

The VOTE Textbook

Student Notes

Chapter 19: International Trade

Opening Story: The red paperclip

International Trade is the buying and selling across national borders of consumer goods and services, capital goods, and raw materials.

Imports are goods and services produced in foreign countries and sold in our country.

Exports are goods and services produced domestically and sold in other countries.

International trade is complicated by the fact that countries use different currencies and exchange rates constantly fluctuate. This area of study in economics is part of international finance.

The Golden Moment

Shared Problem: When trade relationships break down, society loses out

Shared Goal: Improved standard of living through trade

Globalization means markets around the world are integrated and interdependent.

A multinational corporation is a firm that owns or controls production of goods and services in at least one other country outside of its home nation.

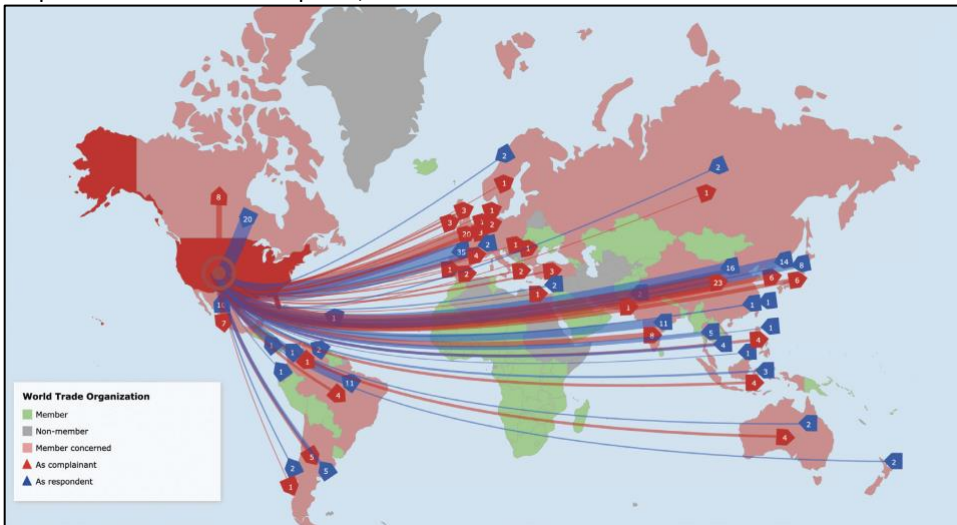
A multinational cooperative is a federation of local worker-owned firms in different countries that come together to coordinate their commerce.

World Trade Organization (WTO): a coalition of 164 countries (as of 2021) that sets the ground rules for globalization.

WTO Member Nations, 2021



Map of U.S. WTO Trade Disputes, 2021



The worldwide protest movement against the WTO is concerned about:

- Consolidation of power in the hands of multinational corporations
- WTO doesn't combat human trafficking, sweatshops, or child labor
- WTO compromises national sovereignty (the right to self governance)

Developing nations have a lower GDP and lower per person income compared with industrialized (developed) nations.

The Fair-Trade Movement is an effort intended to help people around the world rise out of poverty by receiving a fair price for their goods in international markets.

Trade protections are actions taken by governments to limit foreign imports and promote exports of domestically made products.

- Strengthen domestic firms to compete globally.
- Protect domestic firms from unfair, destabilizing, or harmful trade practices.

Three Types of Trade Protections:

1. Restrictions on Foreign Direct Investment: Governments prevent or limit foreign firms from owning or operating businesses in their country

2. Tariffs (also called custom duties or import fees): Taxes on imported goods

3. Nontariff Barriers (NTB): Programs intended to restrict imports and boost exports

- Embargoes
- Quotas
- Voluntary export restraints
- Import licenses
- Required standards
- Firm subsidies

A trade war happens when countries retaliate against trade protections by turning around and imposing the same trade protections on the initiating country.

A trade sanction happens when a country disapproves of the trading partners' behaviors—economic or otherwise—and imposes trade protections.

Shared Tools: Law of Comparative Advantage

David Ricardo: International trade benefits individual countries and the world when we specialize according to lower opportunity cost and then trade for what we don't produce.

Absolute Advantage: Country A can produce a good or a service more efficiently than Country B.

Comparative Advantage: Country A can produce a good or a service at a lower opportunity cost (it gives up less of an alternative product) than Country B.

Law of Comparative Advantage: A nation is better off when it specializes in producing the goods and services for which it has a comparative advantage (a lower opportunity cost) and when it trades for goods and services for which it has a comparative disadvantage (a higher opportunity cost).

