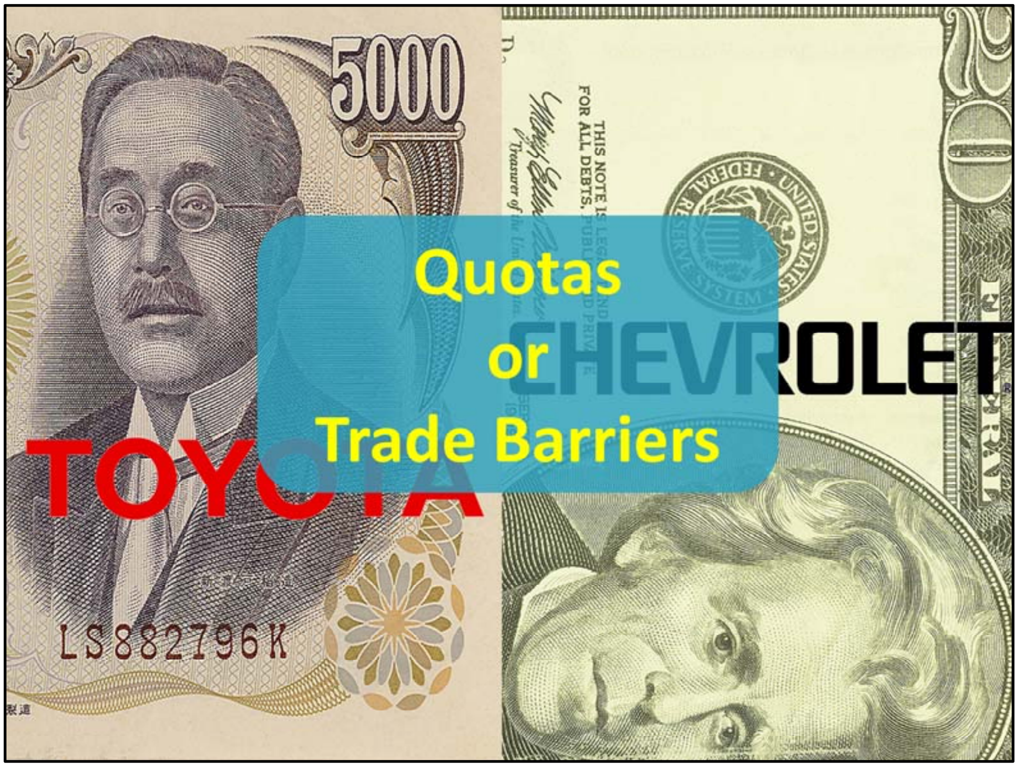
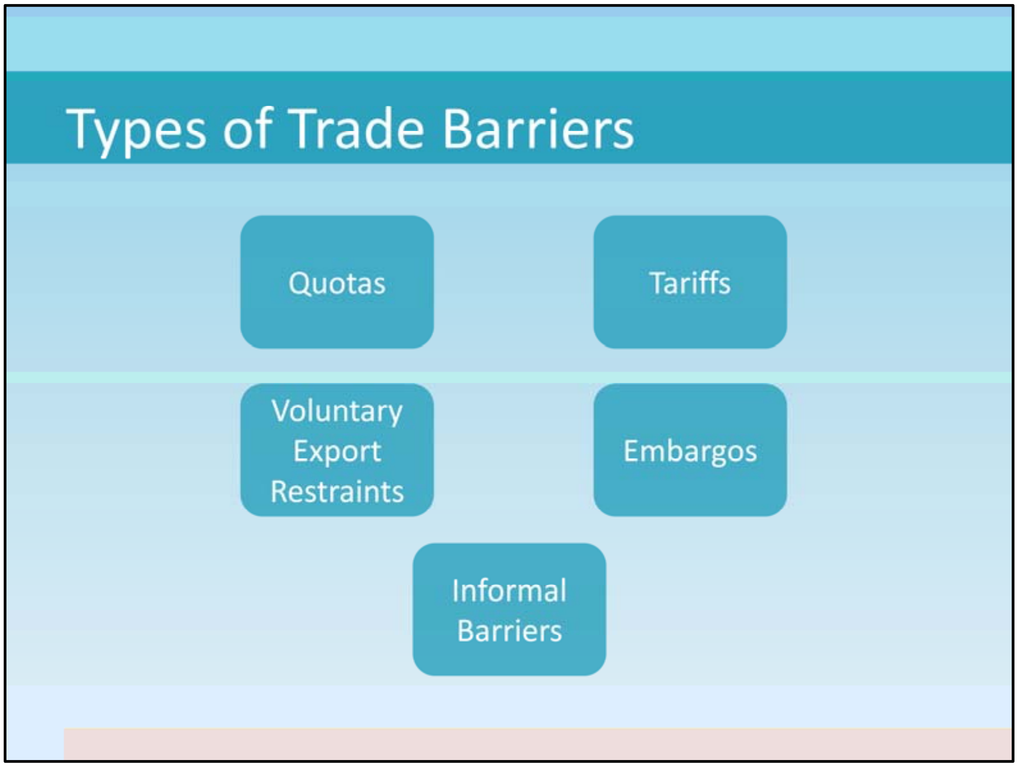
