Gain from Trade

- Gain from trade is measured on the basis of improvement in different factors in the post-trade situation compare to the pre-trade situation.
- The gain from trade is different from the advantage of trade. The advantages of Trade explain the benefit of free trade compared to restricted trade.
- The Absolute and Comparative advantage theories explain different types of gain from trade: -

1. Specialization: - prefect division of Labour
2. Optimum allocation of resources: -
3. Maximization production: -
4. **Economies of Scale: -** Trade allows businesses to reach larger markets, enabling them to take advantage of economies of scale in production. This often leads to cost reductions and increased profitability.
5. Higher Economic Growth: -

6. Increase in Efficiency: -
7. Improvement in Consumption level: - Through international trade, countries can import goods that are produced more efficiently in other countries. This can result in lower prices for consumers and reduced inflationary pressures.
8. **Increased Consumer Choice:** Trade allows consumers to access a wider variety of goods and services, including those that may not be produced domestically. This leads to increased choices and quality of products available to consumers.
9. **Access to Scare Resources**: Countries can obtain resources they lack domestically through trade. For instance, a country without oil reserves can import oil from oil-rich nations.

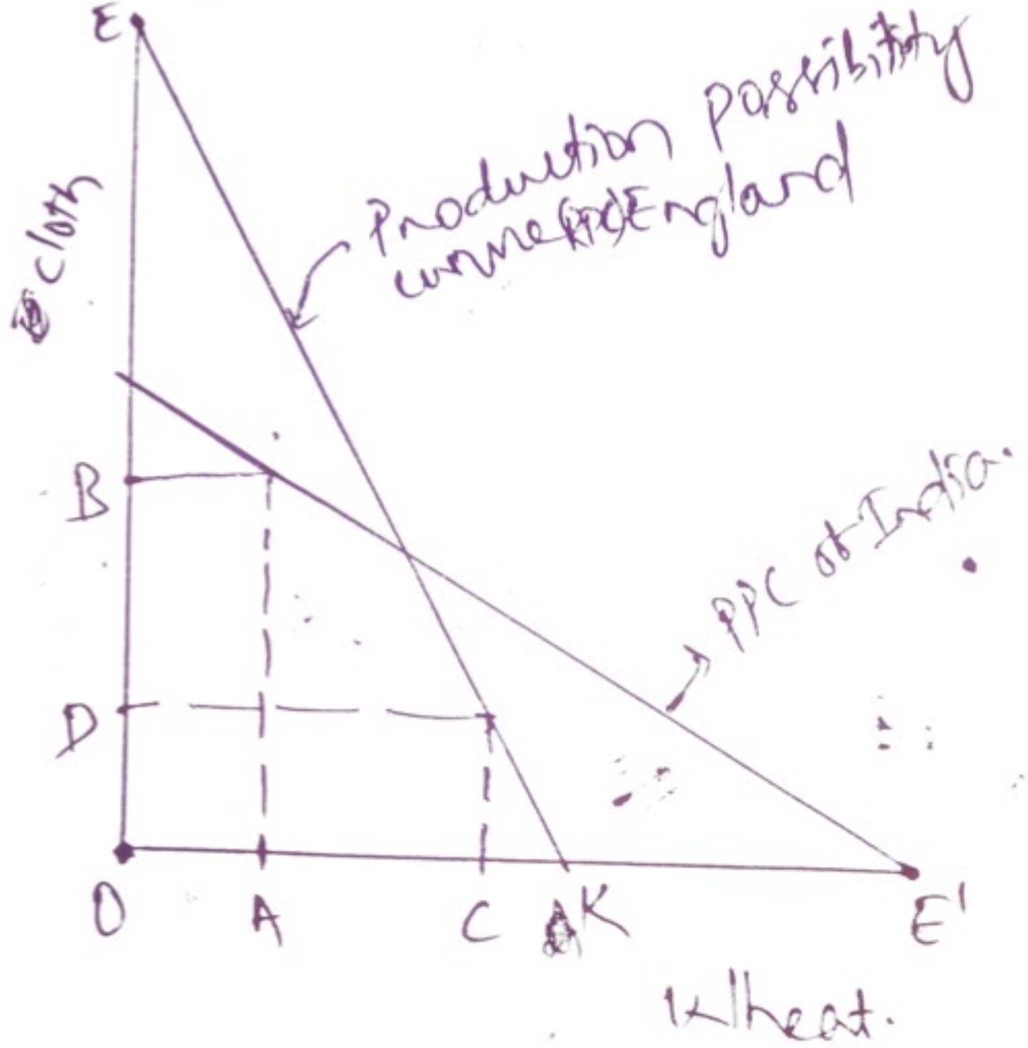
Recent Implications or gain from Trade

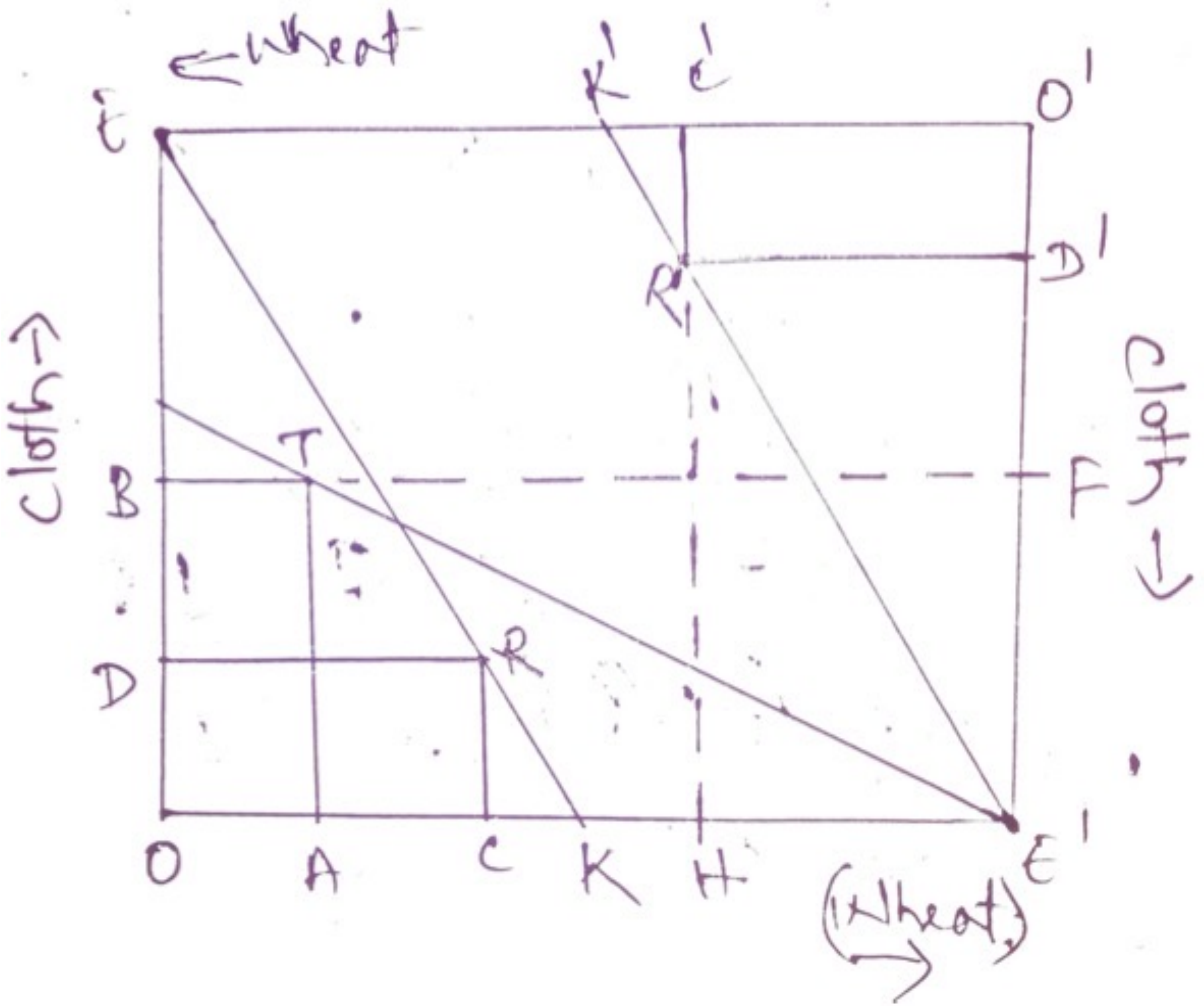
1. **Innovation and Technology Transfer**: Trade facilitates the exchange of knowledge, technology, and innovation across borders.
2. **Foreign Investment**: International trade attracts foreign direct investment (FDI), which brings capital, expertise, and technology into a country.
3. **Job Creation**: Export-oriented industries can create jobs, especially in sectors where the country has a competitive advantage.