Three steps to making trade decisions:

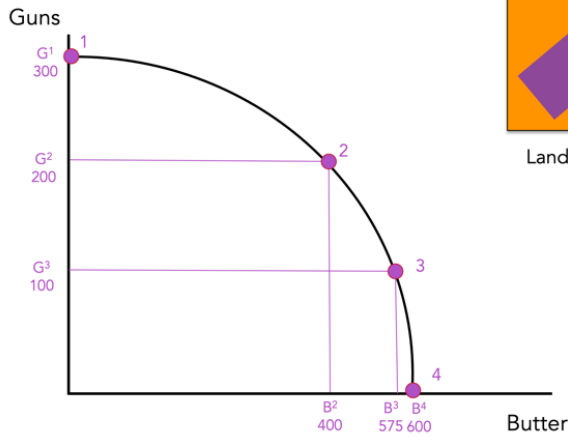
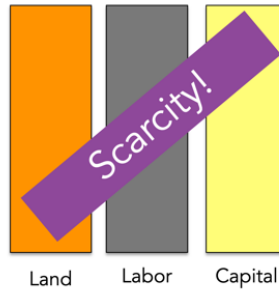
1. Calculate opportunity costs.
2. Specialize in product with lowest opportunity cost.
3. Trade based on comparative advantage.

Conventional Tools: Consumption Possibilities Curve (CPC)

Production Possibilities Curve (PPC): The different combinations of goods and services that a society can produce given the available resources and existing technology.

Guns and butter symbolize everything a society could make with its scarce resources.

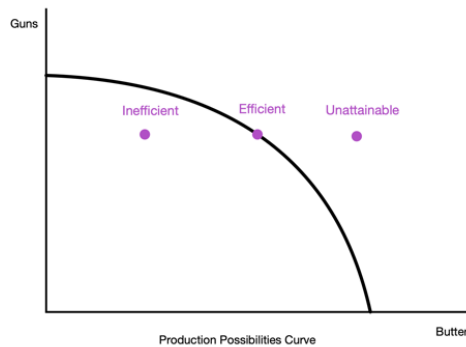
Let's say we only make guns (point 1) and then we want some butter.
 Each time we make more butter (points 2, 3, and 4), resources are transferred from guns to butter.



U.S. Production Possibilities Curve (PPC)

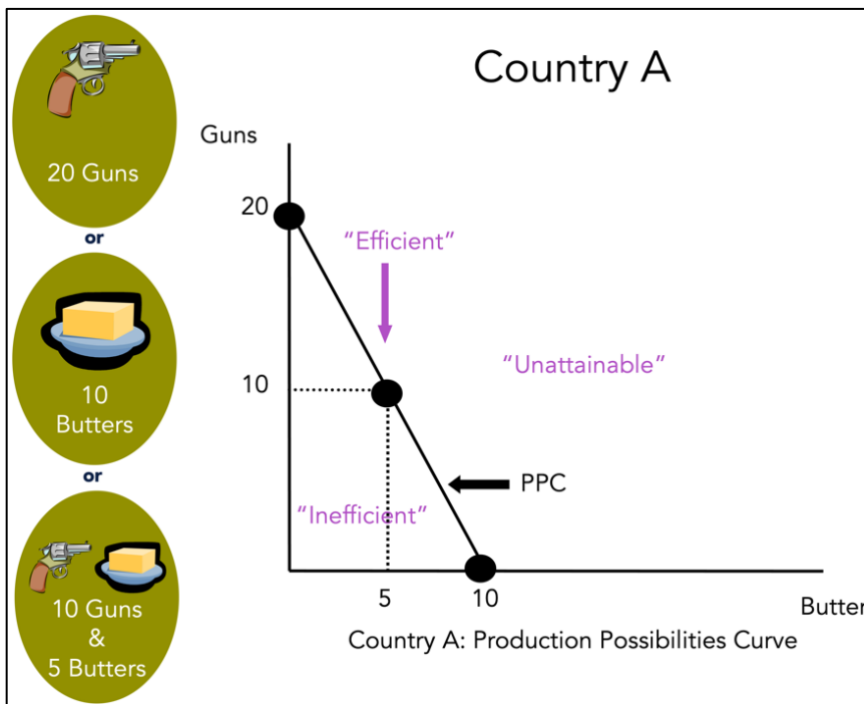
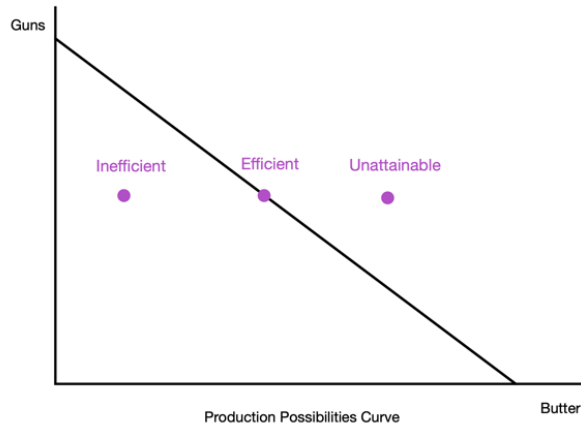
There are several points to make about the PPC:

