Trade Barriers

SS6E2 The student will give examples of how voluntary trade nefits buyers and sellers in Latin America.

What is TRADE?

The voluntary exchange of goods and services among people and countries is called trade.

Trade occurs when buyers & sellers freely and willingly engage in market transactions.

When trade is voluntary and non-fraudulent, both parties benefit and are better off after

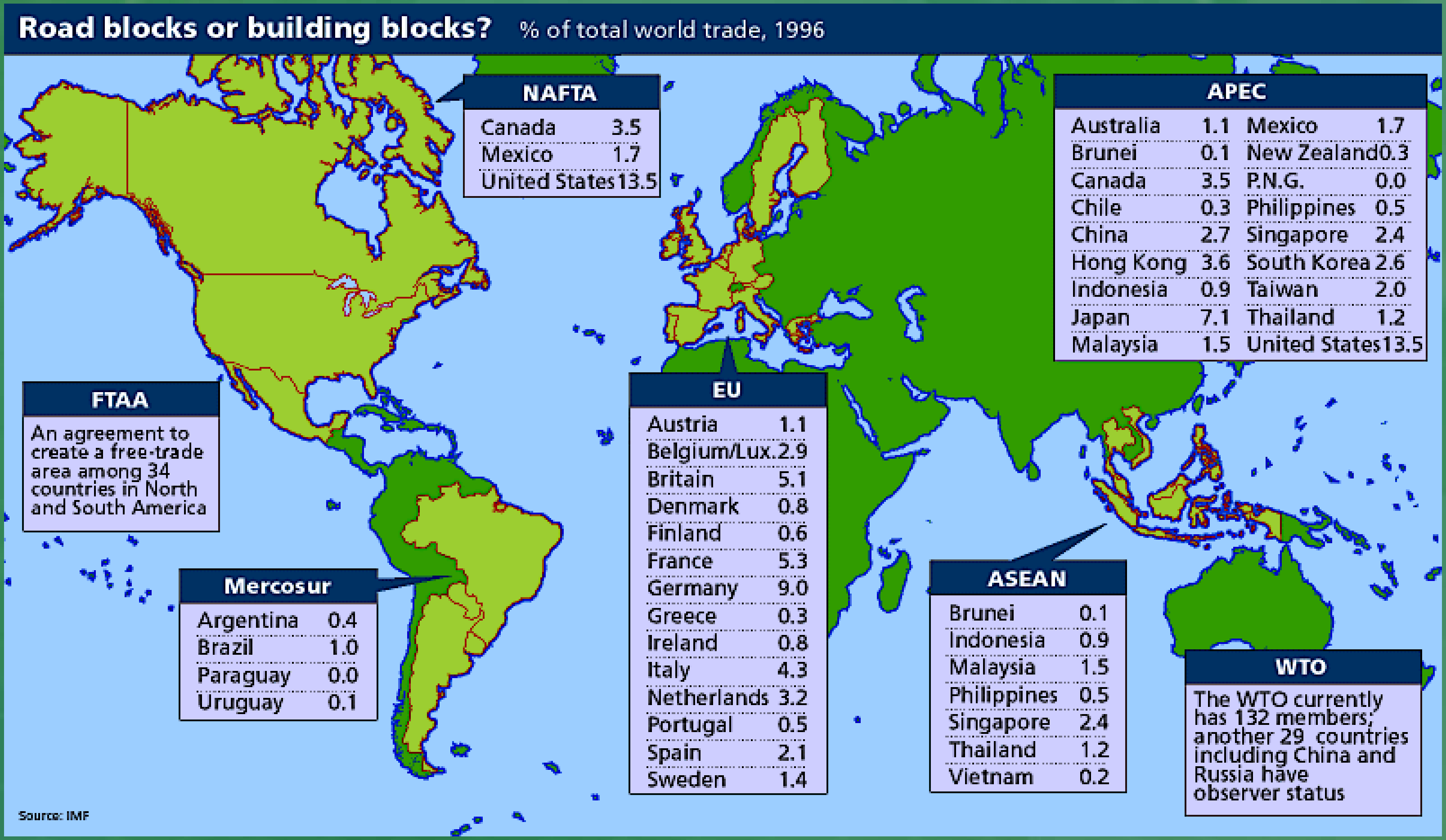
the trade than they were

before the trade.

Free Trade

Nothing hinders or gets in the way of two or more nations trading with each other. Countries around the world have developed trade agreements with each other.

Free Trade Agreements



Trans-Pacific Partnership

The TPP has been in the news lately. It is on the list of items that President Trump wants to examine and determine its value.

Trade Barriers

Sometimes countries do not like free trade. They say that too much trade with other countries can cause their workers to lose jobs. Therefore, countries sometimes try to restrict foreign trade by creating trade barriers.

Economic Trade Barriers

- The most common types of trade barriers are tariffs, quotas, and embargos.
  - A **tariff** is a tax on imports (imports are goods purchased from other countries and exports are goods sold to other countries).
  - A **quota** is a specific limit placed on the number of imports that may enter a country.
- An **embargo** is a complete trade block for a political purpose.

Tariffs

- A **tariff** is a tax put on goods imported from abroad. The effect of a tariff is to raise the price of the imported product. It makes imported goods more expensive so that people are more likely to purchase domestic products.

Quotas

A **quota** is a limit on the amount of goods that can be imported.

Putting a quota on a good creates a shortage, which causes the price of the good to rise and makes the imported goods less attractive for buyers. This encourages people to buy domestic products, rather than foreign goods.

EXAMPLE: Brazil could put a quota on foreign made shoes to 10,000,000 pairs a year. If Brazilians buy 200,000,000 pairs of shoes each year, this would leave most of the market to Brazilian producers.

Embargos

Embargos are government orders which completely prohibit trade with another country. If necessary, the military actually sets up a blockade to prevent movement of merchant ships into and out of shipping ports.

US-Cuban Trade Embargo

The embargo is the harshest type of trade barrier and is usually enacted for political purposes to hurt a country economically and thus undermine the political leaders in charge.

EXAMPLE: The United States placed an embargo on Cuba after the Cuban Missile Crisis. We do not trade with Cuba—this is still in effect today.

US-Cuban Trade Embargo

- Cuba says: "The embargo, fully in place since 1962, has done $108 billion in damage to the Cuban economy, but also has violated the constitutional rights of Americans and made a market of 11 million people off limits to U.S. companies."
- United States says:

"Clean up your government and human rights."

Benefits of Trade Barriers

- Most barriers to trade are designed to prevent imports from entering a country.
- Trade barriers provide many benefits:
  - protect homeland industries from competition
  - protect jobs
  - help provide extra income for the government.

Costs of Trade Barriers

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Less competition from world markets means there is an increase in the price.

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Do we want the price of cacao beans to go up? Oh, no, we want the price of our chocolate to stay low!

Trade Barrier
Food for Thought

Up for consideration:

1. You can buy an automobile made in Mexico for $20,000.
2. You can buy the same Nissan automobile made in the USA for $26,000.
3. You can buy the same automobile made in Mexico with a 10% tariff added to the price, which makes the price of the car $22,000.

Which car are you going to buy?

Why?

Should Countries Create Trade Barriers That Limit Trade?

It is true that some workers in certain industries may be hurt by trade. For example, some US clothing workers have had to change jobs during the past 30 years because many clothes are now imported from other countries.

However, this trade allows people in the US to buy quality clothing imports at good prices, which results in a higher standard of living for people in the US and for our trading partners.

For this reason, most economists agree that it is good to let countries trade as much as possible.