3 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."

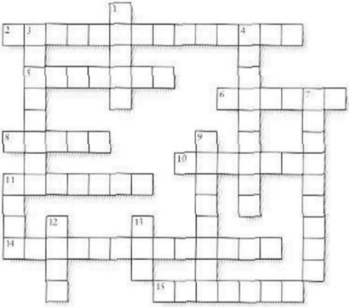
C Protectionism

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.

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)