produced and/or assembled in still other countries. The operating software and many of the software programs on these devices are also likely of non-Canadian origin. Likewise, many commonly used food products, ranging from spices and out-of-season fruits and vegetables to nuts and chocolate, and even many appliances in Canadian kitchens, are also imported. International trade enriches the lives of everyday Canadians in so many ways and through so many direct and indirect channels that it would be virtually impossible to disentangle its effects or to precisely measure the innumerable benefits and conveniences it brings.

But imports also have other effects on the economy beyond providing variety and choice for consumers. Imports provide inputs to producers and competition for Canadian producers. They provide jobs directly to people in the transportation, wholesale, and retail sectors and indirectly to many others whose activities support those involved in importing; the bankers, for example, who arrange for the exchange of currencies and transfer of payments.

Specialization, Comparative Advantage, and Gains from Trade

Economic theory has one central explanation for the process of wealth creation resulting from trade: let people do what they do best or, in one word, specialization. Throughout economic history, mankind has gradually increased its economic well-being through specialization. The division of labour, specialization, and the international exchange of goods and services have been key to improving economic conditions. As specialization increased, so has productivity and total output, leading to a larger economic pie to be divided among the population.

There are many instinctive reasons that make specialization more efficient. First, the specialist acquires more expertise and performs better over time. Second, specializing avoids the costs of switching between different activities. Third, specialization avoids the need to provide everyone with a different set of tools for all activities. Finally, economic agents can choose occupations that they enjoy more and thus be better at it.

Trade among nations further accentuates the importance of specialization by allowing the gains from specialization to be extended to a wider area.

In the context of international trade, economists have developed the concept of comparative advantage, in which one party is better than the other at producing all goods and services, but by a different margin. The concept of comparative advantage was first articulated by David Ricardo in 1817, using an example involving England and Portugal and two goods (cloth and wine). Ricardo showed that even when one of the two countries has an absolute advantage in producing both goods (i.e. it can produce more output with one unit of labour in both sectors) there is scope for mutually beneficial trade if both countries specialize according to their pattern of comparative advantage.[3] More precisely, it is said that a country has a comparative advantage in the production of good X if it is relatively more productive in the production of that good.

3 One shortcoming of the simplified two-goods, two-country Ricardian model is that it fails to represent the real world in which multiple goods are traded among multiple countries. In models with more realistic assumptions, such as trade barriers, traded intermediate inputs, and large numbers of both countries and goods, the Ricardian model only predicts trade under strong simplifying assumptions, but comparative advantage continues to predict and explain gains from trade.