INTERNATIONAL TRADE

International trade helps to raise living standards and results in higher levels of output and income. Reasons why countries trade with each other:

Obtaining Goods that Cannot be Produced Domestically
Many countries are unable to produce certain goods. This is because the lack of natural resources that enable such production.

Obtaining Goods that can be Bought more Cheaply from Overseas
Some countries can produce goods more efficiently than others. This may be because countries have cheaper resources or because they have become experts through specialisation. It makes economic sense to buy goods from other countries if they are cheaper.

Selling off Unwanted Commodities
Some countries have large amounts of certain commodities. Indeed, in some cases, countries have so much of a resource they could never use it all themselves.

Advantages of Free Trade

Free trade: situation in which the goods coming into or going out of the country are not controlled or taxed

Lower Prices and Increased Choice for Customers
One of the main benefits of free trade is that consumers get more choice. For example, consumers will be able to buy goods that are impossible to produce in their climates (e.g. tropical fruits, wines), goods made from materials that are not available in their country (e.g. gold, diamond), and goods that other countries produce more cheaply (e.g. cars & many other manufactured consumer durables). If consumers can buy goods more cheaply, their standard of living will improve because they will have greater purchasing power. Another reason why there is increased choice for consumers is because many countries both buy and sell the same products.

Lower Input Prices
Through international trade, countries can obtain essential inputs for its industries at a much lower cost. Generally, international trade allows the advantages from specialisation to be extended. If countries specialise in the production of goods in which they are more efficient, the global economy will benefit. Goods and services all over the world will be produced in locations where costs are minimised. This means that consumers all over the world can buy goods at the lowest possible prices. This will help the world economy to grow and make better use of the world's resources.

Wider Markets for Businesses
If countries are free to specialise and trade, firms will be selling to larger markets. For example, many companies sell their goods and services in a wide range of

different countries. This helps to reduce the risk of business enterprise. If sales in one country start to decline, a company can rely on sales in other countries to offset the decline. If a company is able to sell much larger quantities in a wider range of markets, they will be able to exploit economies of scale. This is because their output will be higher than if they were just selling to the domestic market. This will help to lower costs and improve efficiency.

Disadvantages of Free Trade

Competition for Domestic Businesses

If countries have open economies, it means that imports from anywhere in the world can flow into the economy. If these imports are good in quality and competitively priced, domestic producers might struggle to compete.

Unemployment

One of the main problems with international trade is the threat to employment levels when domestic industries are threatened by cheap imports. Countries can suffer increases in unemployment when demand patterns change. If a country is too dependent on a narrow range of goods, it will be particularly at risk. For example, some of the developing nations may rely too much on primary goods. If demand or prices fall for these goods, nations will suffer a loss of trade and income. Primary goods also have low income elasticity and when the global economy grows, demand for them will not increase at the same pace. Countries need to avoid overspecialisation and try to diversify in some way.