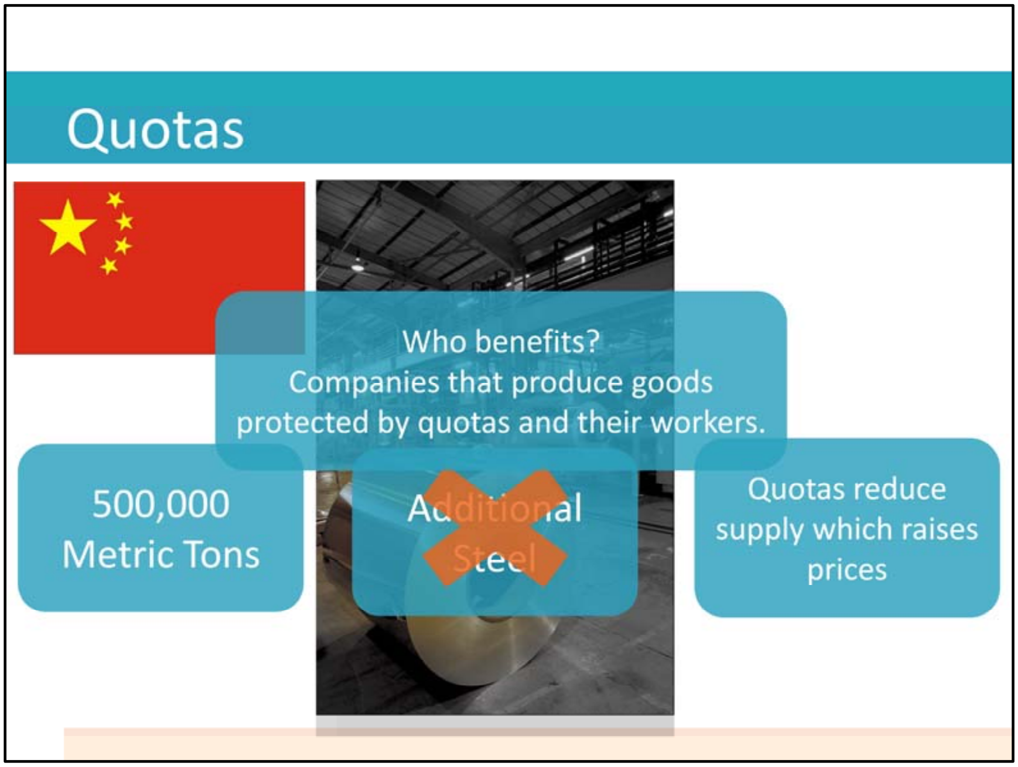