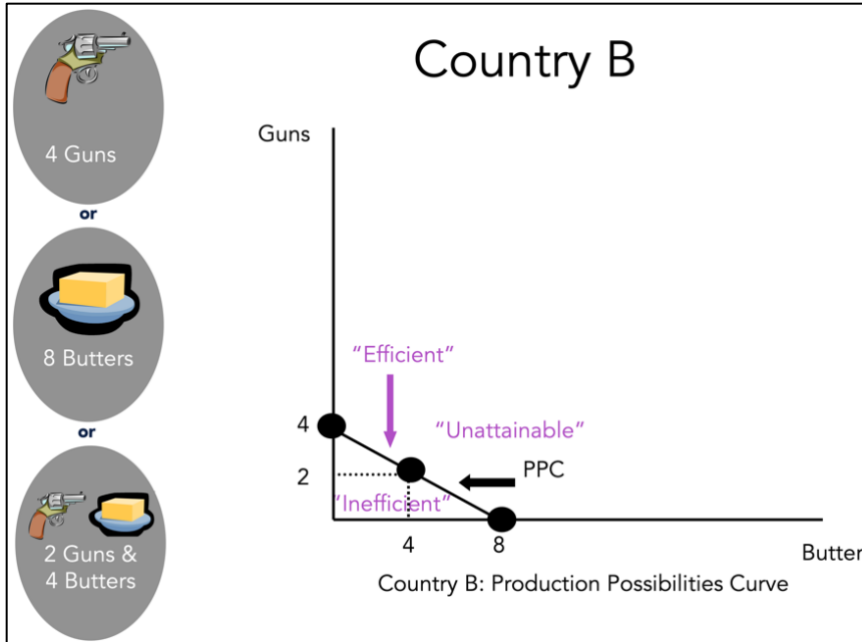
1. It has a **negative slope**—to represent scarcity.
2. It is **bowed out**—to represent that the resources used to make the two products are not perfectly substitutable.
3. Points on the PPC are called **efficient**—to represent countries using all resources and technology.
4. Points inside the PPC are **inefficient**—to represent countries wasting resources or not using available technology.
5. Points outside the PPC are called **unattainable**—to represent that production can't exceed available resources and technology.



Production Possibilities Curve

Even though the PPC is technically always bowed out, we'll use a simplified version with a constant slope. This will make it easier for you to see the effect of international trade on the economy.





Country A

Opportunity Cost of Guns: 0.5 Butters

$$\frac{\Delta \text{Loss}}{\Delta \text{Gain}}$$

Opportunity Cost of Butter: 2 Guns

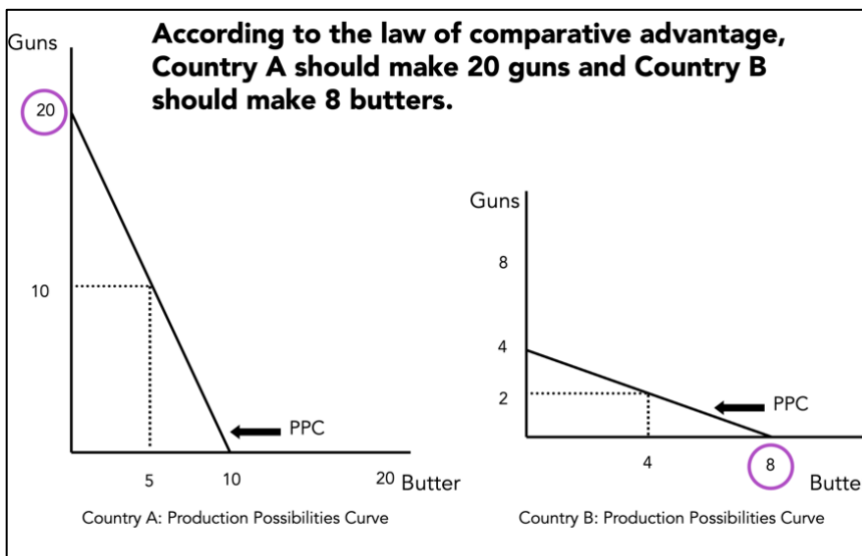
$$\frac{\Delta \text{Loss}}{\Delta \text{Gain}}$$

Country B

Opportunity Cost of Guns: 2 Butters

$$\frac{\Delta \text{Loss}}{\Delta \text{Gain}}$$

Opportunity Cost of Butter: 0.5 Guns

$$\frac{\Delta \text{Loss}}{\Delta \text{Gain}}$$


Conventional Theory Trade Negotiation

Rule: For willingness to trade, each country must be better off than if it hadn't traded at all. That means it will only trade if the right side of the equation is more than the opportunity cost (0.5, in this example).

$$\text{Opportunity Cost (0.5)} < \frac{\text{Amount the country gains (exports)}}{\text{Amount the country loses (imports)}}$$



Initial Offer:

Country B offers Country A
4 butters for 10 guns. Deal accepted?

Country A = 4 butters ÷ 10 guns = 0.4 **NO!**

Country B = 10 guns ÷ 4 butters = 2.5 **YES!**

Counteroffer:

Country A offers Country B
4 guns for 8 butters. Deal accepted?

