DOWNLOAD PDF WHY DO NATIONS TRADE? SOME EARLY ANSWERS

Chapter 1 : Indian Trade - Wikipedia

Why do countries trade? Countries trade with each other when, on their own, they do not have the resources, or capacity to satisfy their own needs and wants. By developing and exploiting their domestic scarce resources, countries can produce a surplus, and trade this for the resources they need.

Trade with early European settlers[edit] Plymouth and Jamestown In order to set up a thriving colony, settlers in the New World needed the five factors of production that contribute to the creation of wealth: Often, trading with Native Americans resulted in colonists gaining needed knowledge and natural resources. Examples of this can be seen in the English settlements of Plymouth Bay and Jamestown. Chief Massasoit , a Wampanoag, and Squanto , a Patuxet Indian, helped the Pilgrims of Plymouth Bay establish their colony by teaching them skills in cultivating this land and hunting. The war ended with the defeat of the Indian tribe, causing a serious fracture amongst relations between the Pilgrims and Native Americans. Initially, the Powahatan aided the English settlers with food and clothing, helping them survive the early difficult years. However, relations between the two groups deteriorated after three years, resulting in a war. Fur trading posts Fur trading was one of the main economic activities in Northern America from the late 16th century to the midth century. At the time, demand for fur was surging in Europe as it was used to make cloth and fancy hats. Data collected from England in the 18th century highlights that the years from to saw an increase of 12 shillings per pelt. It has been calculated that over 20 million beaver hats were exported from England alone from to The opportunity cost of hunting beavers in Europe was extremely high: Native Americans made use of the trade goods received, particularly knives, axes, and guns. The fur trade provided a stable source of income for many Native Americans until the midth century, when changing fashion trends in Europe and a decline in the beaver population in North America brought about a collapse in demand for fur. The Spanish mainly intended to spread the Christian faith to Indians and to use them as slaves for work. The most significant effect of trading with the Spanish was the introduction of the horse to the Ute in New Mexico. Gradually, horses bred and their use was adopted across the Great Plains, dramatically altering the lifestyles and customs of many Native American tribes. Many Indians switched from a hunter- gatherer economy to a nomadic lifestyle after they began using horses for transportation. They had a greater range for hunting bison and trading with other tribes. When Europeans first encountered a tribe, they would often be offered fur, food or other items as gifts. The Europeans did not understand they were supposed to take on an alliance with the natives, including helping them against their enemies. Native American tribes regularly practice gift giving as part of their social relations. Because the Europeans did not or most of them , they were considered to be rude and crude. After observing that Europeans wanted to trade goods for the skins and other items, Native Americans entered into that. Both sides became involved in the conflicts of the other. Practical within their own cultures, decorative baskets were also important trade items for many tribes. Later the Indian Office , which was then part of the War Department, issued licenses to traders in the Indian Territory. Under removal, the largest tribes from the Southeast and north of the Ohio were moved west of the Mississippi river. By Indian Territory had been designated as what was then most of the United States west of the Mississippi, primarily what became Arkansas, Kansas and Oklahoma. Territories of the upper West were still occupied by native tribes as well. Mountain men and traders from Mexico freely operated there independently of the US. After the formation of the United States, the commerce clause of the constitution gave Congress the power to "regulate Commerce with foreign Nations, and among the several States, and with the Indian tribes. The Indian Removal Act of forced tribes such as the Cherokee and the Choctaw to move out of their homelands. Forcing tribes to relocate and to adjust to isolated reservations often unsuitable for the subsistence farming they were encouraged to undertake, made many of them dependent on the U. They had difficulty trying to develop economic systems of their own. Strategies and Institutions in American Indian Economic Development, on reservations, tribes lacked access to capital, were assigned to areas with poor natural resources or had their resources stolen or kept from their control , and did not possess skilled labor. Today, many programs, such as the Harvard Project on American Indian Economic Development , exist to foster conditions that will help reservations become independent and financially stable communities. Since the late 20th century, many tribes have established gaming casinos. The most successful ones use part of the revenues for economic development of their nations, as well as for welfare and education for all their tribal members.

Chapter 2 : Answers - The Most Trusted Place for Answering Life's Questions

Before we begin a discussion about why nations trade, it would be helpful to take a moment to consider the character and evolution of trade. It is important to keep in mind, first, that although we frequently talk about trade "between nations," the.