As you rode to school this morning, did you happen to notice how many Toyota, Honda, and Lexus cars were on the road with you? How many Chevys, Fords, and Chryslers do you think you'd see in Japan? Not nearly as many. Is this because Japan limits how many American cars can be sold there? No, the U.S. and Japan do not have any barriers that restrict automobile sales between the two countries. They believe it's in of their best interests to trade freely.

This isn't the case for all the countries. The U.S., and other countries, may limit trade with certain countries by using quotas or trade barriers for economic or political reasons.



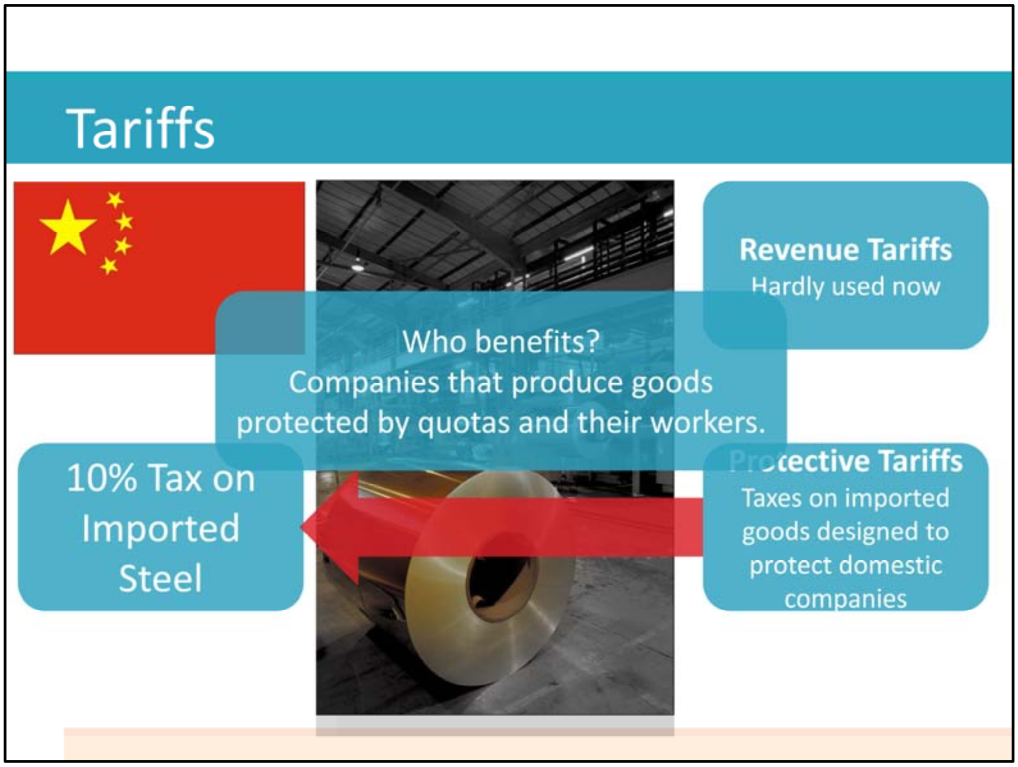
A trade barrier is any law that is passed with the purpose of limiting free trade among nations. There are five types of trade barriers. Each of these has different goals and outcomes.



Say the U.S. limits imports of steel from China to five hundred thousand metric tons of steel per year.

This is called a quota, a legal limit that a country places on how many goods of a specific type can be imported from another country. No additional goods can be imported once the quota is met. Quotas usually target imports from specific countries, like steel from China or shoes from Brazil. By limiting imports, a quota reduces the supply of the product in a country, which raises the price of that product.

Who benefits from quotas? The companies that manufacture those products, as well as their workers, benefit from higher prices and decreased competition.

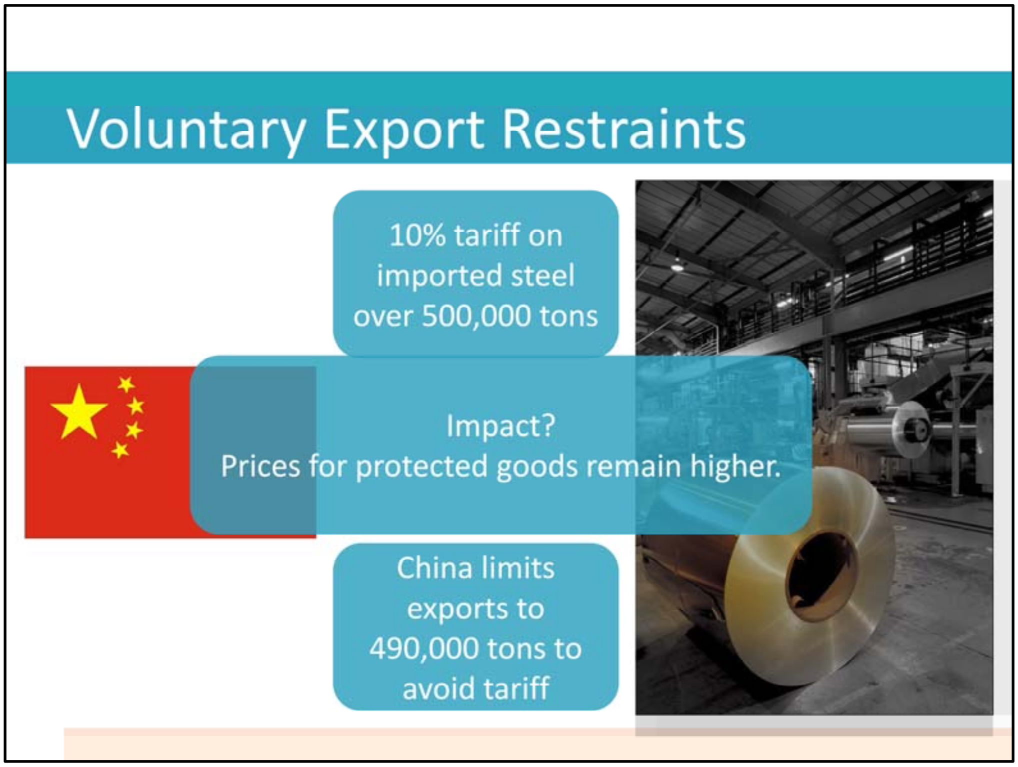


Let's say that, instead of setting a quota for Chinese steel, the government allowed China to export as much steel to the U.S. as it liked, but charged a ten percent tax on all of this imported steel. This is known as a tariff, or tax.

