

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