

CHAPTER 10

International Trade Policy

Chapter Goals

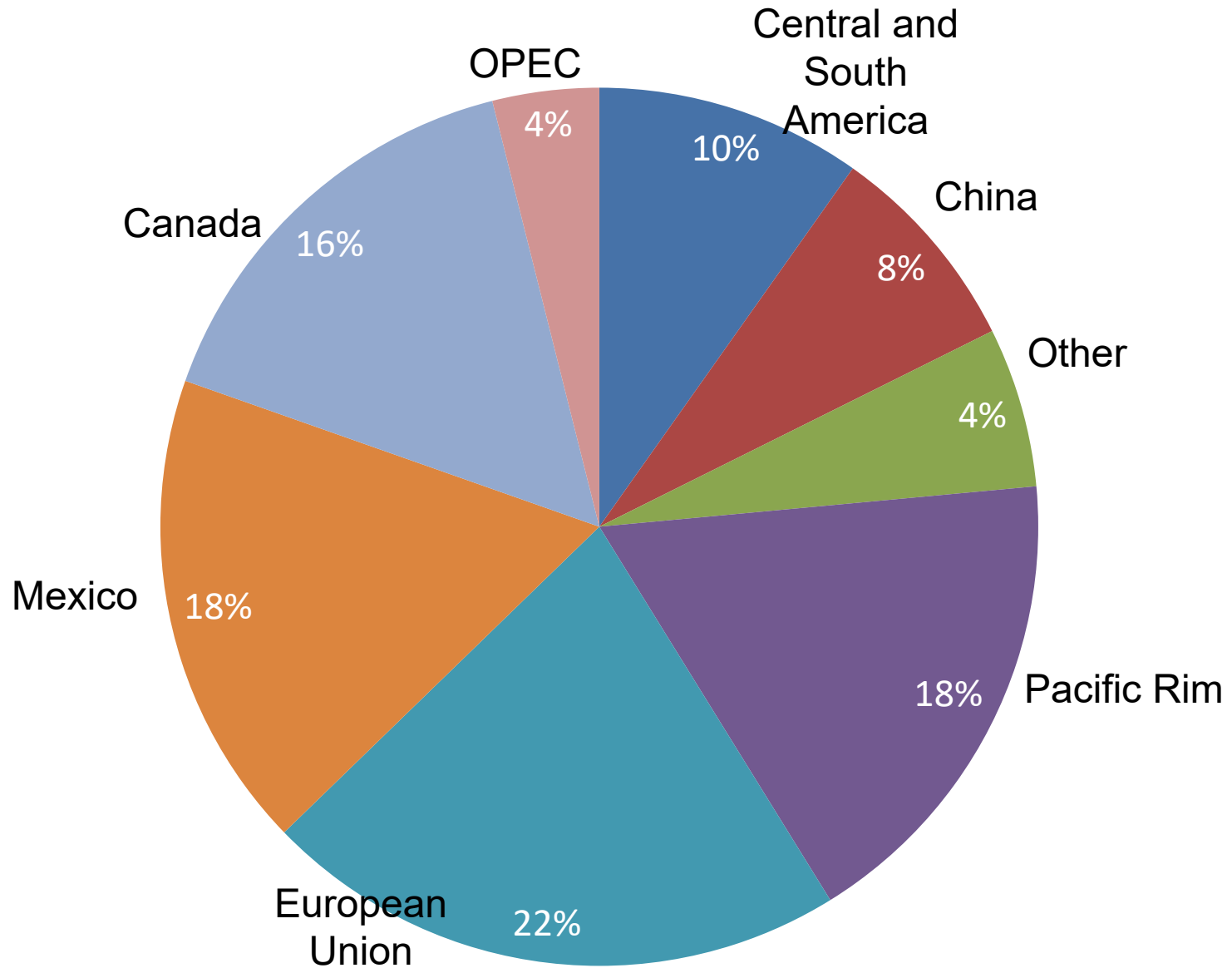
- Summarize some important data of trade
- Explain policies countries use to restrict trade
- Summarize the reasons for trade restrictions and why economists generally oppose trade restrictions
- List two international organizations and two trade agreements that support free trade

