# International Trade of Manufacturing Sector

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**ABSTRACT**

International trade plays an important role in the economy of each individual country. It allows to satisfy the needs of the population; stimulates the internal development of the country. International trade is the exchange of goods and services between countries. The paper investigates the determinants and patterns of specialisation and international trade in the manufacturing sectors of country that are similar in terms of their technology, relative factor endowments and preferences. It shows that differences in sector size alone can be a basis for interindustry trade in manufactures. I present a general equilibrium model in which each country has two imperfectly competitive industries which can differ in three respects: relative factor intensities, level of transport costs and demand elasticities. With positive trade costs and increasing returns to scale, each firm prefers to locate in the larger sector due to the 'market access' effect. But the increase in demand for factors in the country induces a 'production cost' effect - a rise in the wage in the large sector relative to the small sector to offset the locational advantage of the large sector. The tension between the market access effect and production cost effect determines which industry will concentrate in which sector and the pattern of inter-industry trade.

**Keywords:** International trade, Relative factor, Market access, Inter-Industry.

 ISBN: 978-81-942709-2-8 (eBook), 978-81-942709-1-1 (Print); DOI: 10.21467/abstracts.82