [2]

We believe that the need to amend the terms of foreign trade in 2010 was due, among other things, to the new reality of the countries within the Community, which as you know, within the common Market instituted between the 27 European Union member states, ruled the free movement of goods, capital and people.

Another argument in favour of Incoterms 2010 referred to the need to adapt the language used and the terms used to the new realities of information technology, so that the new revision should take into account the electronic commerce and the electronic system for invoicing and data transfer (Electronic Data Interchage), preparing the current edition to better meet these increasingly ubiquitous realities. The new rules have also removed the ambiguities related to the disputes and difficulties that have arisen in interpreting the Incoterms 2000 clauses regarding the transportation practices, which are constantly changing and increasingly combined.

If the Incoterms 2000 rules comprise 13 delivery terms, which were grouped into four different categories, taking as a criterion the main obligations of the seller, the Incoterms 2010 contain only 11 delivery terms, sorted into two categories, according to the manner of use of transport

Commenting on this situation, we must specify that the correct use of the Incoterms 2010 delivery terms involves from the contractual partners not only the knowledge of the content of such rules, but also their proper insertion in the international sale agreement, with all the necessary details, as any omission or lack of specification in this regard may diminish or even cancel the benefits expected by the seller or buyer on the completion of such transactions[10]

Need of IFRS Adoption on Trade in Goods

The free movement of goods and production factors are the fundamental freedoms of the European common market, as they move to the area where they are most valued, improving the efficiency of resource allocation. To achieve the free movement of goods and factors of production, the infrastructure of national markets has to be harmonised. Financial accounting is considered a part of this infrastructure (Choi et al, 2001).

A number of international organisations, such as the United Nations, the World Bank and the World Trade Organisation (WTO), are involved in attempts to harmonise accounting.i These organisations support the effort of the International Accounting Standards Board (IASB) to eliminate the barriers to investments flows among different countries and to strengthen the international financial architecture.

International Accounting Standards (IAS) are rapidly converging. Over 100 countries have already moved to International Financial Reporting Standards (IFRS) for financial reporting purposes. Hence, the question of whether the adoption of IFRS fosters foreign activities is of special interest, particularly in light of the European Union's recent adoption of IFRS by listed companies. IFRS adoption may help IFRS-users from other countries to understand financial information, thus reducing information asymmetries between users of financial statements in different countries.

Whether transition economies and uncertainty-averse countries may benefit more from accounting harmonisation is also analysed since companies in different countries are expected to participate in foreign activities to a greater extent when information costs and risks of doing business with unfamiliar partners are reduced. The results support IFRS adoption having an important effect on reducing information costs and investor uncertainty.

As regards the European accounting harmonisation process, the main instruments used to promote accounting harmonisation within the European Union (EU) were the Fourth and the Seventh Company Law Directives. The former (1978) aimed to harmonise the national laws on the accounting regulations and intended to make it easier for investors, lenders and suppliers to obtain, understand and rely on the accounts of companies in other Member States, and to promote fair competition among Member State companies (Roberts et al., 2002). The latter (1983) concerned consolidated accounting in Member States.

Moreover, the Directives have had a real positive impact since the quality of financial reporting increased in Member States. Nonetheless, as the Commission of the European Communities (1995) pointed out "the adoption and implementation of the Fourth and Seventh Directives were only achieved with difficulty and no further progress has been made at the EU level in harmonising the basic rules on accounting and financial reporting since the Directives were originally negotiated by the inclusion of numerous options open to different interpretations.

Information asymmetries play an important role in equity flows (Portes and Rey,2005), and also in foreign investments and international trade in goods (Guerin, 2006). The information asymmetries arising from differences in financial reporting influence foreign investments since they affect the firms' performance to locate and invest abroad. Otherwise, the relationship through which financial accounting information matters on trade in goods is not so straightforward, and is related to the fact that exporting firms face large fixed costs. Exporting activities involve investment that cannot be financed internally. Thus, there is a need for outside finance. However, exporting costs are difficult to finance since investments are made long before any export revenue is collected, and they provide limited collateral (Becker and Greenberg, 2003). For outsiders, revenues from abroad may be difficult to verify, therefore making access to relevant and timely information easier means that contracts are enforced more reliably, and financial intermediaries are more capable of assessing potential risks and rewards.

