Trade

- = exchange of **goods, materials and services** between persons and **regions**
- Different regions focus on different commodities which they trade in =>
- => *EMDCs* – processed, manufactured products such as watches, cars, computers, etc.
- => *ELDCs* – raw materials (iron ore, coal, oil), agricultural products (wheat, barley), etc.
- Trade = composition and volume of trade
- Countries of the world vary in these terms
- Composition:
  - The more developed the country, the greater the variety of traded goods
- Volume:
  - The larger the country (population, area), the greater the volume of trade
  - but there is also a strong link with the development of a country

Composition of trade

- = structure of trade
- Example: **UK vs. India**
- **UK** exports machinery, manufactured goods, production focuses to provision of services (banking, advertisement, media), IT, computers, ... but
- **India** exports mainly (crude) mineral fuels, manufactured goods and chemicals
- => UK has got **totally different composition of trade** compared to India

Volume of trade

- Comparison of total exports:
  - **UK vs. India vs. Rwanda**
- **UK:** 190 100 mil.$

- **India:** 18 000 mil.$
- **Rwanda:** 132 mil.$

Balance of trade

- = ratio between *export* (selling) and *import* (buying) of a region/country
- It does not include the balance of payments (financial transactions)
- Active (positive) balance
  - *Export > Import*, i.e. we sell more than buy
- Passive (negative) balance
  - *Import > Export*, i.e. we buy more than sell

Free trade vs. Trade control

Free trade

- = free movement of goods, materials, services and labour from 1 country (region) to another
- = more *competitive trade* among regions
- Countries can specialize to that type of products in production of whom they are the best.
    - e.g. Japan – cars, Sweden – steel, Finland – IT, Ukraine – wheat, RSA – diamonds, Chile – copper, Mexico – silver, etc.
- **Advantages:**
- *No restrictions* regarding what can be exported or imported
- It *increases competition* among firms =>
- It *decreases prices* of products due to higher competition
- It allows people to obtain *goods all year round* and
- It allows people to have *better choice* of products
- **Disadvantages:**
- It increases competition => *SME are disadvantaged* compared to MNCs
- *SME can decline* in the future

Trade control

- = creates restrictions for trade
- <u>Trade barriers</u> = tariffs, quotas, extra duties/taxes/fees to exports but mainly to imports
    - e.g. quotas set by government to reduce import of TV sets from abroad
    - e.g. tariffs which have to be paid for importing cars into the country
- **<u>Advantages:</u>**
- *Reduction of imports*
- *Source of income* for national government
- *Protection of home industries* against the foreign ones
- Improvements in *trade balance*
- Increase in *self-sufficiency*
- **<u>Disadvantages:</u>**
- *Countries cannot specialize* to the most suitable production
- It keeps *inefficiency* of production
    - e.g. car production will be moved to the country where it has been imported to (Japan → USA)

Keywords

- composition/volume of trade
- export/import of trade, balance of payments, active (positive)/passive (negative) balance of trade
- free trade, trade control, competitive trade, specialization
- restrictions, competition, SME, trade barriers, tariffs, quotas, duties, taxes
- employment, self-sufficiency