Alternatively, it could be assumed that various resources are required but that they can be represented and measured by means of a "composite resource". Because of comparatively i. The concept of comparative advantage has to be distinguished from that of absolute advantage, which indicates that the country in question uses in absolute terms fewer resources in the production of the given commodity. Thus, in our example, the United States has an absolute advantage in the production of both chips and sugar and a comparative advantage in the production of chips only. The basic tenet of the comparative cost theory is that the gains from trade arise from the existence of a comparative cost advantage and not of an absolute cost advantage. Comparative advantage may need to be created Third, the theory is static. It explains trade and trade gains on the basis of comparative advantage at a certain point in time. It may be the case that comparative advantages change and can be acquired over time through, inter alia, policy action. In that case, having a comparative advantage in one good would not necessarily imply that a country should specialize in the production of that good at the expense of other lines of production. In fact, new industries so-called infant industries may not have a comparative advantage when they are being established and, as we will see below, may need to be protected until they achieve the size required to benefit from economies of scale. Thus, in our example, Brazil would not necessarily commit itself to the production of sugar, totally forgetting about computer chips, if it felt it had the basis for developing a viable chip industry in the longer term. This kind of reasoning in fact led Brazil to put trade barriers to the import of computer equipment with the intention to develop over time some advantage in the domestic production of computers. Note, of course, that trade policy may not be the most effective way of developing an indigenous industrial capacity if more direct industrial policies are available. Countries may also lose comparative advantage in certain types of production as technology evolves abroad the so-called sunset industries issue. Some qualifications on the theory of comparative costs The theory assumes that resources are fully utilized, i. Thus, if there are idle resources, there is no need to decrease the production of sugar to increase that of chips or vice versa. It assumes that resources can easily be reallocated to those activities in which a country has comparative advantage. In the real world, there are a number of constraints which may make it difficult to reallocate resources. Thus there are potentially high adjustment costs in moving from one line of production to another, e. The capital used in sugar factories cannot be used for chocolate production and workers have to be trained to use a different technology. In the classical model, investment resources are not internationally mobile only commodities can move and investment decisions are taken on a national basis. Furthermore, the decision-making framework for a growing part of world investment is international and not national. A large investment fund or a transnational corporation are not restricted by national boundaries; they search for profit opportunities anywhere in the world - a concept closer to that of absolute than to comparative advantage. Factors determining investment location, and therefore trade flows, are lower labour costs, availability of natural resources and distance to raw material and major markets, as well as opportunities for establishing an efficient marketing and distribution set-up. The theory of comparative advantage is mostly concerned with the efficient use of resources for producing a limited number of very homogenous commodities. Today, the quality and the volume that can be delivered by a particular supplier is often more important than the cost. In a sense, the capacity to sell is becoming more important than the capacity to produce. Trade has important distributional effects Fourth, the theory shows that countries as a whole gain from trade but makes no reference to whether and how different groups within each country benefit or lose from trade. As we will see below, trade can have important impacts on income distribution and this adds a social dimension to the trade issue. Economies of scale Trade allows scale economies to be achieved Another reason why trade can increase efficiency is because it allows an expansion of the market for a certain industry beyond the limits of the domestic economy. There are two ways in which economies of scale may occur at the industry level, which will normally operate in conjunction. One is through technological indivisibilities in the firms that make up the industry, for instance, the use of robots in car manufacturing. This happens when there are cost saving technologies that can only be introduced after a certain level of output is reached. In this case, economists talk of economies of scale internal to the firms in the industry. The other is through the existence of cost savings that take place through the sheer expansion of the industry, mostly because of an improvement in the services supplied to the industry by third parties or the technical or commercial environment in which it operates - what economists call external effects. In this case the economies of scale are external to the firm but internal to the industry. Examples of these are the development of a skilled labour force, specialized suppliers of inputs, a competitive atmosphere and a shared technological know-how, all of which will reduce costs. An interesting thing about economies of scale is that, if they are significant, countries with few differences in resources or in technology, and hence in production costs, will gain from specializing in different products and trading them. With specialization, the two countries can reap the economies of scale in the commodity in which they specialize, lowering the cost of production. Economies of scale, combined with product differentiation see below explain the phenomenon of intra-industry trade in which countries trade similar, but differentiated, products with each other, e. Competition through trade Trade ensures the benefits of competition One more way in which international trade can raise efficiency is through the enhancement of competition. By opening their frontiers to trade, countries force their industries to compete with goods and services produced abroad, and hence to struggle to become competitive and pass on cost reductions to consumers in the form of lower prices. In industries which tend to be monopolistic or oligopolistic because of the nature of the production process e. The car and telecommunication industries are examples of this. Trade may be a good way to bring competition and raise efficiency in these industries. This advantage of trade is not very relevant in agriculture since, because there are many farms producing very similar commodities, the farm sector is hardly a concentrated industry. However, farmers may benefit from the increased efficiency of input supply industries or food processing industries brought about through trade. Since these include consumer goods as well as capital goods and inputs, trade favours both domestic consumers and the development of the domestic production capacity. Diversity refers to the availability of goods that cannot be produced in the country or could only be produced under very special and expensive conditions e. It also refers to different types or brands of goods actually produced in the country e. Through product differentiation countries do not need to either fully specialize in industries where they have a comparative advantage or totally abandon industries where they do not; they can specialize in industrial niches e. Intra-industry trade of this kind is common in consumer goods industries, but is less characteristic of trade in agricultural products because of the importance of natural resource endowments and their greater homogeneity. Trade may also serve to smooth out transitory excess demand or excess supply situations in domestic