The Nature and Patterns of Trade:

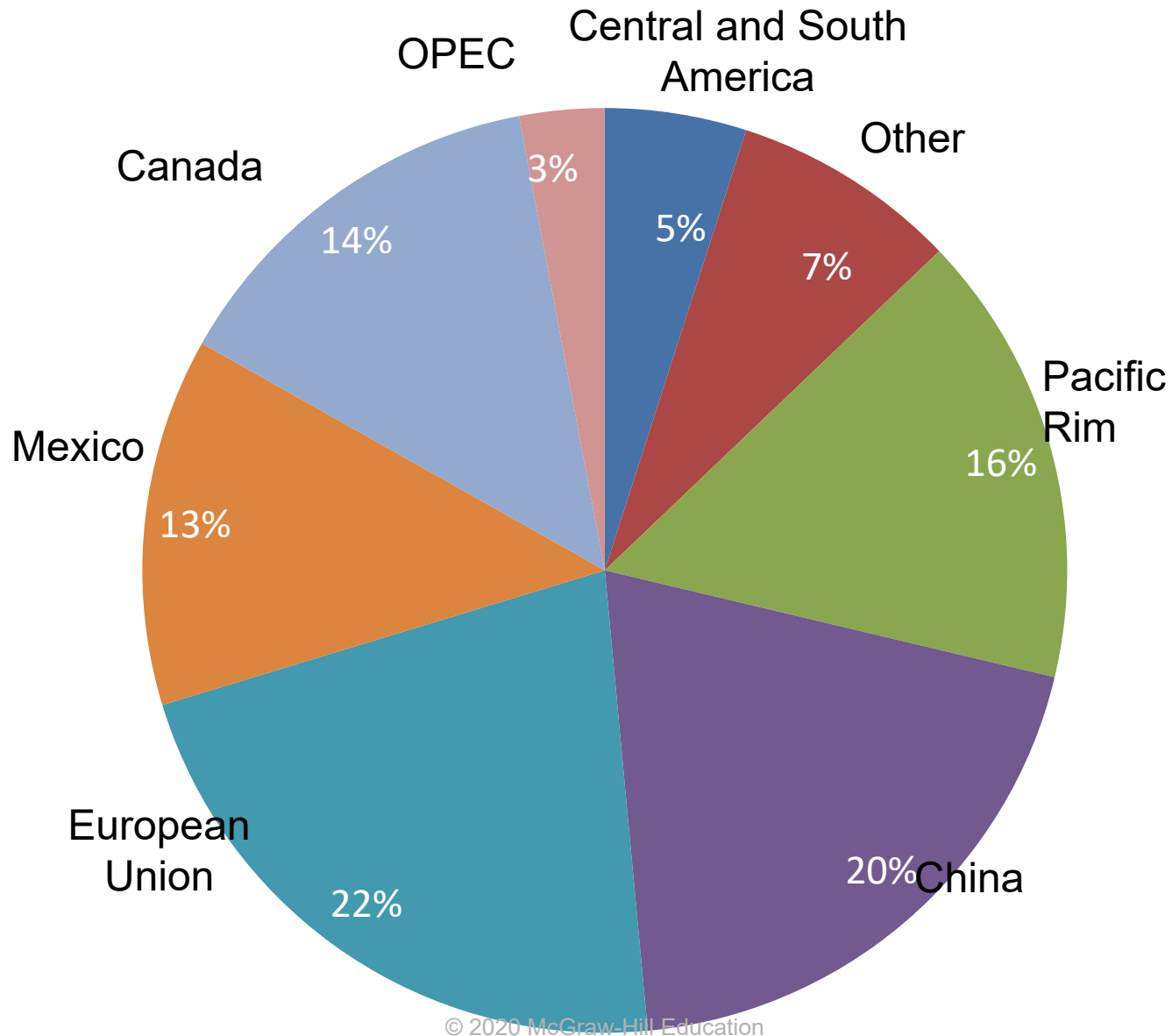
Differences in the Importance of Trade

	Total Output (\$)	Export Ratio (%)	Import Ratio (%)
Netherlands	945	96	87
Germany	421	46	39
Canada	1,799	31	33
Italy	2,182	30	33
France	2,925	30	33
United Kingdom	2,936	28	31
Japan	5,167	16	16
United States	20,413	12	15

U.S. Exports by Region



U.S. Imports by Region



The Changing Nature of Trade

As technological changes in telecommunications reduce costs, foreign countries will be able to provide more services.

