

Quadrant II – Transcript and Related Materials

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Module Name: Gains from International trade

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Notes

Gains from International Trade

Gains from international trade refers to the advantages enjoyed by a country from international trade as result of specialization and division of labour. When there is exchange of goods and services among the nations, a country can enjoy variety of goods at competitive prices.

Following are the benefits or gains from international trade:-

1) Division of Labour and Specialization

The Comparative Cost Advantage theory proves that each country specializes in production of those goods for which it is best suited. This leads to geographical division of labour, fall in cost per unit and consequently prices of goods. Specialization encourages best utilization of world's resources, use of improved technology and perfection of skills in production. This increases production, income and standard of living among the trading countries.

For e.g. several Multinational Companies have set up production base in India due to availability of abundant skilled and cheap labour. South Korea's mobile phone company Samsung, has opened the world's biggest mobile manufacturing plant in Noida, Uttar Pradesh and prefers local production as it gets cost advantage.

Moreover, India is highly competitive in some agriculture products like basmati rice, guar gum and castor oil and therefore it is able to export.

2) **Equalization of Prices**

When a capital abundant country produces capital intensive product and exports at competitive prices, then demand for the product rises. As a result demand for the factor increases leading to higher rewards.

Further trade stabilizes prices and avoids violent fluctuations in the prices of goods. This is done by movement of goods from a country where their prices are low due to abundant supply to a country where their prices are high due to their scarcity. In this way , foreign trade helps to equalize not only product prices but also factor prices.

3) **Helps to Overcome Natural Calamities**

When natural calamities like famines, floods, epidemics, cyclones etc. occur in a country, it can take help of other countries. Other countries having surplus production can export their goods to the famine affected country.

Natural disasters reduce export of agricultural products in agrarian economies and also adversely affect micro, small and medium sized enterprise. Here imports help in recovery and reconstruction.

During the difficult time of COVID-19 pandemic, India sustained world food supply chain and continued to export. Japan simplified import and export forms for relief goods and gave more time to complete custom procedures.

4) **Consumer Benefits**

International trade helps a country to import the goods which it cannot produce at all or which it can produce only at a higher cost. Therefore it helps to consume variety of goods produced in different countries and raise their standard of living. For instance, the policy of liberalization and globalization has brought wide choice of goods and services to the consumers in India.

5) **Widens the Size of Market**

Each nation tries to produce different goods in large quantity and thereby enjoy economies of scale. It widens the size of market and reduces the risk involved in undertaking huge investment for the growth of home industries. A country may not depend on taste, habit, fashion etc. of the consumers in one country. If demand for the product falls in one country there will be demand for the product in other countries.

Indian Information Technology, Telecommunications, Pharmaceuticals, Textiles and Engineering companies are internationally known for their research and competitiveness.

6) **Increases Employment and Income**

International trade leads to exchange of technical know-how, foreign aid, capital movement etc. A country gets access to different sources of finance, technologies and operational practices from across the globe. This increases efficiency, investment, employment and income in different sectors of the economy.

7) **Economic Development**

International trade is very useful to the underdeveloped and developing countries because they can import machinery, capital, raw material, technology and so on required for their economic development. Foreign capital and technology has promoted economic development of our country.

8) **International Co-operation and Peace**

International trade leads to interdependence among countries. This economic interdependence promotes international understanding, peace, goodwill and co-operation among the countries of the world.

Conclusion

Gains from trade refers to the advantages enjoyed by a country from international trade as result of specialization and division of labour. As a result cost of production falls and leads to best utilization of world's resources. This increases production, income and standard of living among the trading countries.

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