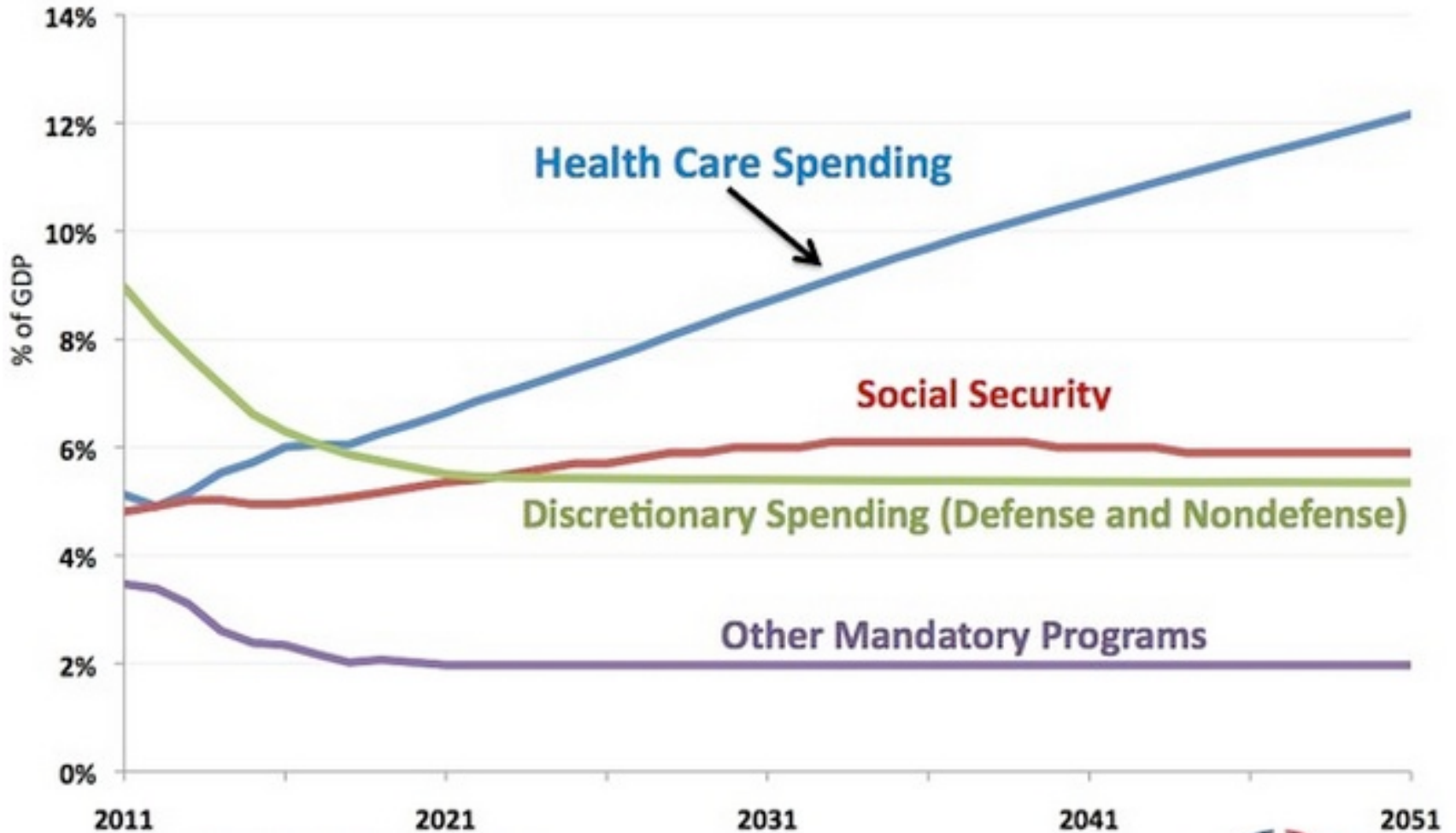


Political Science 12: IR -- Sixth Lecture, Part 1



HEALTH CARE COSTS ARE THE PRIMARY DRIVER OF THE DEBT



Source: Congressional Budget Office (August 2011)

WWW.BIPARTISANPOLICY.ORG

7

**International
Trade**

International Trade

- Trade Is Mutually Beneficial
- Why Do All Countries Restrict Trade?
- Patterns of Trade Restrictions
- International Institutions and Trade

International Trade

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Trade Is Mutually Beneficial

- Opportunities
- New Markets
- More efficiency
- Cheaper Products

Trade Is Mutually Beneficial

- Division of labor
- Specialization

Trade Is Mutually Beneficial



Trade Is Mutually Beneficial

- Absolute advantage
- Comparative advantage

Trade Is Mutually Beneficial

Adam Smith on comparative advantage:

"If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage."

