CHAPTER 23 : International Trade and Business Growth

1. What is international trade?

- Buy or trade goods and services between countries.
- It creates opportunities for business growth, increase competition, and provides more consumer choice.
- Allow countries to obtain goods that cannot be produced domestically and cheaper from oversea Helps to improve consumer choice
- provides opportunities for countries to sell-off surplus commodities

2. The difference between visible and invisible trade

2.1 Visible Trade : Involves in trade in physical goods

- Export : goods that a firm produces in its home market but sells in a foreign market
- Import : goods that are bought into one country from another
- If export > import, there will be Visible trade surplus
- If export < import, there will be Visible trade deficit

2.2 Invisible Trade : Involves in trade in services

- Export : services that a firm produces in its home market but sells in a foreign market
- Import : services that are bought into one country from another
- If export > import, there will be Invisible trade surplus
- If export < import, there will be Invisible trade deficit

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3. Implications of increasing specialisation by countries and business

: The concept of division of labour : Each worker work in specific tasks and as a consequence, there will be specialize in the productive activity.

3.1 : Specialization by countries : A country may be more efficient because it has access to cheaper resources such as labour / higher quality of raw material etc. Eg. Australia in mining and Bangladesh in the production of textile.

3.2 Specialization by business : The principle of specialization can be applied to businesses. Businesses will gain a competitive advantages if specialize in the production of those products in which they are more efficient.

4. Foreign direct investment (FDI) and link to business Growth

Foreign direct investment : is investing by setting up operation or buying assets in business in other countries. Firm may choose to invest directly because the business will

- Has a high potential for making a profit if it invests in new location
- Needs to maintain control over its subsidiaries in the new market
- Is trying to acquire direct knowledge of the local market
- Is attempt to avoid barrier to the market
- Manager want to keep tight control over operations in the other countries. The business may need to share a common culture or communication systems
- A firm wants to protect its intellectual property such as patents, copyrights
- It needs to be close to its customers
- Its products have high transportation and logistic costs

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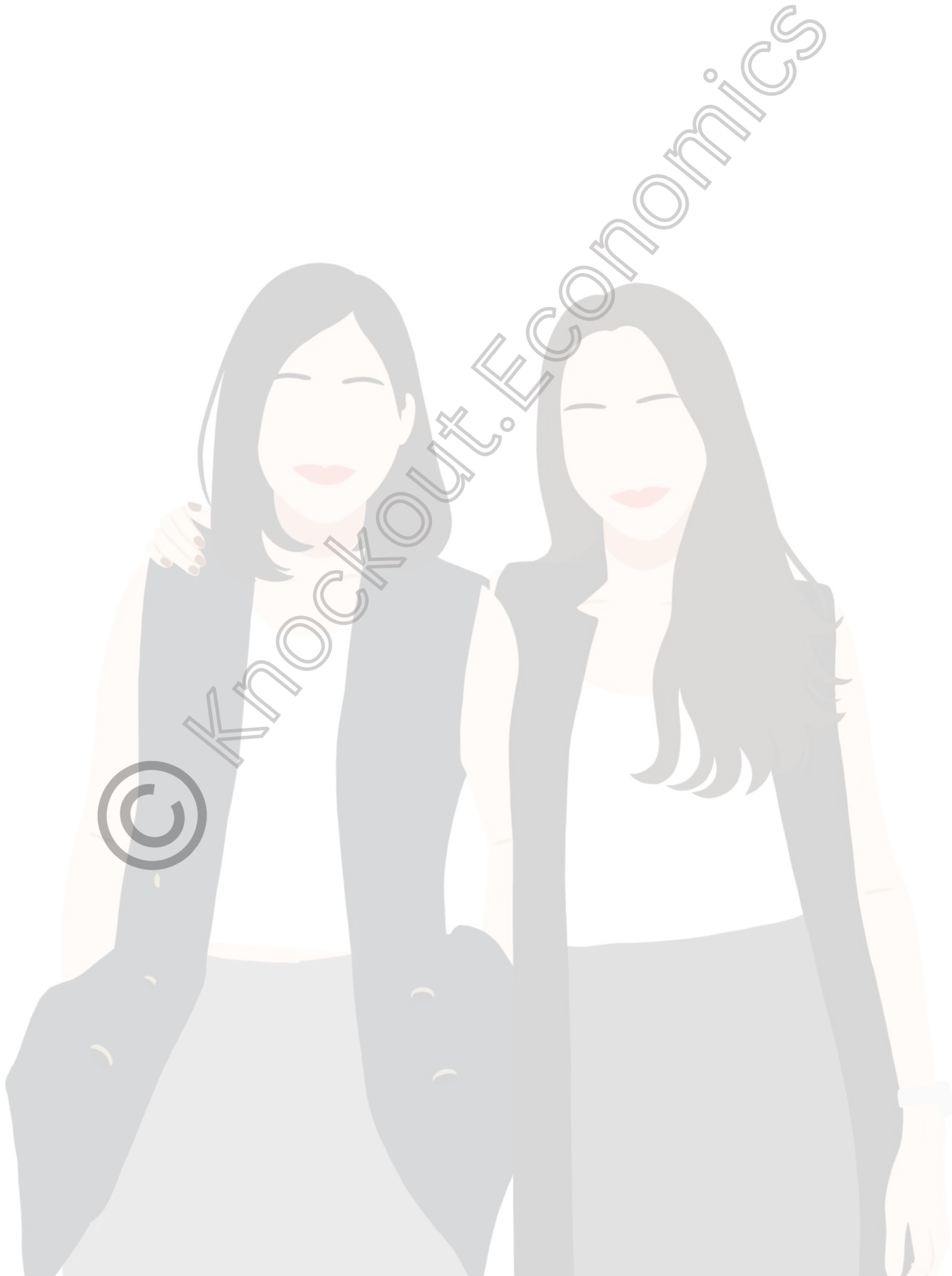
There are different forms of FDI : A joint venture, Strategies alliances, Cross-boarder mergers and acquisition (M&A) etc.



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