Country A = 8 butters ÷ 4 guns = 2 **YES!**

Country B = 4 guns ÷ 8 butters = 0.5 **NO!**

Final Offer:

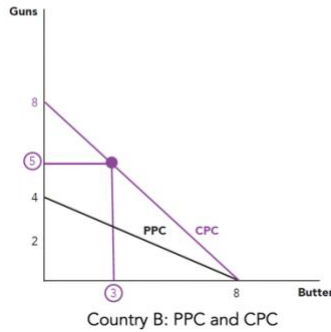
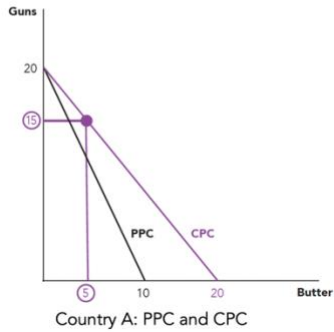
Country A offers Country B
5 guns for 5 butters. Deal accepted?

Country A = 5 butters ÷ 5 guns = 1 **YES!**

Country B = 5 guns ÷ 5 butters = 1 **YES!**

Conventional Theory Conclusion

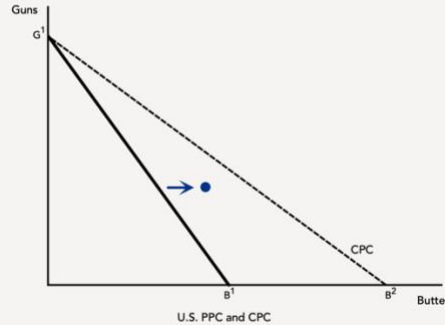
Trade makes all nations better off



Liberal: Moderate Specialization

Liberals embrace international trade while keeping some portion of important industries in our own country. This leads to **the best of both worlds**:

- A previously unattainable level of consumption (the blue dot).
- Government protects national security, domestic industries, consumers, jobs, and the environment.



Conservative: Maximum Specialization

Conservatives embrace voluntary exchange of goods and services across borders without restrictions. This leads to **global peace and prosperity**:

- Worldwide prosperity grows (the CPC curve).
- Limit roles of government to protect national security and private property, and to create infrastructure.

International Trade Policies	
Liberal	Conservative
<i>Strengthen trade protections</i>	<i>Free Trade</i>


Radical Tools: Unhealthy Communities and Healthy Communities

Radicals use the six core points as tools to analyze economic issues.

- Ownership
- Governance
- Meeting people’s basic material needs
- Production
- Sustainability
- Communities


Radicals select the core point that makes the most sense for a particular issue. For the international trade, it is communities.

Drill down into communities in capitalism:

Workplace Exploitation + Capitalist Competition	}	The Pressure for Bad leads to The Visible Suffering
... and is represented by the Six-Core Cube of capitalism, which can never be solved.		
		

The Unsolvable Six-Core Cube of Capitalism

1. Private Ownership
2. Top-Down Governance
3. Individuals at Risk
4. Production for Profit
5. Unsustainable Growth
6. Unhealthy Communities



The Six-Core Cube
of Capitalism

Why unsolvable?
It is built around six core points that are rotten to the core!

Unhealthy Communities: Firms disregard the ways their decisions harm communities and the environment here and around the globe.

Unhealthy Communities

- People and the planet are treated as expendable.
- There is no local control over resources.
- Firms race to the bottom.



The Visible Suffering of Capitalism

- Hunger and malnourishment
- Harmful products
- Mass poverty
- Homelessness
- Extreme income inequality
- Pollution and climate crisis
- Inaccessible, low-quality health care
- Destructive market domination
- Impoverished elders
- Exploding public and private debt
- **Damaging trade relationships**
- High prices and no jobs

Drill down into communities in democratic socialism:

Workplace Justice
+
Coordination Among Competitors

The Pressure for Good
leads to
The Invisible Synergy

...and is represented by the
Six-Core Cube of democratic
socialism, which can be solved.



The Solvable Six-Core Cube of Democratic Socialism

1. Cooperative Ownership
2. Participatory Governance
3. Social Safeguards
4. Production for Use
5. Sustainable Development
6. Healthy Communities



Why solvable?

It is built around six core points that are beneficial to the core!

Healthy Communities: Firms intentionally make decisions that benefit communities and the environment here and around the globe.

Healthy Communities

- People and the planet come first.
- Firms think globally and act locally.
- There is local control over resources.



International Trade Policies: Radical

1. Fair trade

To elevate the standard of living throughout the world, trade with locally owned firms that are committed to economic justice, democracy, and eco-friendly.

2. Collaboration

Cooperatively owned firms in industrialized nations collaborate with their suppliers in developing nations to help raise the quality of their products through capital improvements, expert consulting, technical training, loans, and other investment.



