

WHY NATIONS TRADE

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 can produce more efficiently. This exchange of goods and services in the world, or global, market is known as international trade. There are three 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 other country. For example, Saudi Arabia imports automobiles; the United States, bananas; and Mexico, computers.

Second, international trade allows a nation to specialize production of those goods for which it is particularly suited. This often results in increased output. Decreased costs, and 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 has the necessary natural resource; Mexico is able to specialize in the production of wooden furniture because it has the human resources to assemble the furniture 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 that no other nation is able to produce. According to the theory of comparative advantage, a nation ought concentrate on the products that it can produce most efficiently and profitability. For example, a nation might produce both grain and wine cheaply, but it specializes in the one that will be more profitable.

The third benefit of international trade is its political effects. Nations that trade together develop common interests that may help them overcome political differences. Economic cooperation has been the foundation for many for many political alliances, such as the European community (EC), found 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 prices. Finally, it opens the channels of communication among nations.