

## **The Benefits of Trade**

**By** CBSI Media

The Solomon Islands economy would be best described as an “open economy” because we are free to trade with other countries. But what are the benefits to the country for engaging in trade? We take a look at some of these benefits below.

### **The Benefits of Trade**

The Solomon Islands enjoys numerous benefits by engaging in trade with other countries but the main benefits are;

- The benefits of specialization
- The benefits of competition
- The benefits of choice

When we talk about specialization, we are talking about a trade strategy where we choose to concentrate on the production of goods and services which we have the ability to produce.

Often, we say we have a “comparative advantage” because we are comparing our ability to produce goods or services due to our environment, maybe our climate is good for growing coconut trees or we have access to natural resources like the sea and minerals beneath the ground that other countries do not have.

This allows us to be able to produce some items more cheaply than other countries because we do not have to spend money accessing these resources. Specialization then is the strategy to produce goods and services that we have comparative advantage in producing and importing goods and services which we do not have a comparative advantage in.

By specializing in the production of goods and services, companies in the Solomon Islands can increase their ability to produce these items. Not only will they be able to produce the items more easily, but they have gained experience at producing them cheaply. Since they can concentrate all their time and resources on the production of this one specific good or service.

Because they are able to produce more efficiently and cheaply, they are able to supply the domestic market with items at reduced prices which benefits consumers. And if they are efficient enough and can produce above what they need, they may sell their excess items abroad reaching more consumers and expanding their business.

### **Competition**

By trading with other countries, we are free to import and export goods and services. This is beneficial to most consumers because if domestically produced items are expensive we have the option to import cheaper alternatives. This represents competition for the domestic companies and can help to lower domestic prices in general.

Companies exporting will face competition from other countries also exporting the same goods and these domestic companies will have to make sure they can produce the goods at a price similar to or below the price that the other countries can produce it for. This ensures that domestic companies

operate efficiently so that they can produce the good for the lowest possible price to sell domestically as well as abroad.

### **Choice**

The Solomon Islands is a small economy and if we don't trade at all, we would have very limited choice of goods and services. By trading with other countries, we are able to greatly expand the choices that we have in terms of the goods and services that we can access.

For example, if we were only able to buy food that was domestically produced we would find that some of the items that we like such as rice would not be readily available, we would have to increase our domestic production but because it would be on a small scale compared to production in other countries it would be more expensive than the rice we could have imported leading to high rice prices for the Solomon Islands.

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