Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ **TCI Section 4 US and Global Economy: How and Why do Countries Regulate Trade?** Date: \_\_

Directions: Go to TCI US and Global Economy Section 4 and complete the following two activities. (<https://subscriptions.teachtci.com/shared/sections/9929?locale=en&program_id=219> )

**PART ONE: TYPES OF TRADE BARRIERS**

For each of the four trade barriers described in this section of the student text, do the following:

• Provide a definition and explain why a country might use the trade barrier.

• Give a current or historical example of the trade barrier in practice.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Definition | Explain why a Country Might Use This Trade Barrier | Current or Historical Example |
| Tariffs |  |  |  |
| Quotas |  |  |  |
| Embargoes |  |  |  |
| Voluntary Restraints |  |  |  |

### 

### **PART TWO: The Debate over Trade Restrictions**

### People have long debated the merits of free trade versus protectionism. Economists generally agree that free trade promotes economic growth and is good for consumers. Still, domestic producers, labor unions, and political leaders continue to make the case for trade restrictions. They base this position on a number of key arguments.

List and describe the arguments used by people who favor free trade and those who favor protectionism.

|  |  |  |
| --- | --- | --- |
|  | **Pro-Free Trade Arguments** | **Protectionism Arguments (anti-free trade)** |
| Jobs |  |  |
| National Security |  |  |
| Infant-Industry |  |  |
| Unfair-  Competition |  |  |
| Protection-as-  bargaining chip |  |  |
| Environmental and Labor Standards |  |  |

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**PART ONE: TYPES OF TRADE BARRIERS**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Definition | Explain why a Country Might Use This Trade Barrier | Current or Historical Example |
| Tariffs | **a tax on imported goods**  tariffs make all goods more expensive for consumers. | to raise revenue (taxes)  protect domestic workers and industries from competition from cheaper foreign goods. | Hawley-Smoot Tariff Act (1930) raised the average tariff rate on imported goods to more than 40 percent. Although 1,028 economists petitioned President Herbert Hoover to veto the bill, he signed it into law. In response, other countries raised their tariff rates. Foreign trade came to a halt, helping to turn a recession into a worldwide depression. |
| Quotas | **places a limit on the quantity of a good that can be imported during a specified period of time.** | Like tariffs, quotas are designed to protect domestic industries.  shield their domestic industries from competition from low-wage countries | Beginning in the 1960s, textile quotas were used by the United States and other countries to shield their domestic clothing industries from competition from low-wage countries. The phasing out of these quotas in the 1990s caused an upsurge in inexpensive clothing imports. Many U.S. apparel companies went out of business as a result, including the T-shirt makers of Florence, Alabama. |
| Embargoes | **imposes a ban on trade with a country or group of countries, usually for political reasons.** | Force another country to change in some way, or to punish them | For example, in 1960 the United States imposed a trade embargo on Cuba to protest its revolutionary government's seizure of American-owned property. In 1986 the U.S. Congress imposed an embargo on South Africa to oppose its apartheid policy of racial segregation. |
| Voluntary Restraints | **limits the quantity of a good that can be exported from a country during a specific time period.**  Usually self-imposed by the exporting country | usually established at the request of a more powerful importing country.  Agreed to in order to avoid harsher restrictions, such as tariffs or import quotas. | For example, Japan imposed a VER on its automobile shipments to the United States in the 1980s when faced with U.S. threats to restrict Japanese auto imports. |

### **PART TWO: The Debate over Trade Restrictions**

|  |  |  |
| --- | --- | --- |
|  | Pro-Free Trade Arguments | Protectionism Arguments |
| Jobs | Free trade encourages firms to specialize in those activities in which their workers are relatively more productive.  The cost to an employer of a high-wage worker who is very productive may be less than that of a low-wage worker who is less productive. While free trade destroys some jobs, it also creates jobs. Buying imports from foreign countries gives those countries the purchasing power to buy American goods.  It also creates jobs for retailers and businesses that sell and service imported goods | allowing cheap imports into a country destroys jobs by forcing domestic companies to cut costs, lay off workers, or even go out of business. |
| National Security | When the country's security is at stake, trade barriers may be justified to protect key industries.  But they are skeptical when calls for such protection come from industry representatives rather than military or intelligence agencies. | This argument states that industries that are vital to national security must be protected. Including...defense industries, oil and steel, and basic foods, such as wheat and corn.  Trade restrictions are needed to avoid dependence on foreign suppliers during times of conflict. |
| Infant-Industry | No- This is Capitalism! Economists object to the infant-industry argument on principles... New firms must be willing to accept losses and become profitable in the long run.  Many new firms have grown into industry giants.  Making a list of infant-industries is notoriously difficult, and the process is all too easily influenced by politics. | Sometimes a newly formed industry needs time to become competitive.  “infant industries” will eventually become strong enough to stand on their own.  Protectionists say, tariffs may be necessary to protect them from cheaper imports. |
| Unfair-  Competition | Free Trade is the only way to create fair competition  This argument asserts that trade is fair only if all countries play by the same rules. | Protectionists argue that some countries “cheat” by providing subsidies to their industries to help them compete with foreign firms. trade barriers are justified to protect domestic industries from subsidized foreign imports. Some countries “dump” their products in foreign markets to force competitors out of business. Dumping means selling a product for less than it cost to produce it. |
| Protection-as-  bargaining chip | This strategy can easily backfire. When the country either has to make good on its threat and impose the restriction (which might harm its economic welfare) or back down (which can harm its reputation). | This argument states that trade restrictions can be a useful bargaining tool in trade negotiations with other countries  The threat of a tariff or quota can be used to persuade another country to remove or reduce its barriers to trade. |
| Environmental and Labor Standards | Lax standards are most common in the world's poorer countries, where countries have few resources to devote to worker and environmental protection.  As they develop their economies, in part through global trade, they will be able to pay more attention to labor and environmental standards. | Some people contend that countries with lax (weak) environmental or labor laws have an economic advantage over countries that must comply with stricter laws.  To make trade fair, they say, countries with stricter laws should impose tariffs against countries that do not uphold similar standards. |
| **READ THE LAST TO PARTS OF SECTION 4 TOGETHER** | | |