



---

## Why Do Nations Trade?

---

Why does Canada trade? Shouldn't a country as large and diverse as Canada produce all the food, consumer products, clothing and entertainment services it wants? The fact is, we do we trade with other countries. The question is why? In fact,

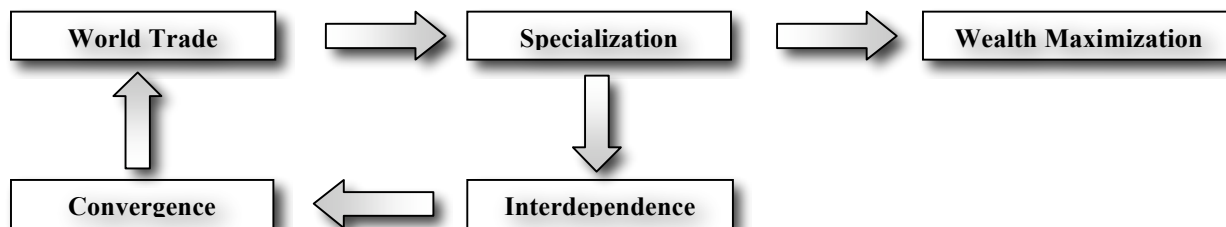
### Why do nations trade at all?

The reason is that Canada is not as efficient as some other countries are at producing the goods and services that Canadians want. Different countries have different natural, human and capital resources, and different ways of combining these resources to produce goods and services.

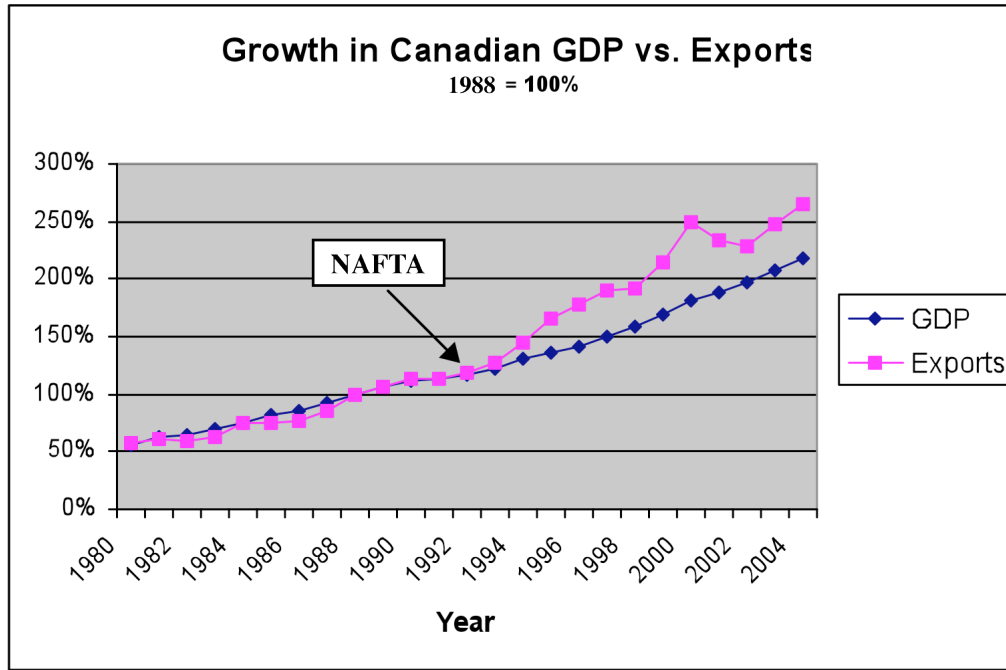
The decision to produce any good or service has an opportunity cost, which is the amount of another good or service that might otherwise have been produced with those resources. Given a choice of producing one good or service or another, it is more efficient to produce the good with the lower opportunity cost, using the increased production of that good to trade for the good with the higher opportunity cost.

When Canada can produce *more output* with the *same input* that another country can, it has an absolute advantage in the production of that good. If the other country has an absolute advantage in producing a good that Canadians want, both countries will be better off if they specialize and trade.

Why do countries have different absolute advantages? Some have climatic advantages (ex: Florida can make oranges more cost effectively than B.C., but B.C. can make Salmon more cost effectively than Florida). Other countries have more plentiful natural resources, more efficient workers and more investment capital (equipment).



Trade is not static either. It has been increasing both in amount and in significance, especially after significant reductions in world trade barriers (NAFTA, EU, WTO expansion). The numbers speak for themselves: look and see how Canadian exports took off after NAFTA came into force in 1993. (Source of data: the IMF World Economic Outlook):



These recent increases in both Canadian and global trade increase competition as well. New supplies of resources are developed while existing supplies are better managed in an effort to become as competitive and cost effective as possible in a global marketplace.

Thus, an increase in trade should result in more efficient use of the world's scarce resources, and thus, a higher standard of living (because we're getting more output for a given amount of input).

An increase in trade should also improve satisfaction, as consumers are no longer limited to the selection (or cost) of goods and services produced within their own borders. They are free to shop a world-wide myriad of organizations for their needs and wants.

Increased trade and specialization also results in nations becoming dependent upon one another for goods they can no longer (or no longer wish) to make. Over time, this dependency can grow so large, that their economies (even their cultures) will converge.