



# Chapter 17: International Trade Section 2

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# ECONOMICS

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# Objectives

1. **Define** various types of trade barriers.
2. **Analyze** the effects of trade barriers on economic activities.
3. **Summarize** arguments in favor of protectionism.
4. **Evaluate** the benefits and costs of participation in international trade agreements.
5. **Explain** the role of multinationals in the global market.



# Key Terms

- **trade barrier:** a means of preventing a foreign product or service from freely entering a nation's territory
- **tariff:** a tax on imported goods
- **import quota:** a set limit on the amount of a good that can be imported
- **sanctions:** actions a nation or group of nations takes in order to punish or put pressure on another nation
- **embargo:** a ban on trade with a particular country



# Key Terms, cont.

- **trade war:** a cycle of escalating trade barriers
- **protectionism:** the use of trade barriers to shield domestic industries from foreign competition
- **infant industry:** an industry in the early stages of development
- **free trade:** the lowering or elimination of protective tariffs and other trade barriers between two or more nations
- **free-trade zone:** region where a group of countries agrees to reduce or eliminate trade barriers



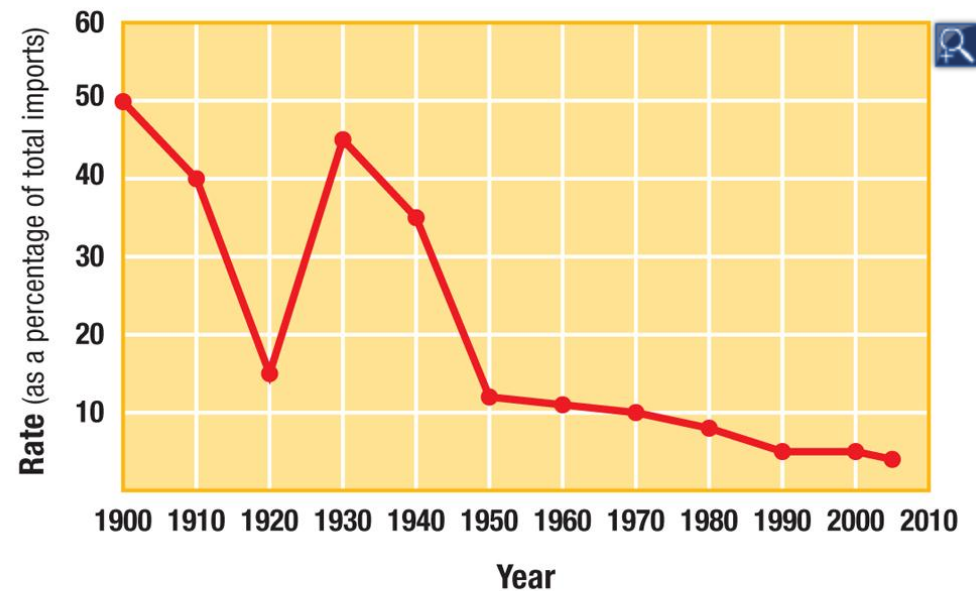


- What are the arguments for and against trade barriers and agreements?
  - Supporters of trade barriers and agreements argue that they save jobs, protect infant industries, and safeguard national security.
  - Critics of trade barriers and agreements argue that free trade is the best way to pursue comparative advantage, raise living standards, and further cooperative relationships among nations.



# Trade Barriers: Tariffs

- A trade barrier, or trade restriction, is a means of preventing a foreign product or service from freely entering a nation's territory.
  - Tariffs are a common trade barrier. Tariffs today are much lower than in the past.



SOURCE: *Historical Statistics of the United States to 1970; Statistical Abstract of the United States; Trade Policy Review of the United States*



# Import Quotas and VERs

- Checkpoint: How do voluntary export restraints differ from import quotas?
  - Another barrier is an import quota, which places a limit on the amount of a good that can be imported.
    - Tariffs and quotas are set by the importing country.
  - By contrast, a voluntary export restraint (VER) is a voluntary limit set by the exporting country, restricting the quantity of a product it will sell to another country.



# Other Barriers

- Other barriers include:
  - High licensing fees or slow licensing processes
  - Customs duties
  - Health, safety, or environmental regulation
  - Political sanctions





# Effects of Trade Barriers

- The effects of trade barriers include:
  - Increased prices for foreign goods—trade barriers can help domestic producers compete with foreign firms.
    - By limiting imports from those firms trade barriers help domestic companies.
    - Consumers may suffer, though, as import restrictions result in higher prices.
- Trade wars—when one country restricts imports, its trading partner may retaliate by placing its own restrictions on imports.
  - If the first country responds with further trade limits, the result is a trade war.





**Beef Wars**

In 1985, the European Union enacted a ban on importing meat derived from animals treated with growth hormones. The U.S. cattle industry objected. What followed became known as the Beef War. More and more products were affected as each side refused to give in. **Why do you think each side took the actions they did?**

**Beef Wars**

<p><b>1985</b> EU bans beef importation</p>	<p><b>1989</b> U.S. imposes tariffs on</p> <ul style="list-style-type: none"> <li>■ Tomatoes</li> <li>■ Citrus fruits</li> <li>■ Pasta</li> <li>■ Ham</li> </ul>	<p><b>1996</b> World Trade Organization orders the EU to remove the beef ban</p>	<p><b>1999</b> EU refuses to lift ban. U.S. doubles tariffs on:</p> <ul style="list-style-type: none"> <li>■ Truffles</li> <li>■ Tomatoes</li> <li>■ Chocolate</li> <li>■ Pork</li> <li>■ Liver pate</li> <li>■ Roquefort cheese</li> <li>■ Fruit juices</li> <li>■ Jam</li> <li>■ Mustard</li> <li>■ Yarn</li> <li>■ Lanolin</li> </ul>
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SOURCE: CNN: "U.S. Imposes Duties on Fine European Foods" July 29, 1999  
 CRS Report for Congress, "The European Union's Ban on Hormone Treated Meat," December 19, 2000

