

CHAPTER 27 : Conditions that prompt trade

1. Introduction to the condition that prompt trade

- **International trade** : help to raise living standards and results in higher output, income and employment.
 - Obtaining goods that cannot be produced domestically : Countries might lack of resource to produce g&s so need to import g&s from others. Eg. Iceland cannot produce food in winter.
 - Obtaining goods that can be bought more cheaply from oversea : Some countries can produce goods more efficiently than others. This is because it is cheaper raw material and abundance of resources.
 - Excess supply : Some countries might have surplus, so better to export and receive money

2. Push and Pull factor

2.1 Push Factor : negative factors in the existing market that encourage an organization to seek international opportunities. A firm may be attempting to overcome weakness in its existing market, or it may look lower cost.

- Saturated market
- Competition

2.2 Pull Factor : A rise in competitors or a high level of competition in the domestic market may force a business to sell abroad. Competitors could sell products in cheaper price or higher quality. This makes the original product difficult or unprofitable.

For example :

- New or bigger markets
- Lower cost or more secure resources , such as minerals land or labour
- Lower cost of production

- Technological expertise, including research facilities
- Managerial or Financial expertise

3. Improving cost competitiveness by offshoring and outsourcing

3.1 Offshoring : involves moving manufacturing or services industries to a location with lower cost. Eg. India to the UK : Firm would like to reduce labour cost and hire worker with particular skills

Limitations : It need to concern about productivity, Transportation cost and etc.

3.2 Outsourcing : involves moving an entire business function or project to a specialist external provider. For example : many large firms have outsourced their information technology and payroll functions. The objectives :

- To reduce cost
- In order to specialize areas of the business
- To focus on the core competences of the business rather than the supporting function
- Improve speed, flexibility and quality