The nature of trade is continually changing, both in terms of the countries with which the U.S. trades and the goods and services traded.

Customer service calls for U.S. companies are now more frequently answered in India.

This trade in services is often called **outsourcing**.

The Changing Nature of Trade

Is Chinese and Indian outsourcing different from previous outsourcing?

Using overseas suppliers is not a new development in trade.

The difference is the potential size of outsourcing to India and China with combined populations of 2.7 billion people.

Because technology is growing in these countries, the U.S. economy must develop new technologies to remain competitive.

Balance of Trade

Trade deficit = exports < imports.

Trade surplus = exports > imports.

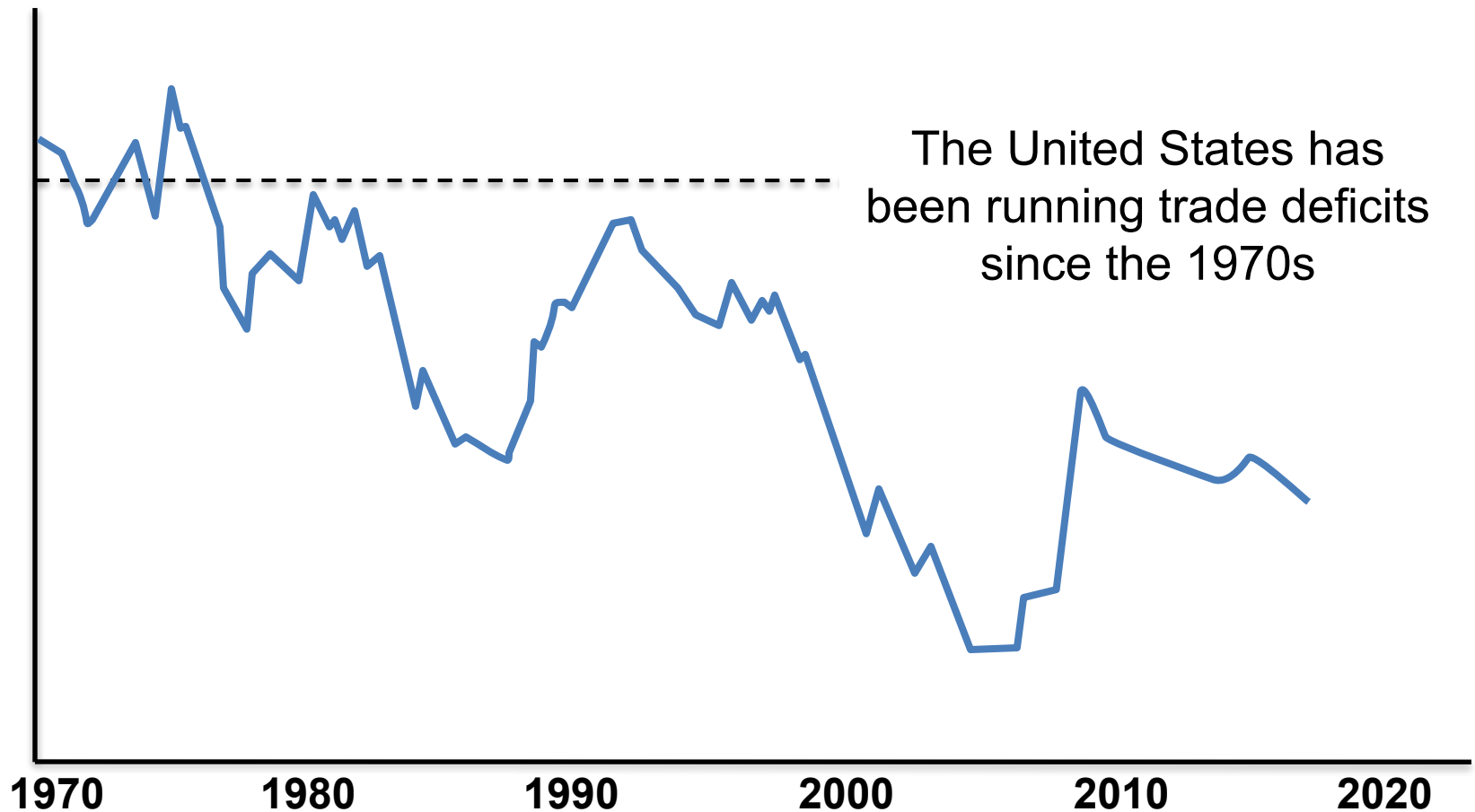
The United States has been running a trade deficit since the 1970s.