markets, thus avoiding or reducing price fluctuations and eventual supply shortages. Agricultural products may benefit especially in this respect from foreign trade, since agricultural markets tend to be particularly unstable as a consequence of supply rigidities it takes time for agricultural production to respond to market signals , exogenous factors affecting production such as weather and pest conditions and the fact that the demand for food tends to vary little when prices go up or down it is inelastic. A country largely self-sufficient in food and agricultural products may have agricultural surpluses in good years, which will place strong downward pressure on farm prices. The international market may serve to dispose of these surpluses with minimum disruption of domestic prices and incomes. The opposite will happen in poor agricultural years. Thus, if a country is highly specialized in the production of some export commodities and depends largely on imports of other commodities, it will be very exposed to international price fluctuations. These fluctuations are also felt in tradable goods which are only marginally exported or imported, in the absence of policy instruments designed to isolate domestic prices from world price fluctuations. Agriculture has traditionally been the main sector where these instruments have been applied, with varying effects. Will everybody win or at least not lose? Two issues can be distinguished here; one is the impact of trade on different economic or social groups within a country, the other is whether the gains from trade are fairly distributed between trading countries. These issues are examined separately below. Contrariwise, the owners of factors engaged in industries which have to compete with products imported from abroad, i. The distribution of the gains and losses arising from trade among the owners of productive factors will depend on the situation in the respective markets. In general, however, factors which are intensively used in an industry, for instance labour in textile industries or land in extensive farming, will stand to gain or lose more than those not intensively used. Similarly, owners of factors that are rather specific to the industry and hence relatively immobile, for instance workers skilled in some agricultural operations e. If no domestic industries produce the imported good or close substitutes , consumers or the producers that use it as an input will benefit from trade, without anyone losing. Intra-industry trade, where differentiated products from the same industry are traded, will in general have less negative impact on the domestic import-competing industry than trade based on specialization, where the import-competing industry may risk being totally swept away. Farmers are vulnerable to trade changes because of the lack of alternative opportunities Since, in comparison with other industries, factor mobility and product differentiation are rather limited in agriculture, the farming sector is particularly vulnerable to the impact of trade. Thus, it is difficult for agricultural land to change its use to urban or recreational use in response to import competition, or for agricultural labour to find another type of employment since this normally requires reskilling and will often imply migration. It is possible for farmers to change crops to adjust to international competition, but weather, soils, technical know-how and other factors that may restrict or jeopardize possible changes will often come into play. Shifting from plantation or livestock farming to other type of agriculture will be particularly expensive and take a long time. These rigidities, typical of the farm sector, are one of the reasons why governments have traditionally tended to protect farmers from the effects of international competition. An issue that has received much attention from trade welfare theorists is whether those who benefit from the opening of trade can compensate those who lose, so that the opposition of the latter to a free trade regime can be overcome and the gains from trade are better distributed. This may be possible in principle, but it is extremely complex in practice. The reason is the difficulty of agreeing on the exact amount of gains and losses and the identification of the groups involved, as well as that of establishing a mechanism to carry out direct payments from one group to the other. Governments may try to collect part of the gains, for instance, through export taxation. This is a highly contentious subject surrounded by controversy and contrasting points of view. We cannot survey them all here but we will summarize some of the most representative ones. The "mainstream economics" view Mainstream theories emphasize the role of demand in explaining the distribution of trade gains between countries The first view we have called "mainstream economics" to emphasize a theoretical tradition that is at the core of conventional Western academic economic thinking on international trade issues. While "mainstream economics" has much to say on the benefits deriving from trade and the welfare implications of protectionist policies and regional trade agreements, it does not offer much by way of predictions with respect to the intercountry distribution of trade gains. As mentioned before, under the comparative cost theory the distribution of benefits is inversely related to the closeness of the international terms of trade to the domestic price ratio. However, in the original formulation of the theory by David Ricardo there was no explanation of how close the terms of trade would be to either of the domestic price ratios. Later economists, such as John Stuart Mill, stressed the role of demand factors in the determination of the terms of trade. Thus, if in our example, United States consumers are much more eager demanders of sugar than of chips compared to their Brazilian counterparts, the terms of trade will favour Brazil 2 , which will obtain most of the gains. In more modern forms of the theory, the terms of trade continue to depend on the relative strength of the respective demands. The main prediction arising from this reformulation is a dynamic one stating that export-biased growth, i. The opposite would happen with import-biased growth. The reason is straightforward: The opposite is the case with import-biased growth. The above effects only take place, however, if the participation in world trade of the country in question is sufficiently large for a reduction in the domestic production cost to influence the international price of the commodity. The structuralist view Structuralists argue that the periphery is disadvantaged relative to core countries In the s and s, the distribution of trade gains between developed countries the "centre" of the world economy and less developed countries the "periphery" became an issue of intense debate, due in no small part to the intellectual influence of Raul Prebisch, the Argentinean economist who was for many years at the head of the UN Economic Commission for Latin America and one of the fathers of the Latin American structuralist school. The argument is based on the assumption of trade specialization between centre and periphery, with the centre specializing in exporting manufactured industrial products and the periphery primary commodities. The decline was viewed not as a transitory phenomenon due to a specific set of circumstances but as something embedded in the structural features of central and peripheral economies and in the nature of the development process. In a nutshell, the declining trend in the terms of trade for countries in the periphery 4 was explained by three reasons. The income elasticity of the demand for imports is lower at the centre than in the periphery due to the different type of the goods imported by both sets of countries - primary commodities in one case, industrial products in the other 5. Asymmetries are postulated in the impact of technological change at the centre and in the periphery. In central countries, it is argued that technological progress tends to decrease the demand for periphery country exports many of which are substituted by synthetic products.