An example of how financial accounting information affects trade is the case of "factoring". In this case, trade is related to the quality of financial reporting, since large institutions deliver credit to firms and they focus on the quality of the accounts receivable (Berger and Udell, 2006).

5. Fiscal aspects regarding international trade in Romania

Romania's accession to EU on 1st of January 2007 resulted in several radical changes which were brought into effect through the enactment of the EU Common Trade Policy. Joining the European Union introduced the European Commission as an interagent authority which talks in terms of trade-related circumstances. It especially mediates debates within the World Trade Organization. Romania also had to implement the Community Custom Code and the EU stipulations for applying these norms.

Exports

When exporting to Romania, the elementary customs regulations to be followed relate to European Custom Code. According to EU legislation, the trade policies in Romania actually must adapt to several general principles such as release for free circulation, transit, customs, warehousing, inward processing, processing under customs control, temporary admission, outward processing and exportation.

Export of goods and services are not subject to custom duties or VAT. For the majority of goods, no export license is required. Authorizations are required however for exports of fuels, unfinished wood products, metallurgical products, ferrous and non-ferrous waste.

According to the European legal stipulations, Romania has to follow certain quantitative restrictions and controls on exports (as imposed by foreign policy principles and other security reasons). Nonetheless, Romania does not apply taxes or duties on exports.

The trade policies in Romania indicate some strict distinctions regarding the nature of the traded goods, such as dual use ones, which are controlled by European standards. These are defined as following: "items, including software and technology, which can be used for both civil and military purposes, and shall include all goods which can be used for both non-explosive uses and assisting in any way in the manufacture of nuclear weapons or other nuclear explosive device".

The Member State where the exporter originates must grant some authorizations, in this case the National Customs Authority of Romania for external deliveries from Romania. There are three types of authorizations validated in E.U: national general, global or individual.

Imports

When exporting to Romania, the legal basis that should be taken into consideration relates to the European Custom Code, as already mentioned. In order to identify the customs value in E.U, a transaction value must be indicated. It regards the international freight, insurances and some other charges. The majority of import declarations are acknowledged in connection with the transaction value method. All evaluations, administrative or judicial, concerning the customs valuation decisions may be appealed at the National Customs Authority in Romania. [6]

The custom duty rates vary depending upon the product being imported. The weighted average of custom duty is 11.7% with notable exceptions for ores and fuels, for which the taxation is nil or reduced to 3-10 %. However, tariffs are considerably higher for such items as cigarettes, furs, carpets, vehicles, photographic equipment and supplies, bicycles, TV sets and sound and video registration equipment. Duties applied to industrial equipment are generally about 15 % ad valorem.

Import incentives are currently available to private SMEs (under Law no. 133), for current account import for goods to be exported within 45 days, as well as for equipment imported for investments in excess of $1 million. Also, custom incentives are granted for goods imported inside Romanian Free Trade Zones and disfavoured areas, as provided by specific regulations.

The following imported goods are exempted from duties:

a) samples and models with no commercial value, as well as promotional materials, if certain conditions are met;

b) humanitarian materials and legacies. Imported goods can be replaced/repaired during the warranty period. The damaged ones can be exported and re-imported under import duty exemptions.

To benefit from the exemption upon the re-import of the goods the replacement/repairs should be performed within the warranty period and the reimported goods should have the same tariff classification and same technical characteristics as the exported ones. [11]

In case the intention is to replace the goods and the warranty clause has expired, then the re-importation is only partially exempted (i.e. the custom value is represented by the value of repairs).

With few exceptions, imports from all countries are subject to value-added-tax (VAT). VAT generally applies to the supply of goods, transfer of real estate and services. Exempted activities include healthcare, scientific, educational and charitable activities, banking and financial services, insurance, and schoolbooks editing.

Conclusion

The present paper gave some good reasons why harmonisation process in Europe is so important in terms of international trade. In the same time, by applying these regulations in Romania we could reduce information costs and unfamiliarity between countries being able to encourage international trade and foreign direct investments.

In terms of fiscal aspects, as shown before, our country tries to encourage exports and also not to discourage the imports of goods, these measures being successful in the last couple of years, helping the economy to grow.

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