



International Trade and Its Benefits

The sale of goods and services is not restricted to local, regional, or national markets; it often takes place on an international basis. Nations import goods that they lack or cannot produce as efficiently as other nations, and they export goods that they can produce more efficiently.

This exchange of goods and services in the world, or global market is known as international trade. There are three main benefits to be gained from this type of exchange.

First, international trade makes scarce goods available to nations that need or desire them. When a nation lacks the resources needed to produce goods domestically, it may import them from another country. For example, Saudi Arabia imports automobiles; the United States, bananas; and Japan, oil.

Second, international trade allows a nation to specialize in production of those goods for which it is particularly suited. This often results in increased output, decreased costs, and a higher national standard of living.

Natural, human, and technical resources help determine which products a nation will specialize in. Saudi Arabia is able to specialize in petroleum because it has the necessary natural resource; Japan is able to specialize in production of televisions because it has the human resources required to assemble the numerous components by hand; and the United States is able to specialize in the computer industry because it has the technical expertise necessary for design and production.

There are two economic principles that help explain how and when specialization is advantageous. According to the theory of absolute advantage, a nation ought to specialize in the goods that it can produce more cheaply than its competitors or in the goods that no other nation is able to produce. According to the theory of comparative advantage, a nation ought to concentrate on the products that it can produce most efficiently and profitably. For example, a nation might produce both grain and wine cheaply, but it specializes in the one which will be more profitable.

The third benefit of international trade is its political effects. Nations that trade together develop common interests which may help them overcome political differences. Economic cooperation has been the foundation for many political alliances, such as the European Economic Community (Common Market) founded in 1957.

International trade has done much to improve global conditions. It enables countries to import goods they lack or cannot produce domestically. It allows countries to specialize in certain goods with increased production and decreased prices. Finally, it opens the channels of communication between nations.

Activity 01:

Answer the following questions on international trade.

1. What are the various markets in which the sale of goods and services takes place?
2. What is international trade?
3. What is the first benefit of international trade?

4. What resources help determine which products a nation will specialize in?
5. According to the theory of comparative advantage, what should a nation do?
6. What is the third benefit of international trade