There are two types of tariffs: revenue tariffs and protective tariffs. Revenue tariffs are taxes on imports that are specifically designed to raise money, and are rarely used today.

Protective tariffs are taxes on imported goods designed to protect domestic companies, as in our example. By charging an extra tax on foreign products, these tariffs raise prices on foreign goods so that they cost the same, or more than the same domestically-produced goods.

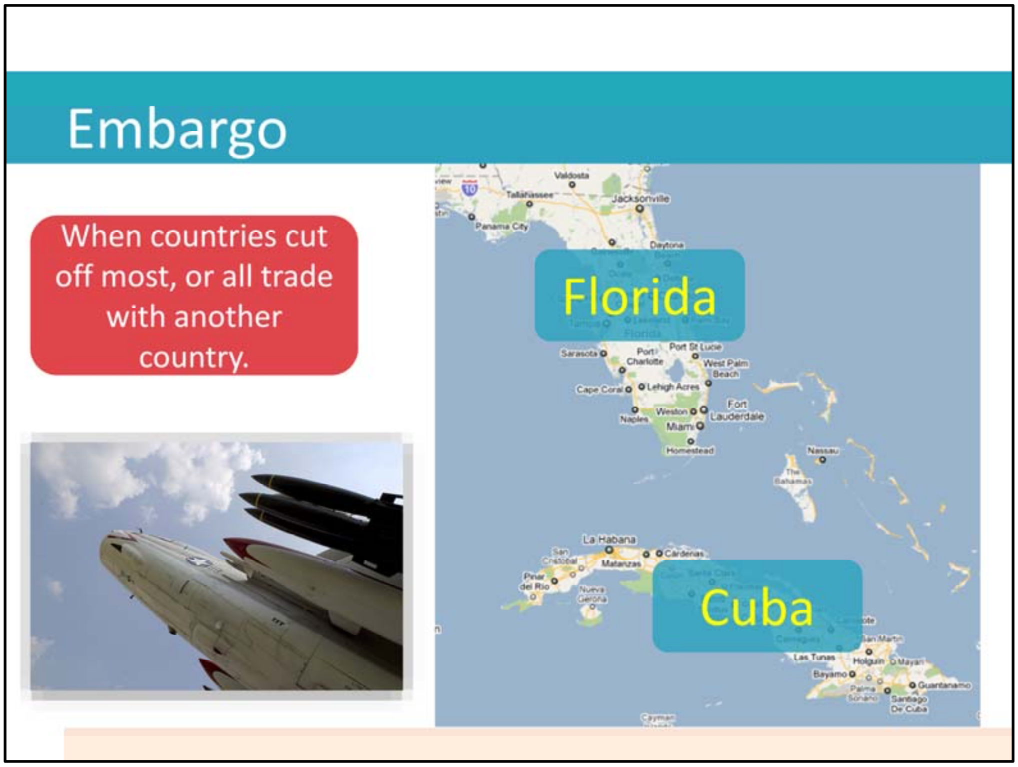
Like quotas, the beneficiaries of tariffs are the companies that manufacture those products, as well as their workers.



In our example of Chinese steel, let's say that China limits its exports to the U.S. to avoid the quota or tariff. This is known as a voluntary export restraint, since the exporter is voluntarily choosing to take the action that avoids the trade barrier.