In 2006, the U.S. trade deficit reached over \$800 billion.

The U.S. is financing its trade deficit by selling off financial assets, stocks and bonds, and real assets, corporations and real estate.

Balance of Trade through 2017

Percent of GDP



Debtor and Creditor Nations

The U.S. is currently financing its trade deficit by selling off assets.

Running a deficit isn't necessarily bad.

The U.S. has not always had a trade deficit; following WWII, it had trade surpluses.

The U.S. has gone from being a large creditor nation to being the world's biggest debtor; international considerations have been forced on the nation.

Trade Restrictions

Trade restrictions can keep a country from having to face the adjustments associated with improving its comparative advantage.

One way to reduce the trade deficit is to reduce imports by restricting trade.

Varieties of Trade Restrictions

Quotas are quantity limits placed on imports.

Tariffs are excise tax on an imported (internationally traded) good.

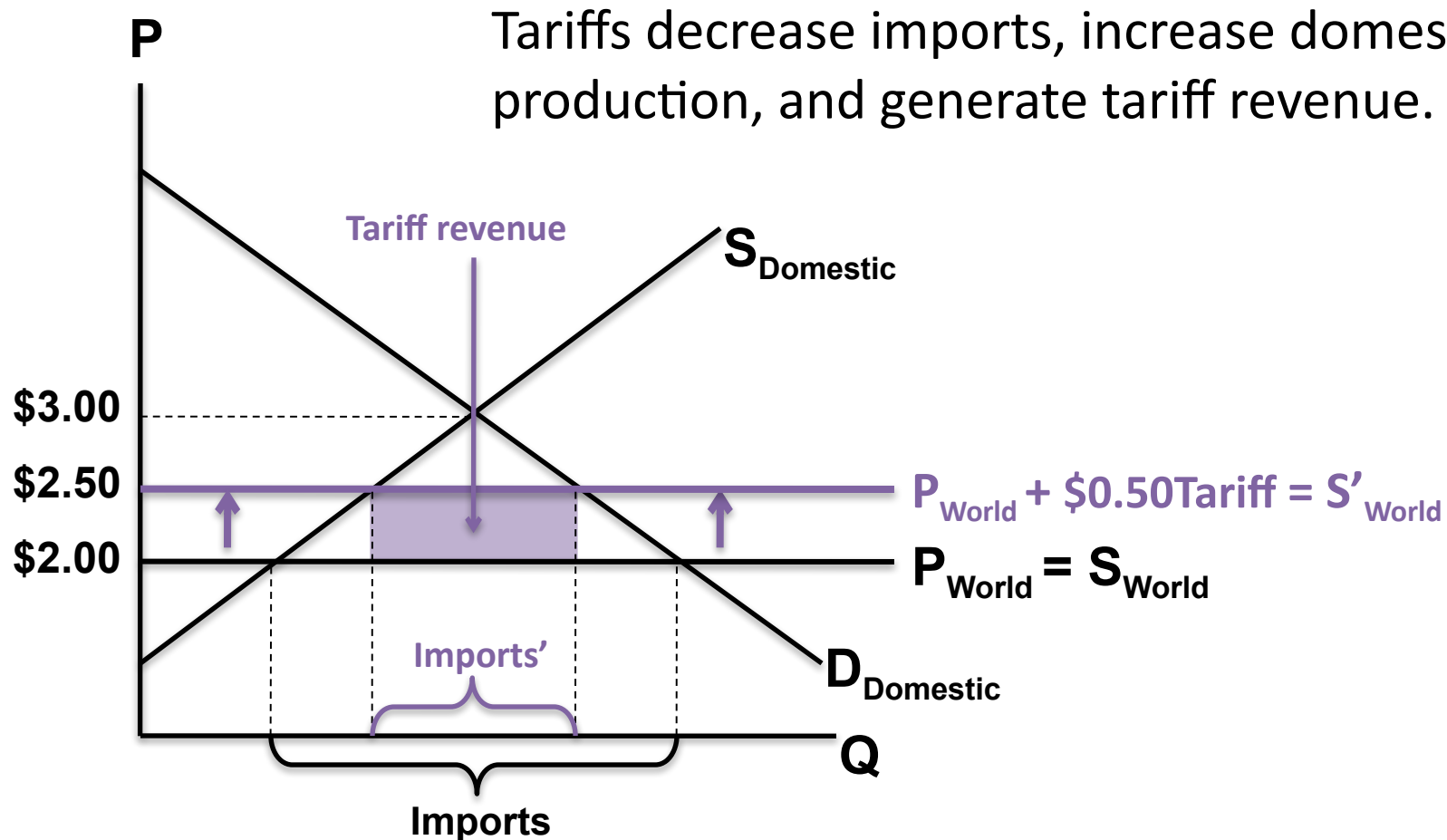
Voluntary restraint agreements are when countries voluntarily restrict their exports.