Chapter 3 : Trade Specialization | Globalization

Even the English differed on how they should interact with Natives - some were afraid, others saw trade opportunities, and still others just wanted to conquer or kill them. There are many answers, and I suggest reading some of the accounts of colonizers (you can find many of these documents online for free) to get a better sense of what happened.

Definitions and Basics A barrier to trade is a government-imposed restraint on the flow of international goods or services. The most common barrier to trade is a tariffâ€”a tax on imports. Tariffs raise the price of imported goods relative to domestic goods goods produced at home. Another common barrier to trade is a government subsidy to a particular domestic industry. Subsidies make those goods cheaper to produce than in foreign markets. This results in a lower domestic price. Both tariffs and subsidies raise the price of foreign goods relative to domestic goods, which reduces imports. From an economic perspective, though, the costs to the economy almost always outweigh the benefits enjoyed by those who are protected. Protectionism , from the Concise Encyclopedia of Economics The fact that trade protection hurts the economy of the country that imposes it is one of the oldest but still most startling insights economics has to offer. The idea dates back to the origin of economic science itselfâ€¦. Free Trade , from the Concise Encyclopedia of Economics For more than two centuries, economists have steadfastly promoted free trade among nations as the best trade policy. Despite this intellectual barrage, many practical men and women of affairs continue to view the case for free trade skeptically, as an abstract argument made by ivory-tower economists with, at most, one foot on terra firma. In the News and Examples If economists are so convinced of the benefits of free trade, why are there so many arguments against it in the press? Many fallacies and myths have persisted for centuries, tracing back to an old idea called Mercantilism , which advocated promoting exports over imports a positive Trade Balance. Even though Adam Smith , founder of modern economics, turned mercantilism on its head in with the publication of The Wealth of Nations , the errors continue. Below are some light, humorous readings confronting just a few of the most common logical errors, emphasizing how to answer when you hear those mistakes being made. Trade barriers are good for the economy. Trade barriers benefit some peopleâ€”usually the producers of the protected goodâ€”but only at even greater expense of othersâ€”the consumers. See this satire on lobbying: Chapter 7 in Economic Sophisms, first published in France. To the Honorable Members of the Chamber of Deputiesâ€¦. You are on the right track. You reject abstract theories and have little regard for abundance and low prices. You concern yourselves mainly with the fate of the producer. You wish to free him from foreign competition, that is, to reserve the domestic market for domestic industryâ€¦. We are suffering from the ruinous competition of a foreign rival who apparently works under conditions so far superior to our own for the production of light that he is flooding the domestic market with it at an incredibly low price; for the moment he appears, our sales cease, all the consumers turn to him, and a branch of French industry whose ramifications are innumerable is all at once reduced to complete stagnation. This rival, which is none other than the sun,â€¦ Reciprocity. Unilateral reduction of trade barriers is better than no reduction at all. Chapter 10 in Economic Sophisms, first published in France. If we lowered the barriers we have erected against the admission of Spanish goods, and if the Spaniards did not lower the barriers they have erected against the admission of ours, we should be victimized. Let us therefore make commercial treaties on the basis of exact reciprocity; let us make concessions in return for concessions; let us make the sacrifice of buying in order to obtain the advantage of sellingâ€¦. Those who buy those foreign goods are not foolsâ€”they are searching world markets for the best deals. Importing is the same as buying somethingâ€”it just happens to be from a foreigner. Similarly, exporting is the same as sellingâ€”it just happens to be to a foreigner. Some things that are bought are used for current consumption; and other purchased things are used for investment. If the citizens of the country running the trade deficit truly squander all the imports, or solely use them for current consumption year after year, then yes, the economy would be run down. To pay for the expenditures, capitalâ€”that is, saving and investmentâ€—would ultimately have to be eaten into, reducing future opportunities. But no one has an incentive to behave that way. Plus, the trade deficit is merely the symptom, not the cause of such spendthrift behavior; and reducing the trade deficit will not address the underlying problem. Historically, persistent trade deficits have in fact been associated with the periods of greatest economic investment and development. The Marshall plan rebuilt Europe, but meant massive trade deficits for Europe during that time. Individuals have budget constraints and ultimately know that they cannot spend without paying for their purchases now or working harder or saving to pay in the future. Businesses buy investment goods wherever they can get them cheapest in the world, paying dollars in return. The government borrows to finance its spending wherever it can do so most cheaply in the world. For the most part, citizens make these decisions somewhat intelligently because they have incentives to do so. And in the long run, when those dollars we spend abroad are spent back by foreigners to buy our goods, trade will balance out anyway. The fundamental principle is that people trade because trade benefits both parties. Apart from location, international trade is economically the same as domestic within-country exchange. Exports, imports, and the trade balance. Chapter 6 in Economic Sophisms, first published in France. There is still a further conclusion to be drawn from all this, namely, that, according to the theory of the balance of trade, France has a quite simple means of doubling her capital at any moment. It suffices merely to pass its products through the customhouse, and then throw them into the sea. In that case the exports will equal the amount of her capital; imports will be nonexistent and even impossible, and we shall gain all that the ocean has swallowed up. The truth is that we should reverse the principle of the balance of trade and calculate the national profit from foreign trade in terms of the excess of imports over exports. This excess, minus expenses, constitutes the real profitâ€¦. See Free Trade , by Alan S. First, the costs of saving jobs in this particular way are enormous. Second, it is doubtful that any jobs are actually saved in the long runâ€¦. While the estimates differ widely across industries, they are almost always much larger than the wages of the protected workersâ€¦. But the situation is actually worse, for a little deeper thought leads us to question whether any jobs are really saved overall. It is more likely that protectionist policies save some jobs by jeopardizing others. First, protecting one American industry imposes higher costs on others. For example, quotas on imports of semiconductors sent the prices of memory chips skyrocketing in the eighties, thereby damaging the computer industry. Steel quotas force U. What about the painful relocations and retraining when whole industries lose their comparative advantage? Of these arguments, only the last one holds up, and even then, only in very specific circumstances. The conclusion is that most arguments in favor of trade barriers cannot be supported on economic grounds because the costs inevitably outweigh the benefits. Other, non-economic, grounds political, emotional, etc. Irwin on Econlib The theory of international trade and commercial policy is one of the oldest branches of economic thought. From the ancient Greeks to the present, government officials, intellectuals, and economists have pondered the determinants of trade between countries, have asked whether trade bring benefits or harms the nation, and, more importantly, have tried to determine what trade policy is best for any particular countryâ€¦. Nye on Econlib In the two and a half centuries since Adam Smith first articulated the basic case for free trade, no event has been more significant than the British conversion to open markets in the nineteenth century. In the fable that is now conventional wisdom, nineteenth century Britain turned its back on protection and chose to open its markets to the worldâ€¦. Did the Smoot-Hawley tariff contribute to the Great Depression? Great Depression , from the Concise Encyclopedia of Economics In contrast, economist Charles Kindleberger, in The World in Depression, , sees the depression as a global event caused by a lack of world economic leadership. It fostered global trade by keeping its markets open, promoted expansion by making overseas investments, and prevented financial crises with emergency loans. But between the wars no country did, and the depression fed on itself, Kindleberger argues. No country did enough to halt banking crises, and the entire industrial world adopted protectionist measures in attempts to curtail imports. In , for example, President Herbert Hoover signed the Smoot-Hawley tariff, raising tariffs on dutiable items by 52 percent. The protectionism put an extra brake on world trade just when countries should have been promoting itâ€¦. And, first, as to the power of congress to impose tariffsâ€¦. Book IV, Chapter 2 in the Wealth of Nations It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. The taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a taylor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion forâ€¦.