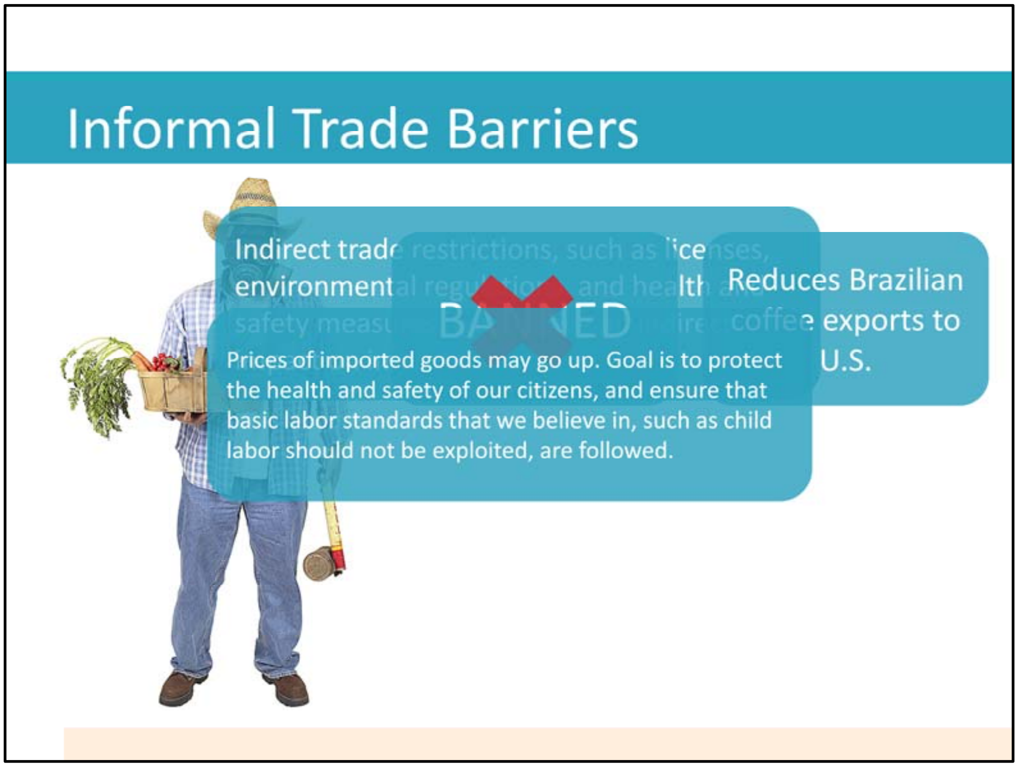
Suppose the U.S. imposes a tariff on steel manufactured in China, but the tariff only goes into effect if steel imports exceed a certain level. In order to avoid the tariff, Chinese steel manufacturers may decide to voluntarily reduce the amount they export to the U.S.

The impact is the same is the same as quotas and tariffs; prices for the protected goods remain higher.



Sometimes countries cut off most, or all trade with another country. This is known as a trade embargo. Most often, trade embargos are used for political purposes, in order to isolate another country and deny it goods and services. For example, the U.S. has had a trade embargo against Cuba since the early 1960s. As a result, no trade occurs between the U.S. and Cuba.

A country can also have an embargo on certain products, for example, the U.S. has an embargo against companies exporting weapons-related materials to China.

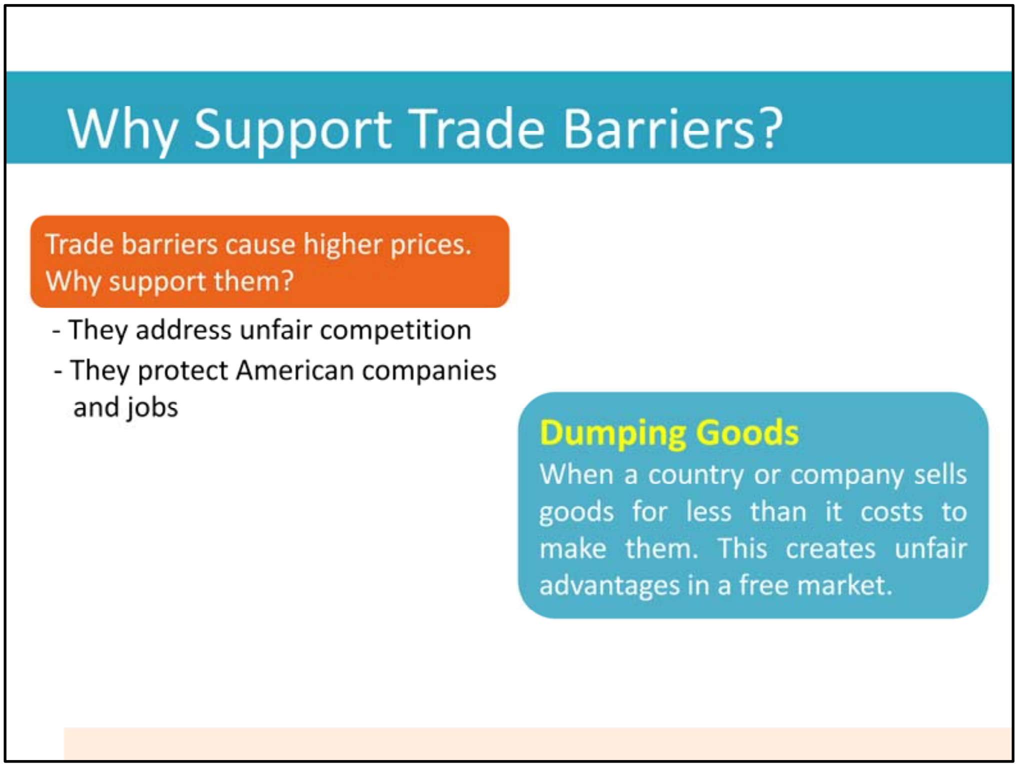


Informal trade barriers are indirect trade restrictions, like licenses, environmental regulations, and health and safety measures, which have an indirect impact on imports. For example, suppose Brazil starts using a pesticide on its coffee bean plants that is banned in the U.S. Not only does the U.S. ban its use on farms, it also bans the import of any products grown using the pesticide.