A **sanction** (sometimes called an embargo) is a total restriction on the import or export of a good.

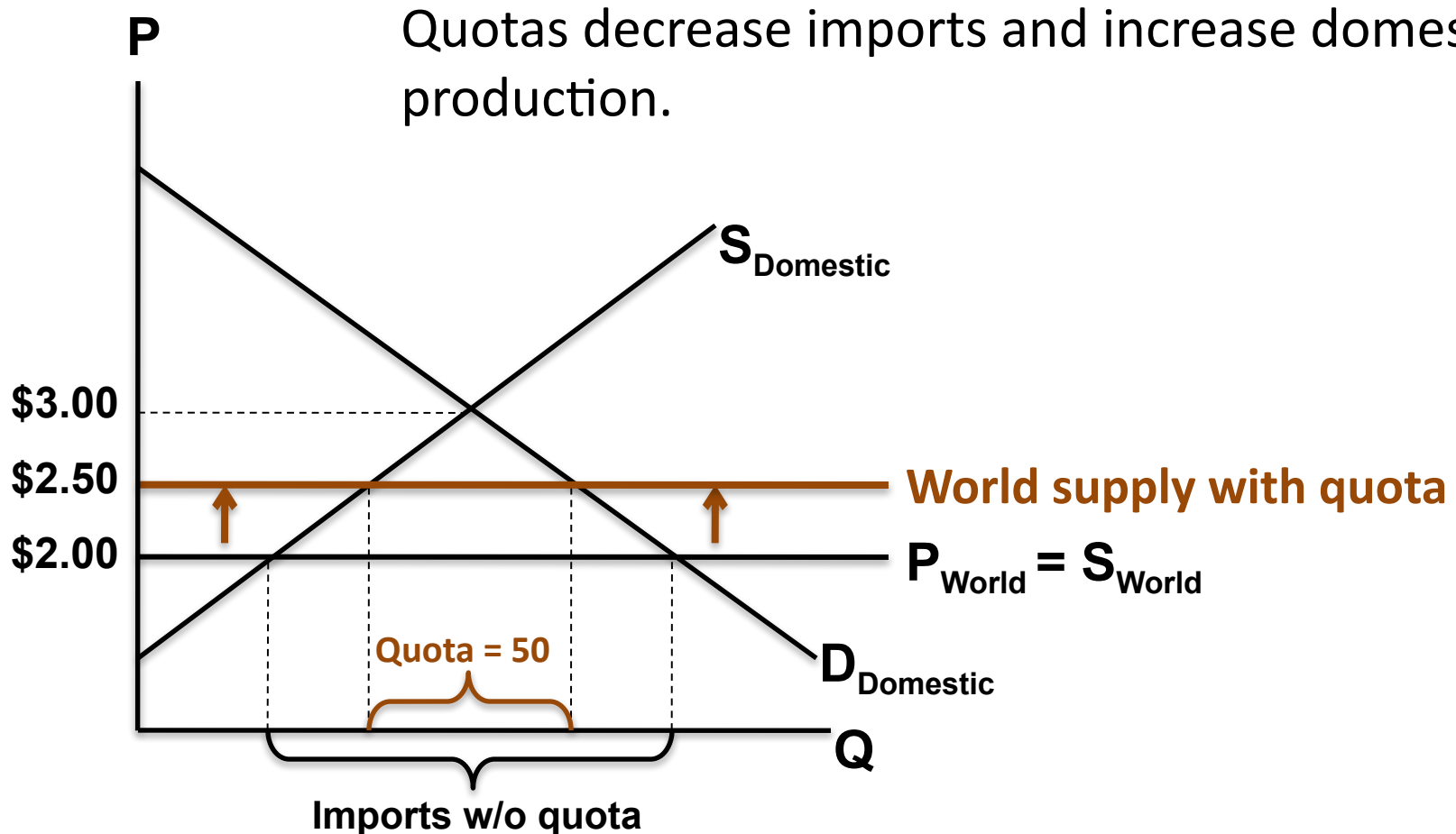
Regulatory trade restrictions are government-imposed procedural rules that limit imports.

