

## 54. Trade

= a result of regional economic differences

= serves to balance production and consumption by moving raw materials, goods and services from regions of supply to regions of demand => strong relation between the volume of trade and standards of living.

Until the 1700s: small goods of high value, e.g. *spice, silk and wine trade* → trade was important for the development of ports and large cities.

In 1700s: cargo (transport) revolution => the development of larger means of transport => larger volumes could be transported.

Main cause of change = the process of *industrialization* => steam power and mechanical production to increase output + increased demand for raw materials + population growth.

1800s: the search for new markets and materials continued ⇔ Americas and Australia were “opened up” and “the scramble for Africa” accelerated.

### Visible vs. Invisible trade

Visible trade: the exchange (import or export) of goods (foodstuffs, fuel, manufactured goods, raw materials)

Invisible trade: the movement of finance and tourism

### Balance of trade vs. balance of payments

Balance of trade: trade balance in visible goods (imports - exports)

Balance of payments: the balance of imports and exports in visibles and invisibles

Many differences in export and import of developed and developing countries:

- *developed countries* = export of machinery, transport equipment, chemicals, agricultural products and services. The range of imports is similar.
- *developing countries* = much smaller range of exports = agricultural products and raw materials. Import is cheaper and less sophisticated in comparison to developed countries

### Comparative advantage

= countries specialize in what they are better at than other countries.

*David Ricardo:* if each country specializes in what it does best and exports some of the results, it can buy a greater and wider variety of goods from the rest of the world with the income it has made, compared with what it could produce.

### Free trade vs. protectionism

Free trade allows a country to trade competitively with another country => no restrictions regarding what can be exported or imported.

Protectionism creates restrictions to trade = barriers (tariffs) to imports as well as to exports.

### Advantages of free trade

- ☉ it allows countries to specialise and concentrate on their comparative advantages, i.e. the things they do better than other countries
- ☉ it allows them to obtain goods and services all year-round and more cheaply than if they had to produce them themselves
- ☉ it provides consumers with a better choice
- ☉ it increases competition + specialisation allows large-scale production
- ☉ it encourages economic, political and cultural links between countries

### Keywords

spice/silk/wine trade, industrialization, (in)visible trade, foodstuffs, visible/invisible trade, balance of trade/payments, restrictions, tariffs, competition