

The term trade refers to exchange of goods and services and when it takes place across the countries, it is called international trade. All countries are not sufficient in themselves. Different countries are differently endowed with resources. Generally, while a country has the abundance or surplus of some resources it suffers the scarcity of certain others. Gulf countries for example are endowed with expensive oil beyond what they themselves would need. But they are suffering the scarcity of industrial goods and food grains. In such situations, trade across the boundaries helps to exchange your surplus goods with those who do not have. International trade implies international specialization.

An economy that engages in international trade is an open economy. A country that does not involve in trade is called closed economy and situation in which a country conducts no foreign trade is called autarky. The advantages which are gained from trade with other countries are called the gains from trade.

DISTINGUISH BETWEEN INTERPERSONAL, INTERREGIONAL AND INTERNATIONAL TRADE

Each person would have to be self-sufficient without trade. If the person would produce all the food, clothing, shelter, medical services, entertainment and luxuries etc. But it is impossible for the particular person. Therefore trade between individuals allows people to specialize in those activities of which they can do relatively well and to buy from others the goods and services at which cannot be produced by them easily. It is called interpersonal trade.

International trade is also based on interpersonal trade. Each region would be forced to be self-sufficient. If trade does not exist between these regions. But trade exists in the region where each region can specialize in producing those goods or services for which it has some natural resources. Plain regions can produce those specialized goods which are abundant in that natural resource. For example, plain areas can produce different food grains while mountain regions can specialize in mining and forest products.

Therefore each region should produce those goods in which it has some natural resources or acquired advantage and obtain other products of trade when all regions scale to self-sufficiency. The interpersonal and interregional principles which have been mentioned in the case of nations, international trade arises. Almost all countries produce more of some goods than their residents wish to consume. At the same time, they consume more than of that particular commodities which they are producing.

International trade is necessary to achieve the gains that international specialization makes possible. Trade allows each individual region or nation to concentrate on producing those goods and services that it produces relatively efficiently while trading to obtain goods and services that it would produce less efficiently than others.

INTERNATIONAL TRADE IMPLIES INTERNATIONAL SPECIALIZATION

From the individual's point of view, specialization refers to the acquisition of a specialized skill in the performance of a particular activity or in the production of a particular commodity. From the country's point of view, it refers to utilization of the country's resources, in specialized areas of production in which the country has absolute or comparative cost advantage compared to the

rest of the world. When the country's resources are utilized in certain specialized areas, production of specialized commodity tends to be more than their domestic need. The surplus products are exposed.

On the other hand, when resources are withdrawn from the non-specialized areas production of certain commodities falls short of the country's domestic requirements. This refers import situation. International trade-exports and imports are the obvious outcome of international specialization. Since international specialization is based on the principle of some theory which were given by different economists, the significance of international specialization lies in gains from trade.

Determinants of International Trade

There are different factors which affect the international trade or international specialization which follows:

1. Natural Endowment: Natural endowment is the basic of international specialization. It refers to the resource base of a country available to it as a free gift of nature. Natural endowment also include nature and fertility at the soil as well as climate conditions. Thus India and Srilanka specialize in the production of tea simply because of the conducive climatic conditions.

2. Technical condition: International specialization also depends upon technical conditions of the country with their technical advancement developed of the world have solved all confronts of natural endowment. Japan, for example, is just a small coastal country which has a few natural resources but its technical superiority had made the distinction of most advanced nation in their field of Automobile production.

3. Lost differences: The fundamental basis of international specialization is the difference between the cost of production of the different commodities. Different countries specialize, in the production of those goods in which they have absolute or comparative cost advantage. The important parameter of competitiveness in the international market is the cost different of the produced goods.

4. New Economic order: Globalization of the World market through multi national corporative and the emergence of new economic order has forced various nations to integrate their economies with the rest of the world, leading to greater degree of specialization and international trade.

ADVANTATE OF INTERNATIONAL SPECIALIZATION OR INTERNATIONAL TRADE

1. Fuller utilization of Natural Resources: International trade enables the natural resources to be exploited fully. Under developed countries are not in a position to utilize natural resource fully. Such countries export their raw materials to developed industrial countries.

2. Cheaper goods: International trade provides cheaper goods to those countries which cannot produce the particular goods. It is so because every country produces those goods in the production of which it has to incur less comparative cost. Accordingly, international specialization or trade facilitates higher level of consumption and therefore better quality of life.

3. Surplus production: International specialization enables every country to dispose off its surplus production. Some countries produce more goods than their own requirement. They sell

this surplus production in other countries and they avoid the occurrences of deflationary pressures in the domestic economy.

4. Bulk production and economies of scale: On account of international specialization, 'different countries specialize in the production of those goods alone in which they enjoy favorable production conditions. As a result goods are produced in large quantity at low price in consonance with the economics of scale in the words of McConnell, "International trade is a means by which nations can specialize increase the productivity of their resources and thereby realize a larger output than otherwise.

5. Possibility of Economic Development: Economic development of any countries depends upon

the international trade. Underdeveloped countries can make the optimum use of their available natural resources and raw materials by imparting machinery and technical equipment from, the developed countries. They are thus enabled to increase their output and exports and thereby promote economic development. In the words of Robertson, "International trade is an engine of growth".

6. International co-operation: Mutual co-operation can be developed on the basis of international specialization with the different countries. It creates an atmosphere of good will, cordiality and friendship among the trading countries. According to Henry Cornez, "International specialization is the greatest civilizing agency.