If Brazilian coffee farms keep using the chemical, this will reduce Brazil's coffee exports to the U.S. because any coffee that has been treated with that pesticide cannot be imported.

Another example is that any athletic shoes that are imported must not use child labor in their manufacture.

While informal trade barriers may raise the price of imported goods, the legislation behind these barriers is designed to protect the health and safety of our citizens, and ensures that basic labor standards that we believe in, such as child labor should not be exploited, are followed.



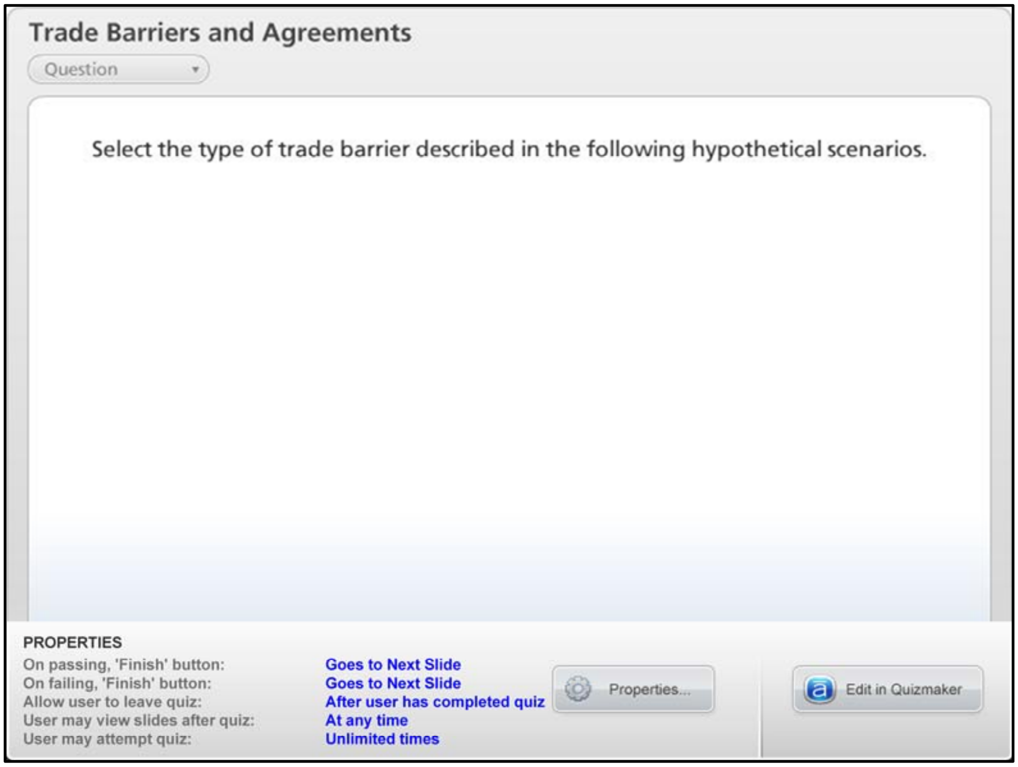
As we saw, the primary beneficiaries of trade barriers are manufacturers in protected industries, and their workers. Consumers usually see higher prices when trade barriers are erected.

Why would governments support trade barriers? Sometimes another country is accused of “dumping” their products on the export market. This means they are selling the goods for less than it costs to make them. The manufacturer may get money from the foreign government to make up for their lost profits. The price for that good goes down as a result, and American companies cannot match that price without losing money. Sales of American goods go down. The tariff raises the price of these dumped goods back to the competitive price.

There may be other reasons for tariffs that involve protecting higher paying manufacturing jobs in the U.S. In these cases, the arguments by politicians for and against trade barriers are often very heated. It’s important that you understand the arguments behind all sides before making any decision about their merits.

The worst thing about quotas and tariffs is the trade wars that may result from these actions. When the U.S. imposes a quota or a tariff on another country's goods, that country's government will most likely retaliate by imposing a quota or a tariff on U.S. goods being imported into their country. For example, if the U.S. imposes a quota on Chinese steel, China may impose a quota on imports of American wheat. Chinese consumers may then buy more Australian wheat, since it's cheaper, and American farmers lose out because of steel quotas.