Nationalistic appeals, such as “Buy American,” can help to restrict international trade.

Application: Tariffs When the Domestic Country is Small



Application: Quotas When the Domestic Country is Small



Reasons for Trade Restrictions

Haggling by companies over the gains from trade.

Unequal internal distribution of the gains from trade.

Haggling by countries over trade restrictions.

Specialized production:

- **Learning by doing** – means becoming better at a task the more you perform it.
- **Economies of scale** – situation in which costs per unit of output fall as output increases.

Reasons for Trade Restrictions

- Macroeconomic costs of trade
- National security
- International politics
- Increased revenue brought in by tariffs

Why Economists Generally Oppose Trade Restrictions

- International trade provides competition for domestic companies.
- From a global perspective, free trade increases total output.
- Restrictions based on national security are often abused or evaded.
- Trade restrictions are addictive.

Institutions Supporting Free Trade

The World Trade Organization (WTO) has over 150 members.

Free trade associations are groups of countries that allow free trade among its members and put up common barriers against all other countries' goods. Examples include:

- The European Union (EU)
- The North American Free Trade Association (NAFTA)

Debate Surrounding Free Trade

Free trade is more complicated than it sometimes is seen.

First issue: Involves free trade associations – do they lead to freer trade or do they lead to more restrictions in trade?

Second issue: Involves intellectual property rights and harmonization of laws and regulatory structures among trading partners.

Chapter Summary (1 of 2)

The nature of trade is continually changing.

The U.S. is importing more and more high-tech goods and services from India and China and other East Asian countries.

Outsourcing is a type of trade. Outsourcing is a larger phenomenon today compared to 30 years ago because China and India are so large.

Trade restrictions include tariffs and quotas, embargoes, voluntary restraint agreements, regulatory trade restrictions, and nationalistic appeals.

Chapter Summary (2 of 2)

Reasons that countries impose trade restrictions include unequal internal distribution of the gains from trade and haggling by countries over trade restrictions.

Economists generally oppose trade restrictions because of their understanding of the advantages of free trade.

The World Trade Organization is an international organization committed to reducing trade barriers.

Two organizations that support free trade are GATT and the WTO. Two important trade associations are the EU and NAFTA.