

Free essay about trade patterns and developments in the us and south america

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Abstract

There are numerous reasons as to why nations trade with each other. The main reason why countries engage in trade is due to the fact that there is a difference in the way natural resources are distributed. This is coupled to the factor of endowment. The factor of endowment refers to the money, land or labor that can be exploited to realize economic gain. The fact that every nation has a unique distribution of resources makes every country have its own economic potential. Some nations are blessed with more resources in terms of population, land and minerals compared to others. A few countries with limited resource distribution have low potentials. Keeping this concept in mind, countries trade with each other so as to fill the gap left by resource scarcity.

South America is among the US biggest trade partners. Lots of trade take place between the two countries with the US dominating in the export of manufactured goods and products. South America is a major supplier of natural resources such as wood and food resources that fetch markets in the United States. It is obvious that nations with bigger exports and imports have prosperous economies. International trade is necessary basing on the diverse distribution of natural resources worldwide. It is impossible to have a single country own every resource such that there is always a deficiency in one resource or the other. The United States is a major industrialized nation. However, it lacks many of the natural raw material required by her industries.

The US therefore has to rely on her neighbors for the resources to run the industries. In return, countries like South America, who are major US

partners get waivers in business deals and exports from the US in addition to getting a market for their raw material. Essentially, nation's trade with each other in order to acquire what would be inadequate within the nation due to scarcity of natural resource or technological advancement. Countries therefore trade to ease the burden that would be if there was a lack of that resource. International trade can be viewed as a way of attaining sustainability between countries. International trade depicts the concept of specialization which is a major concept in the law called 'the law of comparative advantage' This law emphasizes the idea a firm within a country makes the production of a good or service efficient compared to if another good would be produced in its place.

Comparative advantage is advantage is the major factor that causes trade to take place between different countries. Comparative advantage refers to the fact that some nations are endowed with some natural resources compared to others. Comparative advantage in the context of the United States and South America differs due to the variation in national characteristics. Labor productivity differs among nations. This means that labor productivity of specific goods and services will also differ. Labor productivity exemplifies comparative advantage and can be used, although not with entirety, to describe international trade patterns. There are various theories advanced to explain international trade and why countries trade with each other. Trade theory focusses on endogenous variations among nations.

Keeping this theory in mind, one may focus on economies of scale.

International trade creates a wide market. This causes a cost advantage in some industries within the trading countries. This in turn stimulates trade

ties between the nations. In whole, International trade is a complex concept with many theories advanced to explain why countries trade with each other. However, the obvious reasons why this trade takes place is due to variation in distribution of resources. However, it can also be argued that there are other reasons as to why different countries trade such as the need to strengthen diplomatic relations. However, these minor reasons come after the major concepts of international trade.

Lifting the restriction in movement of goods across borders can lead to serious consequences. Free unrestricted trade means that there is flow of goods and services across borders without restrictions, policies or tariffs that regulate this trade. Despite the fact that this concept may sound preferable to individual investors and businesspeople, it has its negative effects. An important issue on unrestricted trade is subsidy. One country among these trade partners may decide to subsidize the production of a commodity while the other one does not. This would mean that there would be unrealistic and dramatic prices across the borders. The country with subsidized production will have ridiculously cheap prices for its products unlike the other country. The country with products that are not subsidized will have expensive commodities than imported ones. This would then result in consumers purchasing the cheaper commodities while the normal priced commodities will not be sold.

One of the theories explaining trade flow between South America and the US is the theory of 'comparative advantage'. A country exports a product in which it boasts comparative labor advantage on. Taking a model example of South America and the United States. Supposing it takes 2 hours of labor to

make a pair of shoes in a US shoe industry while it takes 1 hour of labor to do the same in South America. And suppose it takes 3 hours of labor to assemble a computer in the US while it takes 6 hours of labor to assemble the same computer in South America. Notice that trade equilibrium would prompt the United states to export computers while South America exports shoes.

A second theory explaining trade flow is the theory of ' absolute advantage '. Businesspeople constantly compare and evaluate the money cost of a commodity or service across borders so as to define the direction of trade between the two countries. Putt in simpler terms, absolute advantage simply means that a country is likely to import goods that are cheaper in another country and export those that are expensive in the foreign country. Referring to the previous example, a pair of shoes would be cheap in South America due to the labor advantage. That would mean that the United States would import shoes due to the high cost in the country caused by the comparative labor advantage. The contrary would be true in the case of laptops that are produced cheaply in the United States. The two theories, although different, are tied in many aspects. This means that both act in the interplay of determining the direction of trade between two countries.

The role of national policies in promoting specific industries has been a topic of debate in contemporary times. Many countries have implemented policies and strategies in developing competitive advantage in industries they consider strategic to their economy. This means that there is preference in funding of some companies as compared to others. However, this has been a cause of debate in many countries that have undertaken proactive

government support for some industries. Government support, especially on private companies has raised many concerns. This is due to the resultant distortion of market forces. Government intervention in funding companies have effects on the price and demand of goods and services offered by the company. Availability will also be affected since the concept of market forces touches on both price, demand and availability. This will most likely cause a shift in the equilibrium.

Contemporary trade environments require managers to improve the working environment, cut costs and losses while improving the quality of productivity. Managers need to employ tactics to counter constantly changing international trade trends. Managers need to focus on the developing tariffs and trade policies while analyzing costs in order to gain profits from the changing market trends. International trading means that the borders are open for trade to many other companies. Different countries have introduced subsidies on production making the products of their companies cheaper due to the advantage. Managers need to focus on such events by aiming to reduce the cost of production so as to produce products that fetch competitive prices in international markets.

Global markets expose managers to a new form of competition due to the quality of products in the market. Different countries employ their diverse technology in producing their goods. This therefore translates to different countries having different and unique products. Quality products are desired by most consumers making them prefer products with higher quality. The main driving power behind the need for managers to develop tactics with the changing trade trends is due to the long term gains that come with these

adjustments. Managers should develop new ways of doing business with the target of achieving long term development goals.

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