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## First Trade Theories: Mercantilism

In order for global businesses to achieve their economic activities, trade theories are explored to help strategize their means of operations across borders. Trade theories allow global businesses to decide what, how much, and with whom to import and export. There are trade theories that involve great governmental intervention in trade activities like mercantilism and there are trade theories that practice less governmental intervention like the theory of absolute advantage. This paper will compare these two theories of international trade and how government intervention impacts global businesses.

The first trade theory of mercantilism took place during the 16th century where it allowed the government to intervene and encourage trade as a means to generate wealth for the mother country. Wealth was generated by exporting more goods than importing. The goal was to encourage a trade surplus as the government restricted imports and subsidized non-competitive products to raise the country's overall revenue. European countries particularly Great Britain and France became a dominant force that embraced mercantilism. The British government made sure that its American colonies would supply raw materials like oil and grain to the mother country while exporting finished products to others. This favorable trade surplus was meant to increase the national wealth through gold and silver exchanges. With American colonies depending heavily on Great Britain, they were further restricted by the British government due to an increase in taxation and inflation. This caused great colonial distress and limited the growth and freedom of colonial businesses. They could not conduct any foreign businesses with other countries which is a great disadvantage as no country has all the natural resources, favorable geographic conditions, and technology necessary to produce everything a country need.

Countries during the 18th century focused more on reducing barriers to the movement of trade and production. This allowed products to be competitive against others which increased efficiency and a greater variety of goods and services at a lower price. The free trade theories such as absolute advantage made way for specialized goods and services to be imported and exported to other countries. This notion is based on Adam Smith's declaration that a country's wealth is based on available goods and services. His theory of absolute advantage argued that instead of mercantilism, free trade promotes a flourishing economy and country. He also reasoned that other countries can produce different goods more efficiently than others which means that consumers should not be forced to purchase domestically produced goods when they can instead purchase cheaply from abroad. Specialization gives countries a competitive advantage resulting in a higher global output. For instance, due to Ecuador's natural geographic advantage, they can produce large and long-lasting roses which play a pivotal role in their million-dollar global rose trade. Another example is Taiwan's tea leaves which were

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their major export. Taiwan's high elevation gives its tea leaves a unique taste which is their competitive advantage. By freely trading with other countries, global efficiency is optimized as each country can benefit from one another. Thus, by trading freely without government monopolization, global efficiency is optimized as different countries can receive various goods and services.

Trade theories are fundamental for countries conducting global businesses. The oldest trade theory mercantilism ensured the mother country was profiting while imposing harsh trade restrictions and taxations on colonies. This made way to the success of free trade theories like the theory of absolute advantage where countries can conduct global businesses and trade with goods and services that they specialized in giving it a competitive advantage. Countries do not have all the resources they need which make global trade even more necessary. By understanding trade theories, countries and global businesses can efficiently strategize and meet their economic objectives whether it is transferring production factors like labor and capital or simply goods and services like Ecuadorian roses.

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