International Trade and Trade Barriers

Two new concepts you will need to know for this lesson are **protectionism** and **free trade**. Protectionism is the idea that a country will protect its domestic industries and encourage consumers to purchase domestic products through the use of trade barriers. This argument flows from the belief that a country must nurture its own industries because they cannot compete with foreign producers in the same industry. Free trade argues that competition from foreign producers will spur domestic production to innovate, benefiting both sets of consumers. Free trade assumes that **comparative advantage**, allowing countries to produce at the lowest opportunity cost, will provide for the best use of global resources. Through elimination of trade barriers, trade would increase for both countries as industries in both locations improve and innovate, increasing production overall.

**Your Task**:

1) **Read** the scenario presented to you.

2) **Determine** whether the scenario represents a perspective of protectionism or free trade.

3) **Write** if the following would be a winner or a loser **a)** domestic consumers **b)** domestic producers **c)** foreign producers **d)** foreign consumers.

4) **Explain** why the groups above (a-d) would be a winner or loser – that is, **explain** how they are becoming winners or losers.

**Scenario 1**

The United States notices that producers of automobiles like Ford, Chevrolet, and Dodge are suffering slumping sales because consumers are purchasing Toyota, Honda, and Volkswagens instead. The United States decides the best policy is to impose a tariff on imported automobiles.

Trade policy: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Winners and Losers: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Why winner and loser: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Scenario 2**

Japanese television companies begin to see soaring sales after years of subsidies from their government. The Japanese government decides that producers now are capable of competing with foreign producers of television and will remove the subsidies after 3 months.

Trade policy: ­­­­­­­­\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Winners and Losers: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Why winner and loser: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Scenario 3**

After years of having an embargo in place, Cuba and the United States are finally going to trade again (yay?). The Cuban government decides to place a quota on the pounds of agricultural products that can be imported from the United States.

Trade policy: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Winners and Losers: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Why winner and loser: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Scenario 4**

After focusing on manufacturing for many decades in the United States and outsourcing those jobs to places like Indonesia, Vietnam, and China, industries are beginning to be promoted again within the United States in hopes of providing jobs to US workers. The United States decides that in order to promote US consumption of these products that they will provide subsidies to industries like textiles (clothing) and manufacturing (steel).

Trade policy: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Winners and Losers: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Why winner and loser: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Scenario 5**

After noticing an unwillingness by consumers to purchase Korean made shirts the Korean government decides that it will remove tariffs on Vietnamese and Indonesian produced shirts.

Trade policy: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Winners and Losers: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Why winners and losers: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Scenario 6**

This one might be tricky. After tests on imported agricultural products from South America, the United States government decides to impose a new set of standards on South American cantaloupe. A new batch of cantaloupes arrive in the United States and are subjected to the new standards. This batch fails to meet the standards and is shipped back to the South American countries of origin.

Trade policy: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Winners and Losers: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Why winners and losers: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Scenario 7**

The US decides to remove quotas on Swiss chocolate.

Trade policy: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Winners and Losers: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Why winners and losers: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_