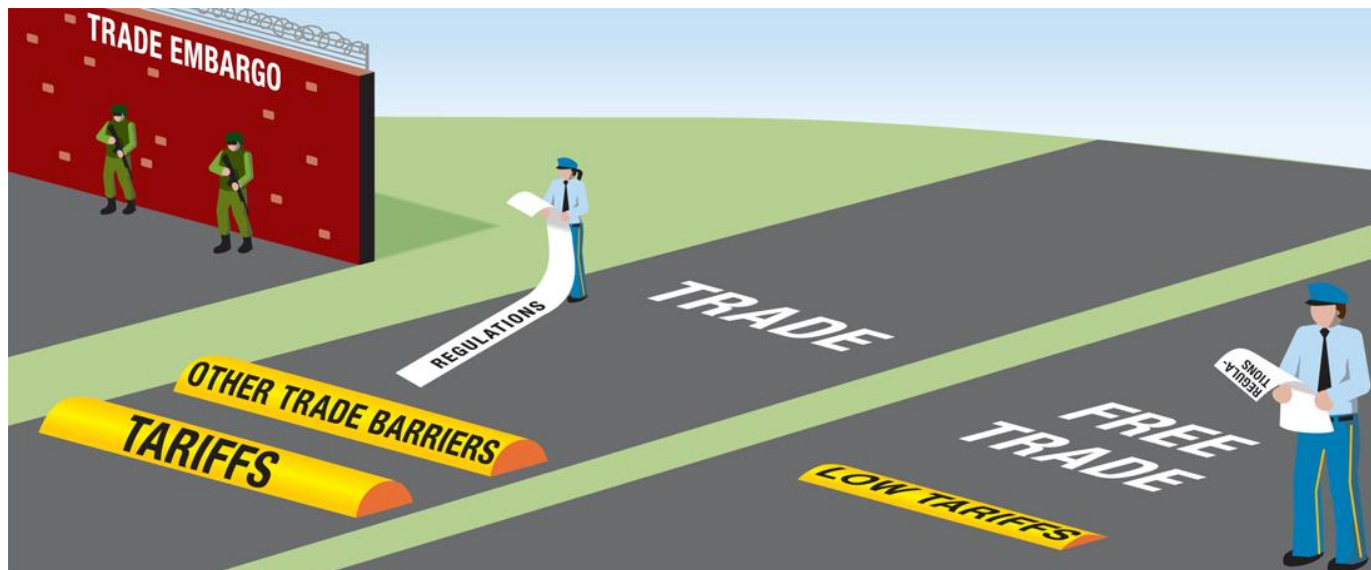
# Protectionism

- Checkpoint: What are three arguments given for protectionism?
  - Nations impose trade barriers as a form of protectionism.
  - Protectionists believe that trade barriers:
    - Save jobs that may be hurt by foreign competition
    - Protect infant industries and give them the time and experience to become efficient producers
    - Safeguard national security by making sure that U.S. steel, energy, and advanced technological industries remain active in the event of war



# Free Trade

- In opposition to protectionism is the principle of free trade.
- Free trade involves the lowering or elimination of protective tariffs and other trade barriers between two or more nations.





# Trade Agreements

- To encourage free trade, a number of countries in recent decades have signed international free trade agreements.
  - World Trade Organization (WTO)—founded in 1995 with the goal of making global trade more free
    - Today the WTO acts as a referee, enforcing the rules agreed upon by the member countries.
  - The European Union—27 nations, almost all of Europe, are members of the EU, which abolishes tariffs and trade restrictions among member nations



- Ratified in 1994, the North American Free Trade Agreement, created a free trade zone linking the United States, Canada, and Mexico.
  - Opponents of NAFTA worried that American companies would move factories to Mexico where wages and lower and environmental regulations were less strict.
  - The agreement remains controversial today with critics continuing to charge that NAFTA has led to the loss of American jobs and damage to the environment.



# Other Trade Agreements

- The DR-CAFTA created a free trade agreement between the United States and six nations of Central America.
- Other free trade agreements include:
  - The Asia- Pacific Economic Cooperation (APEC)
  - The Southern Common Market (MERCOSUR)
  - The Caribbean Community and Common Market (CARICOM)
  - The Association of Southeast Asian Nations (ASEAN)







# The Debate Over Free Trade

- Debate over NAFTA became a campaign issue in the American presidential election of 2008.
- Meetings of the WTO have spurred large protests.
  - At WTO meetings in Seattle in 1999 and Hong Kong in 2005, thousands of protestors gathered to oppose the WTO.



# The Role of Multinationals

- A multinational is a large corporation that sells goods and services throughout the world.
- The decision to build production facilities in a foreign country benefits both the multinational and the host nation.
  - The corporation avoids some fees and tariffs.
  - The corporation may benefit from cheaper labor.
  - The host nation benefits by gaining jobs and tax revenue.
- Host nations, however, worry about MNCs gaining political power, driving out domestic industries and exploiting workers.



# Review

- Now that you have learned about the arguments for and against trade barriers and agreements, go back and answer the Chapter Essential Question.
  - Should free trade be encouraged?