The Invisible Synergy of Democratic Socialism

- Abundant, healthy food
- Safe and helpful products
- Prosperity
- Housing for all
- Equitable income distribution
- Clean environment
- Universal, first-rate health care
- Fair and positive competition
- Secure and dignified retirement
- A thriving, debt-free society
- **Mutually beneficial trade relationships**
- Jobs and stable prices

THE BLAME GAME		
What causes trade relationships to break down?		
<p style="color: red; font-weight: bold; margin: 0;">Conservative</p> <p style="color: red; margin: 10px 0;">Too much government interference in capitalism</p> <p style="color: red; font-size: small; margin: 10px 0;">We need free-market capitalism.</p>	<p style="color: blue; font-weight: bold; margin: 0;">Liberal</p> <p style="color: blue; margin: 10px 0;">Not enough government intervention in capitalism</p> <p style="color: blue; font-size: small; margin: 10px 0;">We need fair-market capitalism.</p>	<p style="color: green; font-weight: bold; margin: 0;">Radical</p> <p style="color: green; margin: 10px 0;">The drive for profit in capitalism</p> <p style="color: green; font-size: small; margin: 10px 0;">We need democratic socialism.</p>

Discussion Story: The Nestlé corporation

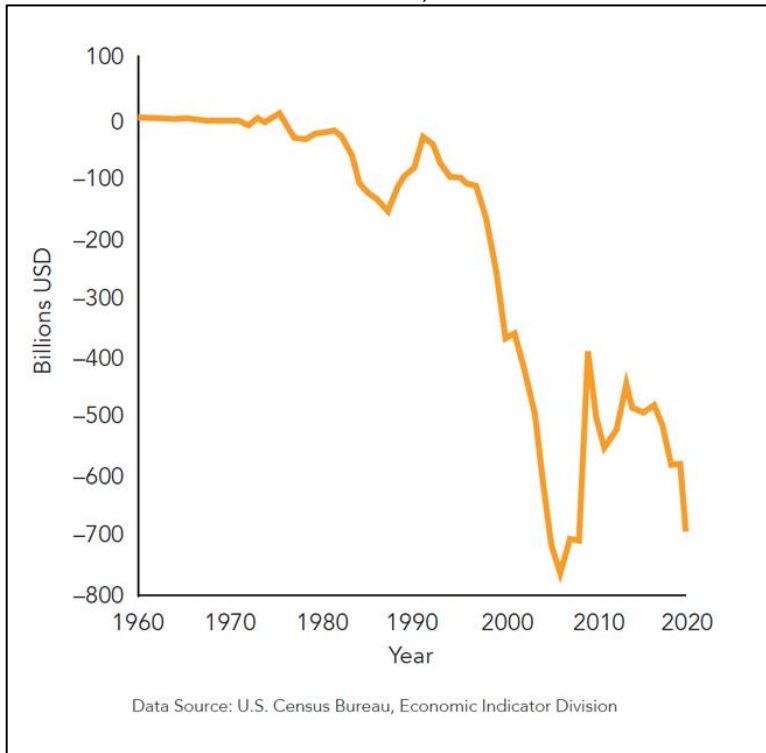
Understanding International Trade

Examples of U.S. Exports:

- Services: transportation, travel, financial and insurance services, charges for intellectual property use, and construction
- Capital goods: commercial aircraft, industrial machines, semiconductors, petroleum, and chemical products
- Consumer goods: cars, food, pharmaceutical drugs, cell phones, beverages, clothing, furniture, books, and kayaks

A trade deficit means a country imports more than it exports.

U.S. Goods and Services Trade Balance, 2021



A trade deficit is not the same as a budget deficit. Remember, the balance of payments is always zero.

When the U.S. buys from other countries, we pay them in dollars, which they can't spend in their own country. They spend them on assets in the U.S.—real estate, corporate stocks and bonds, and government securities.

A deficit in the trade of goods and services (the current account), means we have a surplus in the trade of assets (the capital account).

Domestic Trade Organizations:

- Bureau of Industry and Security (BIS)
- International Trade Administration (ITA)
- Office of Trade, Mutual Recognition, and International Arrangements (OTMRIA)
- Office of the U.S. Trade Representative (USTR)
- U.S. Customs and Border Protection (CBP)

International Trade Organizations:

- International Chamber of Commerce (ICC)
- International Monetary Fund (IMF)
- Organisation for Economic Co-operation and Development (OECD)
- United Nations Conference on Trade and Development (UNCTAD)
- World Bank

U.S. Trade Agreements, 2021		
Global	Regional	Bilateral
<ul style="list-style-type: none"> • WTO 	<ul style="list-style-type: none"> • USMCA (United States-Mexico-Canada Agreement) • CAFTA-DR (Dominican Republic-Central American Free Trade Agreement) 	<ul style="list-style-type: none"> • Australia • Bahrain • Chile • Colombia • Israel • Jordan • Korea • Morocco • Oman • Panama • Peru • Singapore

Ten Common Concerns in International Trade

1. **Currency manipulation**
A foreign government makes its products cheaper by lowering the value of its currency, which increases its exports, and our firms can't compete.

2. **Dumping**
Foreign firms underprice their products and push out our firms.
3. **Forced technology transfer**
A foreign government requires our firms to share technology, recipes, formulas, plans, blueprints, technical drawings, and other intellectual property in exchange for being allowed to do business in their country.
4. **Infant industries**
Foreign companies dominate and squelch newly emerging domestic competitors.
5. **Intellectual property rights**
Foreign companies steal original works and inventions.
6. **Investor-to-state dispute settlement**
Foreign firms sue our government, claiming that our policies interfere with their investments.
7. **National security**
Foreign companies produce certain essential products that are no longer produced domestically, which makes us reliant on them.
8. **Offshoring and outsourcing**
Foreign firms produce our goods and services, which costs us our jobs and lowers our wages.
9. **Standards**
Foreign governments lower labor, environmental, and product safety standards so our firms can't compete.
10. **Subsidies**
Foreign governments give money to their companies so our firms can't compete.

