

## Trade & Globalization

### Read Topic 10

#### Trade

imports – goods that are brought into a country

exports – goods that are sold to other countries

Why?

specialization takes place among nations

natural resources

education and skill of labor

Absolute advantage

when a country can produce something more efficiently than another country

comparative advantage

when you have more than one absolute advantage, you should produce whatever the advantage is greatest in these forces promote more efficient international trade more World GNP

#### Barriers

tariffs

tax on imported goods

import quota

limit on number of goods brought into country

government regulations

licensing

embargo

refusal to trade for political reasons

Why?

national security

advanced technology and weapons

to protect infant industries

to keep economy diversified

avoids reliance on a single product

to keep people employed

to keep wages high for workers

#### International Finance

international trade is conducted in many currencies

foreign exchange

exchange rates

fixed

set by government

devaluation

flexible

market sets rate

#### Balance of Trade

comparison of imports and exports

trade surplus

when you sell more than you buy

trade deficit

when you buy more than you sell

balance of payments

all money spent by one country in another for a year

Trade agreements

GATT – 1947

General Agreement on Tariffs and Trade

EEC – 1957

European Economic Community

NAFTA – 1992

North American Free Trade Agreement

WTO – 1995

World Trade Organization founded

Comparative Economics

Capitalism

all businesses privately owned and operated under market conditions

socialism

many/most businesses are owned and operated by the government

privatization vs. nationalizing businesses

democratic socialism

people take part in decisions by electing government

some private enterprise

Sweden

example of democratic socialism

some government ownership of key industries

other industries heavily regulated

worker's rights

extensive social programs

free education through college

free medical care

large pensions

financial aid for housing

very high taxes

authoritarian socialism

AKA communism/dictatorships/command economies

government controls all economic and political processes

North Korea

Russia

collapse of communism left them unstable

Putin has leveraged natural resources for wealth

has crushed entrepreneurship

China

Deng Xiaoping introduced some market reforms in 1970's

free trade zones

offer cheap labor for foreign investment  
hundreds of millions lifted out of poverty by 21<sup>st</sup> century  
many concerns remain about Chinese practices  
working conditions, environmental, censorship

### Developing Nations

countries that are fighting for subsistence

Why is this important?

per capita GDP tied to key quality of life indicators

literacy, infant mortality, life expectancy

problems

most people live below the poverty line

can't afford basic necessities

economies based on agriculture

not big profit/growth industry

rapid population growth

more demand for services and jobs

unequal income distribution

very few extremely rich, many extremely poor

poor education

can't learn important skills

lack of capital for investment

can't improve conditions

### Globalization

economies, production, finance increasingly interconnected worldwide

communication and transportation technologies have advanced

has led to increased production, cheaper goods & services, higher quality

Concerns

Any one state depends on other states to make good economic decisions

multinational corporations manipulate states against each other

jobs moved from one state to another – outsourcing

migration of people

environmental degradation

states don't have resources to protect environment

will cost them trade/jobs