This can end up hurting other American producers by shrinking our export market and reducing revenue coming into the U.S.


Trade Barriers and Agreements
Question
Select the type of trade barrier described in the following hypothetical scenarios.
PROPERTIES
On passing, 'Finish' button: Goes to Next Slide
On failing, 'Finish' button: Goes to Next Slide
Allow user to leave quiz: After user has completed quiz
User may view slides after quiz: At any time
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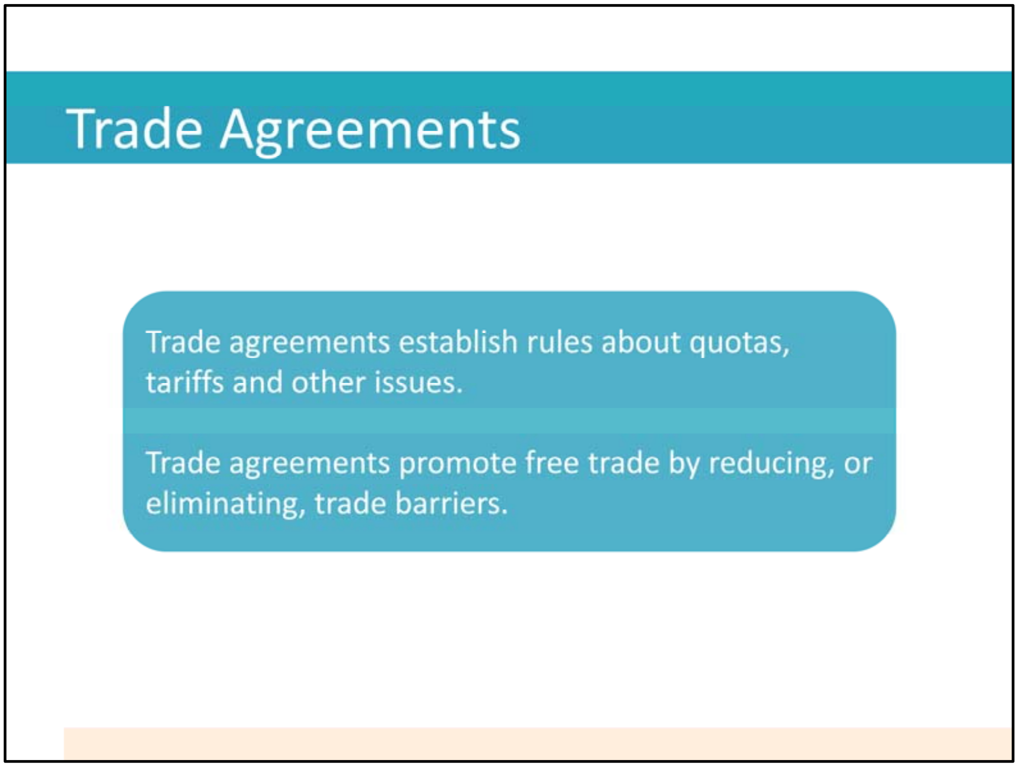


How can countries ensure that they maintain free trade with each other and not put up trade barriers? Many countries enter into trade agreements which establish rules about quotas, tariffs and other issues that all countries agree to. The goals of most trade agreements are to promote free trade by reducing, or eliminating, these trade barriers. Each country can then focus on the industries where it holds a comparative advantage, which leads to economic growth.