Chapter 4 : Why Countries Trade

The answers are A, C, and E. I had this same exact question and did my research and know that I'm correct.

International trade is the exchange of services, goods, and capital among various countries and regions, without much hindrance. It is also one of important sources of revenue for a developing country. With the help of modern production techniques, highly advanced transportation systems, transnational corporations, outsourcing of manufacturing and services, and rapid industrialization, the international trade system is growing and spreading very fast. International trade among different countries is not a new a concept. History suggests that in the past there where several instances of international trade. Traders used to transport silk, and spices through the Silk Route in the 14th and 15th century. In the s fast sailing ships called Clippers, with special crew, used to transport tea from China, and spices from Dutch East Indies to different European countries. The economic, political, and social significance of international trade has been theorized in the Industrial Age. The rise in the international trade is essential for the growth of globalization. The restrictions to international trade would limit the nations to the services and goods produced within its territories, and they would lose out on the valuable revenue from the global trade. The benefits of international trade have been the major drivers of growth for the last half of the 20th century. Nations with strong international trade have become prosperous and have the power to control the world economy. The global trade can become one of the major contributors to the reduction of poverty. David Ricardo, a classical economist, in his principle of comparative advantage explained how trade can benefit all parties such as individuals, companies, and countries involved in it, as long as goods are produced with different relative costs. The net benefits from such activity are called gains from trade. This is one of the most important concepts in international trade. Adam Smith, another classical economist, with the use of principle of absolute advantage demonstrated that a country could benefit from trade, if it has the least absolute cost of production of goods, i. According to the principle of comparative advantage, benefits of trade are dependent on the opportunity cost of production. The opportunity cost of production of goods is the amount of production of one good reduced, to increase production of another good by one unit. A country with no absolute advantage in any product, i. Benefits of International Trade can be reaped further, if there is a considerable decrease in barriers to trade in agriculture and manufactured goods. Some important benefits of International Trade Enhances the domestic competitiveness Takes advantage of international trade technology Increase sales and profits Extend sales potential of the existing products Maintain cost competitiveness in your domestic market Enhance potential for expansion of your business Gains a global market share Reduce dependence on existing markets Stabilize seasonal market fluctuations.