Three-in-One Activity: "Let's Make a Deal!"

Degrees of Specialization

Maximum Specialization	Moderate Specialization	Minimum Specialization
a. Domestic production: 40 machines and 0 units of food.	a. Domestic production: 30 machines and 5 units of food.	a. Domestic production: 24 machines and 8 units of food.

Voices on International Trade

Liberal

Response to discussion story: The contributions of multinational corporations may be beneficial to the world, but only with strong regulations and effective oversight.

Voice: Pages 987-991

Summary: Page 992

Talking Points: Page 993

Round II: Liberal

Validate trade concerns and offer trade protections in the context of fair-market capitalism.

1. Have one person read each of the trade concerns (in black) while other group members take turns responding by reading the statements (in blue).
2. Illustrate how countries are better off with trade protections.

Dumping: "Awayland dumps electronics in our markets to drive our domestic producers out of business to gain market share. This unfairly gives them a trade advantage over us."

Dumping is cheating, and it makes our domestic industries vulnerable. We use tariffs to punish Awayland and protect our firms.

National security: "Awayland threatens to stop selling us computer components, which we rely on for our national security."

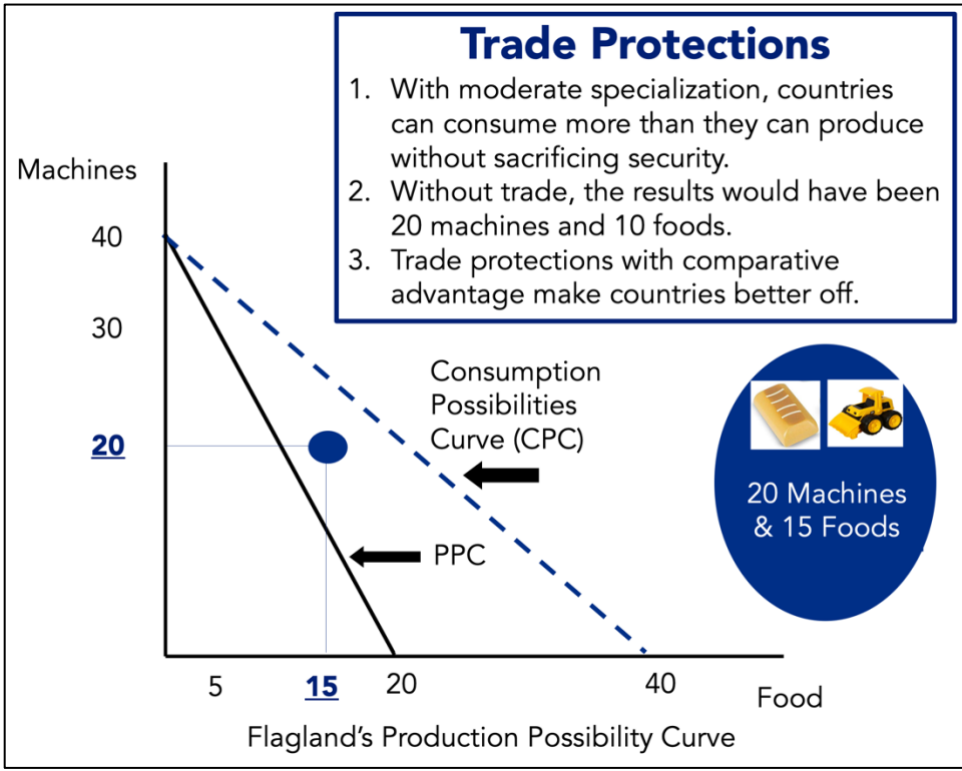
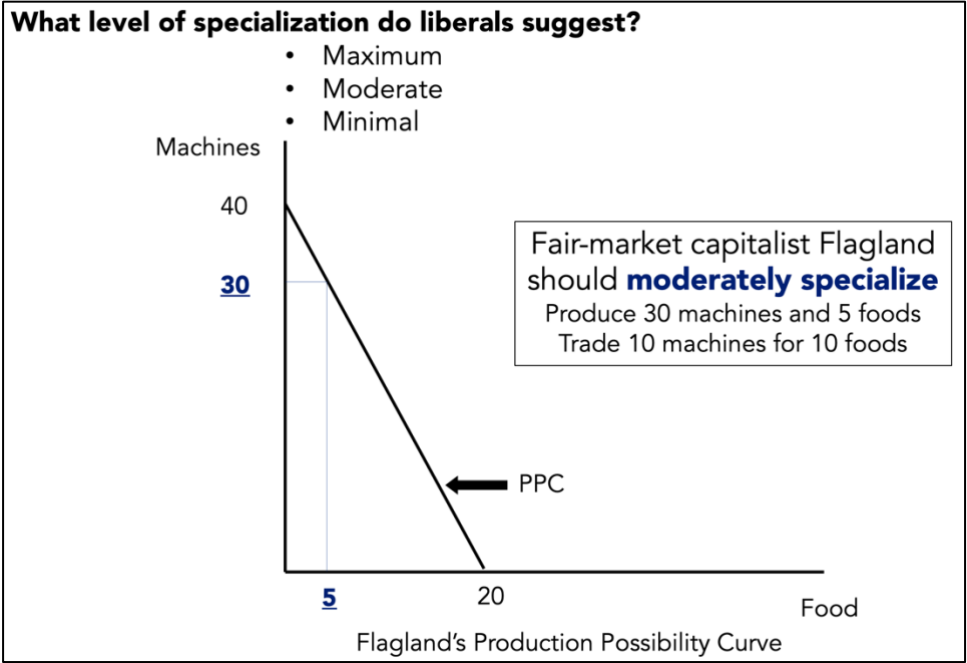
We should never become completely dependent on foreign powers. We subsidize domestic firms to make it profitable for them to produce what we need so that we have true national security.

