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# Trade Barriers

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# Trade Barriers

- Today, the amount of international trade is twenty times what it was in 1950.
  - Trade increases the amount and variety of goods available to all nations and makes nations interdependent.
  - Consumers get more choices
  - Businesses get more customers around the world.
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# Trade Barriers

- However, trade also requires American businesses to compete with companies around the world.
  - This includes those in nations where workers are paid far less than American workers earn.
  - To improve their balance of payments and to protect businesses in certain domestic industries, nations sometimes impose trade barriers to limit imports.
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# Trade Barriers

- **Protectionism** – A government policy that attempts to limit imports.
  - **Free Trade** – (The opposite of protectionism) is open trade between nations without any barriers to imports.
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# Types of Trade Barriers

- **Tariff** – A tax on certain imported goods.
    - Tariffs make imported goods more expensive to buy, because the cost is passed on to consumers.
    - Higher prices reduce demand for the imported goods and help a nation's own industries compete.
    - Tariffs also increase government revenue, which can help reduce a nation's budget deficit.
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# Types of Trade Barriers

- Today, U.S. government collects tariffs on imported steel and cars, among other things.



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# Types of Trade Barriers

- **Quota** (a more severe type of trade barrier).  
A limit on the number of certain products that can be imported from another nation.
  - **Example:** In the 1980s, the U.S. forced a limit on the number of cars that could be imported from Japan, in order to help American car companies compete.
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# Types of Trade Barriers

- Tariffs and quotas protect jobs in some industries that face foreign competition, but they lead to fewer choices and higher prices for consumers.
  - They also hurt workers in other industries.
  - For example, because of the quota on Japanese cars in the 1980s, Japan earned less money from its exports to the U.S.
  - As a result, it had less money to spend on U.S. exports such as grain and airplanes.
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# Types of Trade Barriers

- These American industries lost money as their exports declined.
  - Our trade barriers also encourage other nations to impose their own trade barriers against the U.S., hurting American exporters even more.
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# Other types of trade barriers:

- **Standards, Subsidies, Embargo**
  - **Standards** are rules about the quality of imported goods.
  - If imported goods do not pass a nation's standards, they will not be accepted.
  - Example: The U.S. might ban the import of fruit that has been sprayed with certain pesticides. These standards protect the health of American consumers, but they also protect American fruit growers from foreign competition.
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# Other types of trade barriers:

- **Subsidies** – Subsidies involve direct financial aid, often through tax credits or tax deductions, to certain domestic industries.
  - Subsidies lower a company's production costs and allow domestic industries to compete with lower-cost imported goods.
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# Other types of trade barriers:

- **Embargo** – The most severe type of trade barrier – is a total ban on one or more products from a particular nation.
  - Embargoes are often motivated by political, rather than economic concerns.
  - For example, the U.S. has maintained an embargo on imports from Cuba since 1961, after the Cuban leader *Fidel Castro* seized U.S. property and embraced communism.
  - Embargoes put pressure on governments to change behavior viewed as undesirable by limiting their ability to trade.
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# Arguments for and Against Free Trade

- Most economists argue that free trade improves economic efficiency and offers consumers of all nations a wide variety of goods at the lowest possible prices.
  - Opposing arguments, in support of trade barriers, include the following.
    - Protection of national security
    - Protection of “infant” industries
    - Protection of jobs
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# Arguments for and Against Free Trade:

## **Protection of National Security**

- Many governments protect domestic industries that produce items such as military goods, airplanes, and oil – even though it might be more efficient to rely on trade for their entire supply of such goods.
  - They argue that a nation must maintain a domestic supply of such vital products in case trade is ever disrupted by war or embargoes.
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# Arguments for and Against Free Trade

## Protection of “Infant” Industries

- If companies in a nation are just beginning to produce a new item such as computers, it will take a few years before these companies become skilled and efficient enough to compete with imports from nations that are well-established in the industry.
  - Governments often impose temporary tariffs to allow these “infant” industries to compete and grow.
  - When the domestic companies become more efficient, the tariffs are removed.
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# Arguments for and Against Free Trade

## Protection of Jobs

- In the U.S., the most emotional of political arguments against free trade have involved the loss of Americans jobs because of competition with imports from nations with much lower labor costs.
  - American companies cannot compete with these imports without cutting wages, laying off workers, or “outsourcing” some jobs to nations such as Mexico or India.
  - Concerns about protecting American jobs arose during debates about the adoption of the North American Free trade Agreement (NAFTA), one of the trading blocs that are becoming stronger as the global economy grows.
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# NAFTA and Other International Trading Blocs

- The North Americans Free Trade agreement (NAFTA) was signed in 1992 and went into effect in 1994.
  - NAFTA called for the gradual elimination of all tariffs and other trade barriers between the U.S., Canada, and Mexico over a fifteen-year period.
  - Canada and the U.S. had already reached a free-trade agreement in 1988, and NAFTA extended the terms of this agreement to include the developing, much poorer nation of Mexico.
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# NAFTA and Other International Trading Blocs

- By 2004, agencies such as the World Bank concluded that, overall, NAFTA had a small positive effect on the economic growth and productivity of both Mexico and the U.S.
  - Increased trade with Mexico has helped American exporters, but has led to job losses in some American industries hurt by imports from Mexico.
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# NAFTA and Other International Trading Blocs

- NAFTA was inspired by the success of the European Economic Community (EEC), which was established in 1957.
  - EEC called for the creation of a “common market” in Europe, eliminating all tariffs between European nations by 1968.
  - In 1993, the strength of this bloc increased with the creation of the European Union (EU), which includes twenty-seven nations and features a shared currency called the Euro.
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# NAFTA and Other International Trading Blocs

- Another successful trading bloc is the Association of Southeast Asian Nations (ASEAN), which now includes these ten nations:
    - Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Cambodia, Laos, Myanmar, and Vietnam.
    - The ASEAN Free Trade Area, begun in 1992, has eliminated most tariffs in this trading region.
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