Chapter 5 : Benefits of International Trade | Economy Watch

International trade has flourished over the years due to the many benefits it has offered to different countries across the globe. International trade is the exchange of services, goods, and capital among various countries and regions, without much hindrance.

Why Do Countries Trade? Overview Have you ever traded something your Mom packed you for lunch with another kid? Maybe his Mom made the best brownies but he was tired of them and preferred your store-bought cookies, something he never got at home. Well, countries trade for the same reason - one country has something that another country wants. There are several different reasons why one country may have something that another country wants. Countries can be in the same position. Perhaps one country is not able to produce the item in question. Maybe people in the country want cars to drive but there are no car manufacturers in the country so cars have to be brought in from another country. Sometimes a country could produce an item but because of things like climate, and other factors, it would be very expensive for them to produce it. Going back to the lunch swapping, you could, at least theoretically, learn how to make brownies yourself. To do this, however, you would have to invest a lot of time and energy, as well as baking supplies, into learning how. A country can find itself in the same position. We could grow bananas in Canada by creating tropical conditions with artificial light and water. However, it is unlikely that we would go to this trouble and expense when bananas can be imported from tropical countries where they grow easily. For information about Canada and international trade check out International Trade Canada. Sometimes a country wants to import a product even though they could grow or manufacture the product themselves relatively cheaply. They may hire someone to look after their yard because they have decided to spend their time and energy elsewhere. Like people, countries that can grow and manufacture many things have to choose which goods and services they will produce. Some countries can produce items that most countries cannot. In this case they will want to export the product since they will be able to gain a large part of the global market. Sometimes a country will build a large operation and produce huge quantities of a certain item. This makes trade in this item more profitable since the cost per item is reduced. Sometimes the factors that influence trade are political rather than economical. For example, special interest groups may put pressure on the government to pass certain laws about importing and exporting goods. We have already seen that a country may choose not to produce a product even when they have the absolute advantage in producing it. Similarly a country may choose to import a product even when they have a comparative advantage in producing that product at home. For example Germany , Japan and the United States all have a very strong comparative advantage in manufacturing and technological know-how, yet trade exists between these countries. These countries also trade similar products, such as cars, with each other. There are three reasons why trade may exist in these situations: Economic Systems How and why a country trades is influenced by the type of economic system they have. Making choices about how to use limited resources requires countries to consider the opportunity cost of their actions. Country must decide what to produce, how to produce it and for whom to produce it. These kinds of decisions are made in different ways depending on the economic system that is in place. In a traditional economic system, tradition decides what work people do and how it is done. People in countries with a traditional system produce goods and services in the same way that their parents and grandparents did. Traditional economic systems are found in parts of South America , Asia and Africa. In a market economy the individual decisions of buyers and sellers in the market place determine what is produced, how it is produced and who buys the products. Canada has a market economic system. Individuals decide what jobs they will do and what they will produce. Consumer demand determines whether those who produce goods will be able to sell them. In a command economic system the government makes most of the economic decisions. The government decides what goods and services will be produced and sells the goods and services. The government also decides where people will work.

Chapter 6 : Why Did European Nations Increasingly Form Alliances In The Early s?

Poorer countries tend to have higher levels of trade costs than do richer countries, in both manufactured and agricultural goods. For manufacturing, trade costs have fallen fastest in high-income countries and considerably more slowly in the lower-income groups.