Offshoring: "Awayland gives our firms tax breaks and other incentives to steal whole industries from our shores. We end up losing jobs and are stuck with high unemployment."

This is a serious problem. Our factories are rusting away, and poverty is rising. We use quotas on the imports produced outside Flagland to give our firms an incentive to stay here.

Standards: "Awayland allows low wages and has no workplace safety requirements or environmental regulations, so our firms can't compete."

Mistreating workers and ruining the environment are not "comparative advantages." We don't trade with Awayland unless it agrees to adopt the same standards we follow.



Conservative

Response to discussion story: Multinational corporations that do the wrong thing are boycotted by consumers, so the profit motive keeps firms in check.

Voice: Pages 994-998

Summary: Page 999

Talking Points: Page 1000

Round III: Conservative

Invalidate trade concerns and reject trade protections in the context of free-market capitalism.

1. Have one person read each of the trade concerns (in black) while other group members take turns responding by reading the statements (in red).
2. Illustrate how countries are better off with free trade.

Dumping: "Awayland dumps electronics in our markets to drive our domestic producers out of business to gain market share. This unfairly gives them a trade advantage over us."

Foreign firms only cheat themselves when they sell products for less than what they cost to make. Consumers are the winners, and we use our resources to make something else.

National security: "Awayland threatens to stop selling us computer components, which we rely on for our national security."

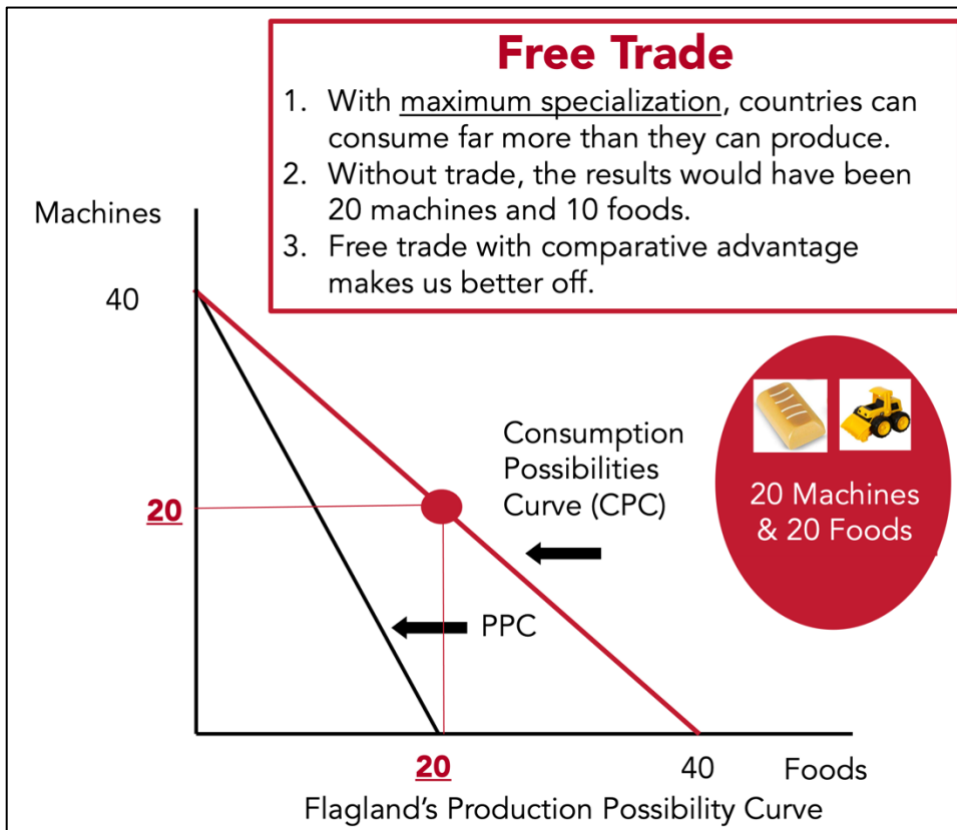
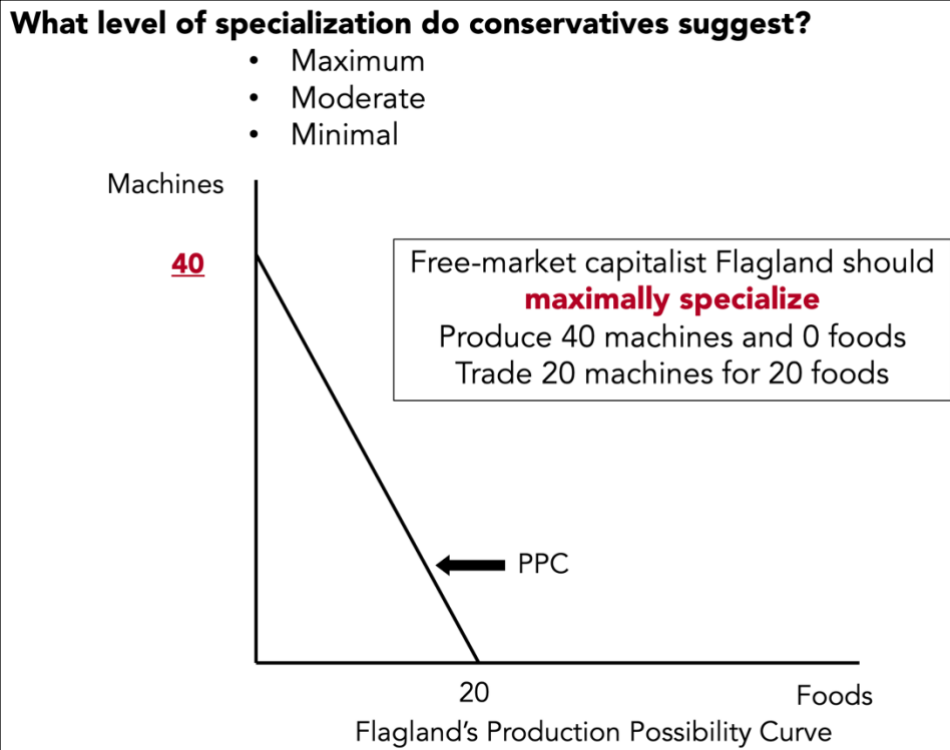
True national security occurs when all countries benefit from free trade. We use our global resources to their best ends, prosperity spreads, and we dependably get the products we need.

