

43

International trade

A

Trade

Most economists believe in **free trade** – that people and companies should be able to buy goods from all countries, without any barriers when they cross frontiers.

The **comparative cost principle** is that countries should produce whatever they can make the most cheaply. Countries will raise their **living standards** and income if they specialize in the production of the goods and services in which they have the highest relative **productivity**: the amount of output produced per unit of an input (e.g. raw material, labour).

Countries can have an **absolute advantage** – so that they are the cheapest in the world, or a **comparative advantage** – so that they are only more efficient than some other countries in producing certain goods or services. This can be because they have raw materials, a particular climate, qualified labour (skilled workers), and economies of scale – reduced production costs because of large-scale production.

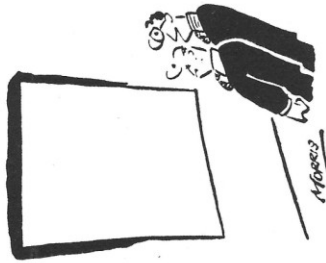
B

Balance of payments

Imports are goods or services bought from a foreign country. Exports are goods or services sold to a foreign country.

A country that exports more goods than it imports has a **positive balance of trade** or a **trade surplus**. The opposite is a **negative balance of trade** or a **trade deficit**. Trade in goods is sometimes called **visible trade**. Services such as banking, insurance and tourism are sometimes called **invisible imports** and exports. Adding invisibles to the balance of trade gives a country's **balance of payments**.

BrE: visible trade; AmE: merchandise trade



"Good invisible export figures this quarter, sir."

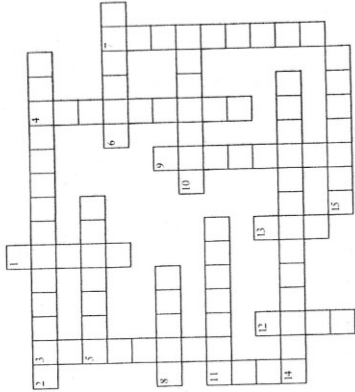
C

Protectionism

Governments, unlike most economists, often want to **protect** various areas of the economy. These include agriculture – so that the country is certain to have food – and other **strategic industries** that would be necessary if there was a war and international trade became impossible. Governments also want to protect other industries that provide a lot of jobs. Many governments impose **tariffs** or import taxes on goods from abroad, to make them more expensive and to encourage people to buy local products instead. However, there are an increasing number of free trade areas, without any import tariffs, in Europe, Asia, Africa and the Americas.

The **World Trade Organization (WTO)** tries to encourage free trade and reduce **protectionism**: restricting imports in order to help local products. According to the WTO agreement, countries have to offer the same conditions to all trading partners. The only way a country is allowed to try to restrict imports is by imposing tariffs. Countries should not use **import quotas** – limits to the number of products which can be imported – or other restrictive measures. Various international agreements also forbid **dumping** – selling goods abroad at below cost price in order to destroy or weaken competitors or to earn foreign currency to pay for necessary imports.

43.1 Complete the crossword. Look at A, B and C opposite to help you.

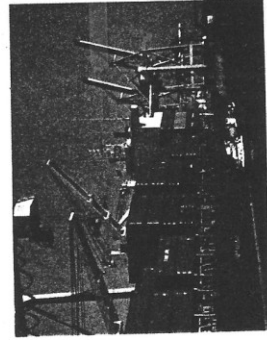


Across

- 2 Countries that export a lot of oil or manufactured goods tend to have a positive ..... (7,2,5)
- 5 A country exporting more than it imports has a trade ..... (7)
- 6 In a free trade area, governments cannot impose a ..... on imports. (6)
- 8 A limit to the quantity of goods that can be imported is a ..... (5)
- 10 and 9 down Adding trade in services to trade in goods gives you the ..... of ..... (7,8)
- 11 Billions of dollars leave the USA every year because the country has a big trade ..... (7)
- 14 Attempting to reduce imports in favour of local production is called ..... (13)
- 15 The import and export of goods is called ..... trade. (7)

