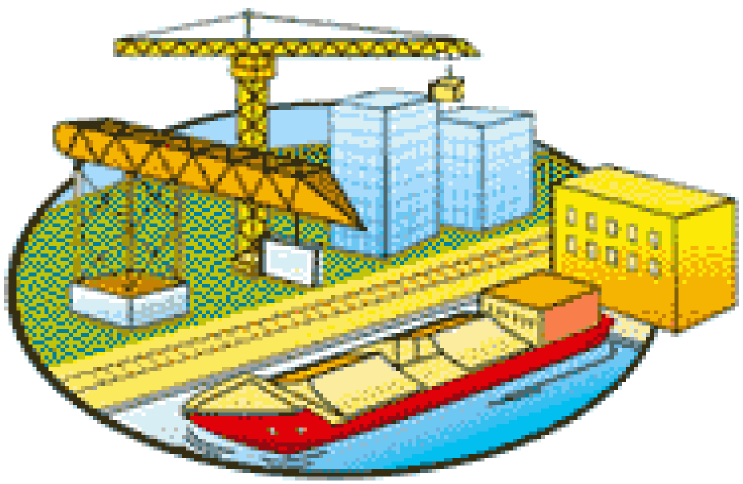
WHAT IS INTERNATIONAL TRADE?



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International Trade - A World of Opportunity

Trade - a human endeavour as old as the most ancient civilizations - a simple word that evokes powerful images of history, exploration of uncharted lands, discovery of exotic goods, the very creation and destruction of empires - a word that belies the complexities, risks and challenges which are at its core.

What is international trade?

International trade is trade between nations.

Trade between businesses in different nations.

International trade is carried across national borders.

Exchange of raw materials and manufactured goods (and services) across national borders.

International trade

the **exchange of goods and services across international boundaries or territories**. In most countries, it represents a significant share of **Gross Domestic Product**.

International trade is a major source of economic revenue for any nation, without it, nations would be limited to the goods found within their own borders.

What is International Trade?

International trade can be defined as either the buying (importing) or selling (exporting) of goods or services on a global basis.

Advantages and Disadvantages of International Trade

Advantages to consider:

- Enhance your domestic competitiveness
- Increase sales and profits
- Gain your global market share
- Reduce dependence on existing markets
- Exploit international trade technology
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- Exploit international trade technology
- Extend sales potential of existing products
- Stabilize seasonal market fluctuations
- Enhance potential for expansion of your business
- Sell excess production capacity
- Maintain cost competitiveness in your domestic market

Disadvantages to keep in mind:

- Long-term gains
- Hire staff to launch international trading
- Modify your product or packaging
- Develop new promotional material
- Incur added administrative costs
- Dedicate personnel for traveling
- Wait long for payments
- Apply for additional financing
- Deal with special licenses and regulations

Specialization and international trade

International trade is affected by specialization.

Specialization is when a nation or region produces what it is best suited to do based on its geography, climate, resources and the skills of its population.

Although international trade benefits many industries within a nation, some industries may be hurt if unrestricted trade occurs.

Unrestricted trade (free trade) is trade without import taxes or limits on the quantities of good brought into a country.

Comparative Advantage

- David Ricardo: *Principals of Political Economy*, 1817.
- Country should specialize in the production of those goods in which it is **<u>relatively</u>** more productive… even if it has absolute advantage in all goods it produces.
- Absolute advantage is really a special case of comparative advantage.

Absolute Advantage

- Adam Smith: *The Wealth of Nations*, 1776.
- Mercantilism weakens a country in the long run and enriches only a few segments.
- A country should specialize in and export products for which it has absolute advantage; import others.
- A country has absolute advantage when it is more productive than another country in producing a particular product.