Offshoring: "Awayland gives our firms tax breaks and other incentives to steal whole industries from our shores. We end up losing jobs and are stuck with high unemployment."

It's not a problem when industries move to other countries. It pushes us to focus on our strengths, and then we generate the jobs that bring higher levels of prosperity to Flagland.

Standards: "Awayland allows low wages and has no workplace safety requirements or environmental regulations, so our firms can't compete."

We are not the world's police. Awayland is a sovereign nation, and it rightly chooses its own workplace and environmental policies. It's not our place to interfere.



Radical

Response to discussion story: The consequences of the drive for profit in domestic capitalism are devastating, but when taken to a global scale they are infinitely worse.

Voice: Pages 1001-1005

Summary: Page 1006

Talking Points: Page 1007

Round IV: Radical

Validate trade concerns in global capitalism and offer trade protections in the context of domestic democratic socialism.

1. Have one person read each of the trade concerns (in black) while other group members take turns responding by reading the statements (in green).
2. Illustrate how countries are better off with fair trade.

Dumping: "Awayland dumps electronics in our markets to drive our domestic producers out of business to gain market share. This unfairly gives them a trade advantage over us."

Workers everywhere and in any economic system pay a high price for dumping. They lose jobs when there is unfair competition. We impose high tariffs to discourage this practice.

National security: "Awayland threatens to stop selling us computer components, which we rely on for our national security."

The only way any nation achieves true national security is by rejecting global capitalism and its inevitable resource wars. For now, we make those computer components domestically.

Offshoring: "Awayland gives our firms tax breaks and other incentives to steal whole industries from our shores. We end up losing jobs and are stuck with high unemployment."

In democratic socialism, offshoring is a non-issue because firms are worker-owned. Jobs stay in Flagland because a majority of workers are unlikely to vote in favor of moving.

Standards: "Awayland allows low wages and has no workplace safety requirements or environmental regulations, so our firms can't compete."

We don't trade with countries that support practices that hurt people and the planet. If Awayland doesn't change, we lead a worldwide boycott until they value people over profits.

What level of specialization do radicals suggest?


- Maximum
- Moderate
- Minimal

In global capitalism, democratic socialist Flagland should **minimally specialize**
 Produce 24 machines and 8 foods
 Trade 4 machines for 4 foods

24 Machines
and
8 Foods

with trade

— Machines
and
— Foods



20 Machines
& 12 Foods

Fair Trade

1. If trading with capitalist countries, minimum specialization is suggested.
2. If trading with democratic socialist countries, maximum or moderate specialization is suggested.
3. Without trade, the results would have been 20 machines and 10 foods.
4. Fair trade with comparative advantage makes us better off.

24 Machines
and
8 Foods

with trade

20 Machines
and
12 Foods

Shared Outcome: Improved standard of living through trade.