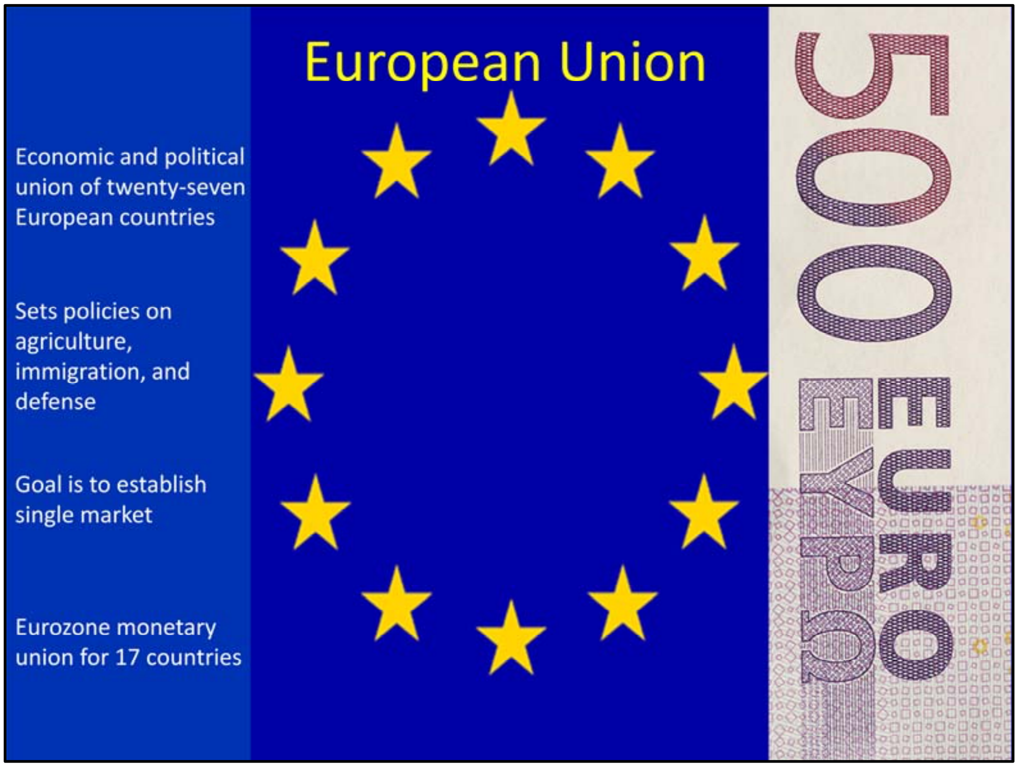
There are several trade agreements in effect today. Let’s look at a couple and see how they work.

The U.S., Canada, and Mexico are members of NAFTA, the North American Free Trade Agreement, which went into effect in 1994. Its goals are to eliminate trade and investment barriers among member countries.

When it was implemented, tariffs were eliminated on more than one half of U.S. imports from Mexico and more than one third of U.S. exports to Mexico. Most U.S.-Canada trade was already duty free. By reducing barriers, trade has increased greatly among the three nations. NAFTA also has important provisions to make sure that environmental concerns are addressed in each country, and that no one country have cheaper production costs simply by polluting the environment.

NAFTA was controversial because many American companies moved their manufacturing facilities just inside the Mexican border to take advantage of cheaper labor. Whether this has hurt American workers is a subject of debate, but there is little doubt that many new jobs were created in Mexico as a result.

[Image source Alex Covarrubias: WikiMedia Commons http://commons.wikimedia.org/wiki/File:NAFTA_logo.png]



The European Union (EU) is an economic and political union of twenty-seven European countries. It is more than just a trade agreement. Although it reduced or eliminated many trade barriers among member states, it also has a number of quasi-governmental institutions responsible for setting policies on agriculture, immigration, and defense.

The goal of the EU is to establish a single market for all member states by ensuring the free movement of people, goods, services, and capital. In fact, there are no passport controls among most of the member states on the continent, so you can go from country to country without a passport.

In addition, a monetary union, the eurozone, was established in 1999 and is currently composed of seventeen member countries. These countries all use the same currency, the Euro, meaning that you can go from country to country and use the same money. The goal of the eurozone is to increase economic growth in participating countries by reducing the barriers to the flow of money among members.

One of the most important EU countries that is not part of the eurozone is England, which still uses its own currency, the pound sterling.

When countries have trade agreements with one another, they have shared policies on imports and exports, and a means of resolving any disputes. What happens when there is no trade agreement between countries? How do they resolve disputes?

The World Trade Organization (WTO) is an organization created just for this purpose. Created in 1995, the WTO's mission is to administer trade agreements, resolve disputes, and provide a venue for negotiating among its one hundred fifty member nations.

The WTO replaced the General Agreement on Tariffs and Trade (GATT), which was signed near the end of World War II. GATT set up the rules and policies for international trade and created the WTO.

The WTO says that trade rules should apply equally to domestic and imported products, and that member nations should offer each other favored trade status over non-member nations. In addition, no member nation should give more favorable trade terms to one WTO member than another member. In other words, no nation can show favoritism for any of the other member nations. Members also should work toward lowering trade barriers of all kinds and support fair and free trade.

Since its creation, the World Trade Organization has been successful in varying degrees. It has helped reduce tariffs on manufactured goods, lowered trade barriers in agriculture, promoted intellectual property rights, and resolved disputes among members while respecting each country’s sovereignty. Its effectiveness, however, has been limited by the willingness of some countries, including the U.S., to abide by its rulings.

Like any large, and growing, organization, the WTO is a work in progress. Since much of its work is also related to resolving disputes involving billions of dollars, it is not always successful. That most of the world’s largest economies are either in the organization, or trying to join it, shows that the WTO is an important force in world trade, and that trade is an important path to economic growth.