Down

- 1 Producing in large quantities becomes cheaper because of economies of ..... (5)
- 3 and 4 If a country can produce something more cheaply than anywhere else in the world it has an ..... (8,9)
- 7 Many economists encourage governments to abolish import taxes and have completely ..... (4,5)
- 9 See 10 across.
- 11 A number of international agreements make it illegal to ..... goods on foreign markets at a price that doesn't give a profit. (4)
- 12 The comparative ..... principle is that countries should make the things they can produce the most cheaply. (4)
- 13 The ..... has established rules of trade between nations. (3)

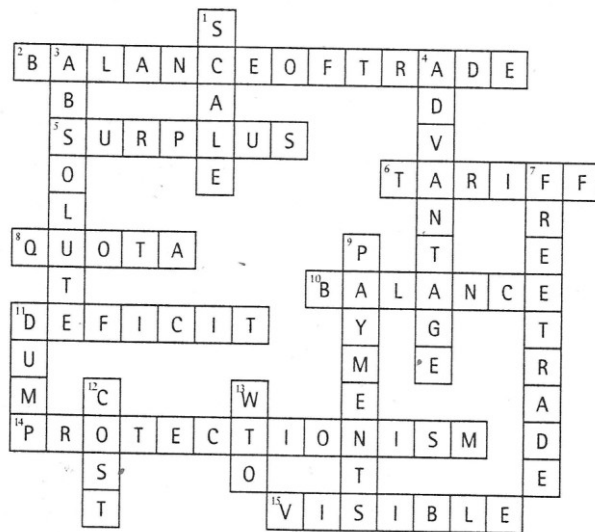


Over to you

What are your country's major exports and imports? Which industries in your country would find it difficult to compete if there was completely free trade?

**KEY**

**43.1**



Find appropriate terms matching to these descriptions:

- 1) An international trade philosophy/policy that favors the creation of barriers against the importing of goods to shelter domestic industries from foreign competition. / The restriction of international trade = .....
- 2) The practice of selling goods in foreign markets at prices below the cost of production, usually with the aim of driving competitors out of the market. / The selling of goods or services in a buying country at less than the production unit price in the selling country. = .....
- 3) Concept in economics that a country should specialize in producing and exporting only those goods and services which it can produce more efficiently (at lower opportunity-cost) than other goods and services (which it should import). = .....
- 4) Provision in a commercial treaty ensuring equal commercial opportunities, especially concerning import duties and freedom of investment to promote free trade. It is an idea of non-discrimination. Countries achieving ..... status are given specific trade advantages such as reduced tariffs on imported goods. =
- 5) Establishment of the European Union as successor to the European Community. = .....
- 6) The increase in efficiency of production as the number of goods being produced increases. Typically, a company that achieves ..... lowers the average cost per unit through increased production since fixed costs are shared over an increased number of goods. = .....

- 7) A particular type of specialisation where the production of a good is broken up into many separate tasks each performed by one person The .....raises output, thereby reducing costs per unit. = .....

## KEY

- 1) An international trade philosophy/policy that favors the creation of barriers against the importing of goods to shelter domestic industries from foreign competition. / The restriction of international trade = **protectionism**
- 2) The practice of selling goods in foreign markets at prices below the cost of production, usually with the aim of driving competitors out of the market. / The selling of goods or services in a buying country at less than the production unit price in the selling country . = **dumping**
- 3) Concept in economics that a country should specialize in producing and exporting only those goods and services which it can produce more efficiently (at lower opportunity-cost) than other goods and services (which it should import). = **comparative cost principle**
- 4) Provision in a commercial treaty ensuring equal commercial opportunities, especially concerning import duties and freedom of investment to promote free trade. It is an idea of non-discrimination. Countries achieving **most favoured nation** status are given specific trade advantages such as reduced tariffs on imported goods. = **most favoured nation clause**
- 5) Establishment of the European Union as successor to the European Community. = **Maastricht Treaty / the Treaty of the European Union**
- 6) The increase in efficiency of production as the number of goods being produced increases. Typically, a company that achieves **economies of scale** lowers the average cost per unit through increased production since fixed costs are shared over an increased number of goods. = **economies of scale**
- 7) A particular type of specialisation where the production of a good is broken up into many separate tasks each performed by one person The **division of labour** raises output, thereby reducing costs per unit. = **division of labour**