Read more Why do countries trade? Countries trade with each other when, on their own, they do not have the resources, or capacity to satisfy their own needs and wants. By developing and exploiting their domestic scarce resources , countries can produce a surplus, and trade this for the resources they need. Clear evidence of trading over long distances dates back at least 9, years, though long distance trade probably goes back much further to the domestication of pack animals and the invention of ships. Today, international trade is at the heart of the global economy and is responsible for much of the development and prosperity of the modern industrialised world. Goods and services are likely to be imported from abroad for several reasons. Imports may be cheaper, or of better quality. They may also be more easily available or simply more appealing than locally produced goods. In many instances, no local alternatives exist, and importing is essential. The production of goods and services in countries that need to trade is based on two fundamental principles, first analysed by Adam Smith in the late 18th Century in The Wealth of Nations, , these being the division of labour and specialisation. Division of labour In its strictest sense, a division of labour means breaking down production into small, interconnected tasks, and then allocating these tasks to different workers based on their suitability to undertake the task efficiently. When applied internationally, a division of labour means that countries produce just a small range of goods or services, and may contribute only a small part to finished products sold in global markets. For example, a bar of chocolate is likely to contain many ingredients from numerous countries, with each country contributing, perhaps, just one ingredient to the final product. Specialisation Specialisation is the second fundamental principle associated with trade, and results from the division of labour. Given that each worker, or each producer, is given a specialist role, they are likely to become efficient contributors to the overall process of production, and to the finished product. Hence, specialisation can generate further benefits in terms of efficiency and productivity. Specialisation can be applied to individuals, firms, machinery and technology, and to whole countries. International specialisation is increased when countries use their scarce resources to produce just a small range of products in high volume. Mass production allows a surplus of good to be produced, which can then be exported. This means that goods and resources must be imported from other countries that have also specialised, and produced surpluses of their own. When countries specialise they are likely to become more efficient over time. Faced by large global markets, firms may be encouraged to adopt mass production, and apply new technology. This can provide a country with a price and non-price advantage over less specialised countries, making it increasingly competitive and improving its chances of exporting in the future. The advantages of trade International trade brings a number of valuable benefits to a country, including: Producing a narrow range of goods and services for the domestic and export market means that a country can produce in at higher volumes, which provides further cost benefits in terms of economies of scale. Trade increases competition and lowers world prices, which provides benefits to consumers by raising the purchasing power of their own income, and leads a rise in consumer surplus. Trade also breaks down domestic monopolies , which face competition from more efficient foreign firms. The quality of goods and services is likely to increases as competition encourages innovation, design and the application of new technologies. Trade will also encourage the transfer of technology between countries. Trade is also likely to increase employment , given that employment is closely related to production. Trade means that more will be employed in the export sector and, through the multiplier process, more jobs will be created across the whole economy. The disadvantages of trade Despite the benefits, trade can also bring some disadvantages, including: Trade can lead to over-specialisation, with workers at risk of losing their jobs should world demand fall or when goods for domestic consumption can be produced more cheaply abroad. Jobs lost through such changes cause severe structural unemployment. The recent credit crunch has exposed the inherent dangers in over-specialisation for the UK, with its reliance on its financial services sector. Certain industries do not get a chance to grow because they face competition from more established foreign firms, such as new infant industries which may find it difficult to establish themselves. Local producers, who may supply a unique product tailored to meet the needs of the domestic market, may suffer because cheaper imports may destroy their market. Over time, the diversity of output in an economy may diminish as local producers leave the market.

DOWNLOAD PDF WHY DO NATIONS TRADE? SOME EARLY ANSWERS

Chapter 7 : Importing and Exporting Questions including "Can raw wool be brought into the US from Austra

Why Europeans Wanted to Trade with Asia Europeans knew that trade with Asia would bring great wealth to their countries, but the trade routes were dangerous to travel. One of the main things traders wanted was spices.