4. **Cultural Exchange**: Trade promotes cultural exchange and understanding between nations as people from different countries interact through business relationships.
5. **Foreign Exchange Earnings**: Exporting goods and services generates foreign exchange earnings, which can be used to pay for imports and service external debts.
6. **Global Relations and Peace**: Trade can promote peaceful relationships between countries by fostering interdependence and mutual benefits, reducing the likelihood of conflicts.
7. **Diversification of Risk**: By participating in international trade, countries can diversify their economic risks. If a domestic industry faces a downturn, the country's overall economy may still perform well due to the diversity of industries engaged in international trade.

Gain from trade under Constant Cost Condition

- Let's take an example
- In India; 1 day's labour can produce 40 units of Wheat and 1 day's labour can produce 40 units of Cloth
- In England; 1 day's labour can produce 20 units of Wheat and 1 day's labour can produce 30 units of Cloth
- If both Countries have 2 days of labour; The total output before trade will be (130 units (60 units of Wheat and 70 units of Cloth). After trade India will specialize in Wheat and produce 140 units (80 units of Wheat and England will specialize in Cloth and produce 60 units of Cloth).
- So, international trade leads to specialization which results in an increase in production and economic growth rate.

Production level before trade





Graphical explanation of gain from trade

- Before Trade, India produced and consume at point T (OA wheat and OB Cloth) (Graph -1) and England produced and consume at point R (O'C wheat and O'D Cloth) (Graph – 2)
- Merge these two graphs as graph-3;
  - Before trade: -
    - Total Wheat production is – OA (India) + OC or O'C or E'H (England)
    - Total Cloth production is – OB or E'F (India) + O'D (England)
  - After Trade: -
    - Total Wheat production is – OE'
    - Total Cloth production is – O'E'
  - Gain from International Trade
    - Increase in Total Wheat Production- AH
    - Increase in Total Cloth Production- DF