

## **Answer on Question #44650 – Economics – Macroeconomics**

How do households of South Africa benefit from the country's international trade?

### **Solution**

International trade, at face value, has one basic benefit – allowing for purchase of goods and services at low prices. This puts more income in the hands of households as they can use their disposable incomes in purchasing cheaper goods and services. The country as a whole benefits as well as its resources can be applied in producing goods and services which it has a comparative advantage in producing and add a larger contribution to its GDP. The sellers of an exporting country get the advantage of increasing their prices in-line with the world prices, which would ideally be higher than the domestic prices if the exporting country has a competitive advantage in producing the commodity to be exported. This puts in more money into their pockets, hence increasing their profitability and their contribution to the GDP and tax revenues. Trade can also force prices to fall. If the domestic producers face competition from foreign countries which offer similar commodities at lower prices, they have to, normally, lower their prices in order to maintain competitiveness. This allows for households to purchase goods and services at lower prices, hence increasing their individual purchasing powers. This, however, only stands true if the commodities in concern are close substitutes or are almost identical. In cases where commodities being imported are of inferior quality, then they act like inferior goods and their sales increase once incomes fall. Exports also allows for countries to earn Foreign Exchange which not only helps them meet their international debt obligations, but also allows for an appreciation of their currency. Exports also allow for domestic producers to achieve higher economies of scale as they have the opportunity of producing more of a commodity, hence absorbing a larger amount of fixed cost at any given time while reducing their prices as lesser fixed costs are charged per unit. International trade also provides consumers with a wider variety of options to choose from for the same or similar product types as imports from other countries may be distinctly different in functionality and aesthetics from the domestic produce.

**The South African market** for small household appliances is dominated by two Gauteng-based companies: Nu-World and Amalgamated Appliances (AMAP). Both companies were set-up as manufacturing concerns in the 1940's and benefited from significant tariff protection for most of the 20th century. In 1990 about 80% of domestic consumption of small, consumer appliances was produced by these two companies. Globalisation has had a dramatic impact on both companies. By 2005 domestic production had shrunk to around 20% of consumption and imports now dominate the local market. But almost all imports are accounted for by Nu-World and AMAP and their stronghold over the domestic market remains largely unchallenged.