The printing press of Gutenburg Rising from the Ashes: Classical Learning and Literacy It is the mid-to-late s. Europe is rising from the ashes of a black night: People have died, suffering from plague after plague born on ships from far countries and caused by poor hygiene and public sanitation. The muck and grime of city streets haunts the ill, creating tunnels of death and cries of fear at a God who seems to have forsaken them. It has also been plagued by war: But out of the death and devastation will arise a new era, one which will change the world forever. Exposure to the Arabian world inadvertantly exposed Crusaders - and the monks, scholars, and officials who accompanied them - to the preserved classical learning of the Ancient Worlds. The works of Plato, Aristotle, Socrates, and many others once again were returned to European soil and copied by the monks who slaved in monasteries over texts day after day. But while the reacquisition of classical learning was a key, it was not the only key. Over the next several years, written knowledge spread further and faster than ever before, as the age of handwritten copies came to an end. Access to knowledge increased as texts were no longer written in the traditional Latin and instead published in vernacular common languages. Literacy was no longer limited to the royalty and upper classes. The Crusades had generated the need for portable religion that could be understood by commoners - another reason for the publication of the Bible in English. Fascination with the East The Crusades had also generated a curiosity about the world beyond Europe, leading to the expansion of trade routes and new links with previously mythical lands. They devoured works of foreign lands, raised on stories of the final Crusades and the worlds beyond their manors. This fascination with the East, and increasing demand for the spices, gold, and silk which it offered, was the first major motivation for European exploration. These monarchs were more than willing and able to provide the sponsorship - and funding - for such expeditions. In their new centralized political authority, they recruited armies, supported new organizations, created national taxes and effective national courts, and amassed a wealth and dominion over European lands not seen since Roman times. It was only natural that, once their kingdoms had settled, they would turn their eyes towards bypassing the Arab trade routes - and the increasingly profiteering Arabian middle men - for sea passages to Africa, Asia, and beyond. Christianity had arisen to become a world power in itself during the Dark Ages. Through publication of religious texts in common languages and the missionary zeal of the Crusades, many Christians believed it was their duty to spread their faith. In light of this, monarchs and missionaries looked to spread religion as much as to convert others as to enhance their own esteem. Supported by European monarchs except in England Technological Innovation Yet all of these reasons still did not make the trip to the East - or to anywhere long-distance - feasible. What did was the technological revolution of the Renaissance. Monarchs provided the funding and support needed for inventors to work long hours on projects that may not prove fruitful. Yet their gamble paid off. During the s, significant advances were made in charts and mapping, allowing for more efficient and detailed communication of navigational information. Additionally, technologies in ship building - including triangular sails which moved better against the wind and the stern-post rudder which made a ship more maneuverable - made it possible to travel farther distances. The increasing exposure to classical learning and the sense of scientific exploration generated during the Renaissance also led to a deeper understanding of the trade winds, which ships utilized to make the journey to the East faster. Finally, the importation of the compass from the Chinese allowed sailors to better understand where they were going and where they were, taking out much of the uncertainty of sailing. Once Columbus sailed the ocean blue in fourteen-hundred and ninety-two, the world changed forever. Monarchs, and their subjects, were now entranced by the New World. It teemed with resources that Europe had long lost, filled with new species and plants, and had a readily accessible guide and labor source in the natives who befriended them. Despite the legacy of the conquistadors and the decimation of native populations, initial counters were far from hostile. In fact, they were encouraged as sources of trade and new tools. Most colonists and explorers were single men - the second sons of nobles or those from the poorest agricultural regions of Europe - who were seeking their fortunes. They often married native populations, producing the mestizo and mulatto populations, and were more tolerant of racial differences than later settlers. Even the natives were peaceful, holding their own in early peaceful trading for metals, communicating through sign language, and generally rejecting attempts to become "civilized" by European standards. But if they initially got along so well, what changed? One factor was gender. Europe was a patriarchal society, while the majority of Native American societies were matriarchal. Europeans contacted male natives more, which upset the balance of power in tribes. Women became the protectors of traditional culture, which sanctioned their authority, but were often sabotaged by the lust for European goods. Also, many native societies were polygamous in some respect, due to the frequent warfare between tribes which often claimed the lives of warriors and the ownership of the losers as slaves, thus separating families. European missionaries, however, preached monogamy. Although gender did not seem to play a major role, it did upset the traditional culture of the natives, thus subverting authority when younger natives chose to listen to the Europeans. Another factor was European ideology. Europeans treated natives as part of "prehistory" - thinking that the natives were people who had been isolated and cut off from humanity, thus unable to be exposed to the civilizing influences of Christianity and classical learning. Many European explorers viewed the accomplishments of earlier tribes - such as the mounds of Cahokia - as being beyond the abilities of the natives they encountered. Instead, their accomplishments were attributed to ancient European visitors or natural features of the landscape. Others attributed the achievements to lost civilizations, which although true led to many theories that these "lost civilizations" had been defeated and murdered by the natives they now encountered. In theorizing this, Benjamin Smith Martin and others opened the doors for conquest to crush the barbarians who had destroyed such rich civilizations. This was further backed by those, such as George Catlin, who proposed that Jesus had visited the New World, but that the natives had rejected his teachings. Thus, Catlin and others incorporated the idea that Jesus - and possible the apostles - had visited the New World and, because the natives had rejected them, that Christians should reclaim their "lost Possession". This ideology would continue for hundreds of years, into the nineteenth century, despite those who tried to convince the Europeans otherwise. Whatever the reasons behind conquest, it seems almost inevitable. As Jack Page stated, "An unwritten rule had governed much of human history: That may be why myths of cannibalism, of the decimation of previously glorious civilizations like Atlantis, and many other rumors were spread to help shred the guilt of murder and conquest. Or, perhaps, it would have happened by nature anyway, as new diseases and the uprooting from their traditional lands ravaged native populations and decreased their numbers from millions to only thousands of mixed descent. Smallpox, influenza, and measles were only some of the culprits that thrived in the close quarters of native settlements and slavery quarters. In general, however, most historians attribute colonization to mixed causes. The thirst for land. The need for resources to support growing populations in Europe. The desire for new trade routes and luxury goods. The ideology of existing slavery and indentured servitude. The religious backing of a Church whose ideology seems to have changed to fit the circumstances and expand its pockets. And a combination of the right time, the right place, and the right people to not only explore a New World, but to conquer it and thereby change the world as we knew it forever.

Chapter 8 : Give five reasons why countries engage in international trade

The European Union (EU) is a unique political and economic partnership that currently consists of 28 member states (see the map in the Appendix). 1 Built through a series of binding treaties, the Union is the latest stage in a process of integration begun after World War II to promote peace.

Chapter 9 : Why Did Europeans Want to Explore and Colonize America? | Owlcation

The Native American Trade refers to historic trade between Europeans and their North American descendants and the Indigenous people of North America (today known as Native Americans in the United States, and First Nations in Canada, but formerly as "Indians"), beginning before the colonial period and continuing through the 19th century, *although declining it around*