Trade Is Mutually Beneficial

Table 7.1: Merchandise Exports as a Percentage of GDP, 1820–1998

	1820	1870	1913	1929	1950	1973	1998
France	1.3%	4.9%	7.8%	8.6%	7.6%	15.2%	28.7%
Germany	n.a.	9.5	16.1	12.8	6.2	23.8	38.9
Netherlands	n.a.	17.4%	17.3	17.2	12.2	40.7	61.2
Great Britain	3.1	12.2	17.5	13.3	11.3	14.0	25.0
Spain	n.a.	3.8	8.1	5.0	3.0	5.0	23.5
United States	2.0	2.5	3.7	3.6	3.0	4.9	10.1
Mexico	n.a.	3.9	9.1	12.5	3.0	1.9	10.7
Brazil	n.a.	12.2	9.8	6.9	3.9	2.5	5.4
China	n.a.	0.7	1.7	1.8	2.6	1.5	4.9
India	n.a.	2.6	4.6	3.7	2.9	2.0	2.4
Japan	n.a.	0.2	2.4	3.5	2.2	7.7	13.4
World	1.0	4.6	7.9	9.0	5.5	10.5	17.2

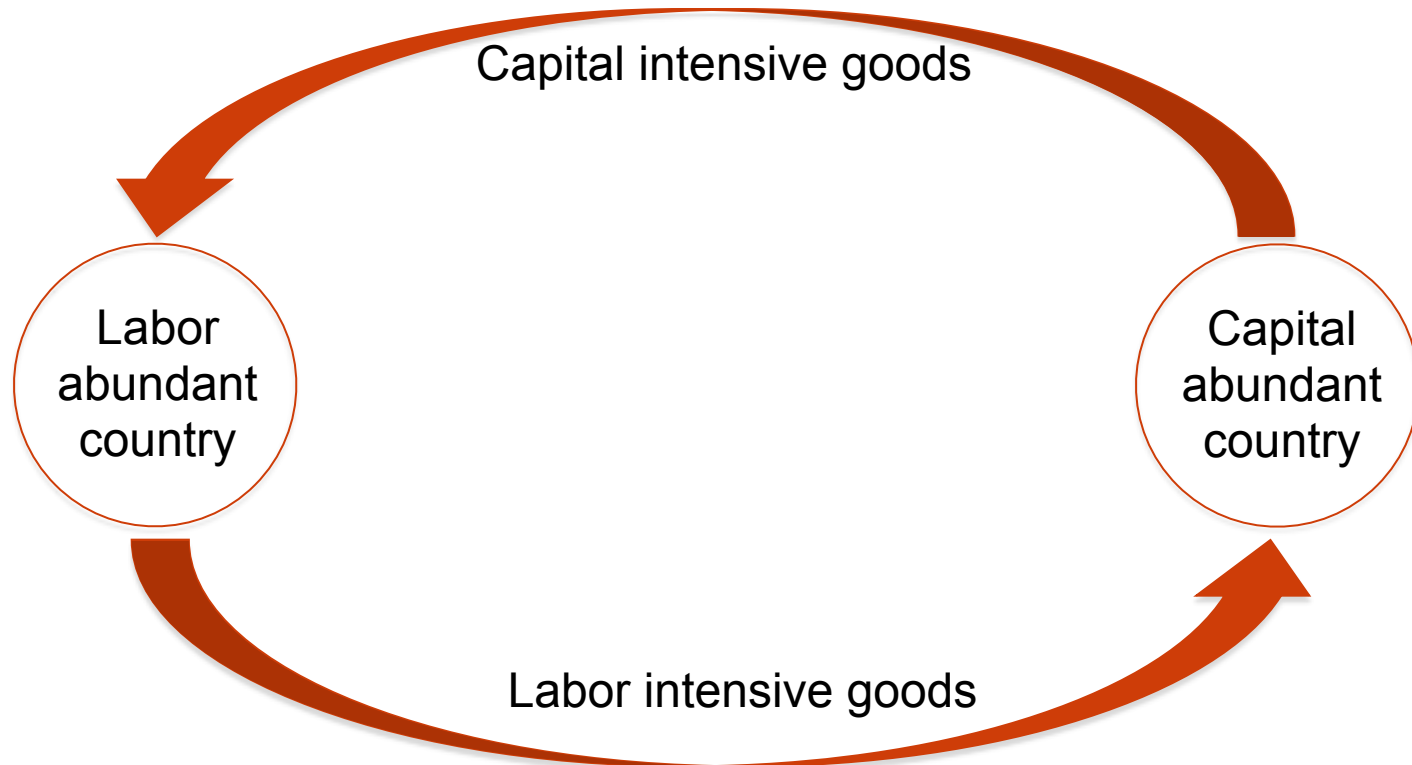
Trade Is Mutually Beneficial

Factors of production

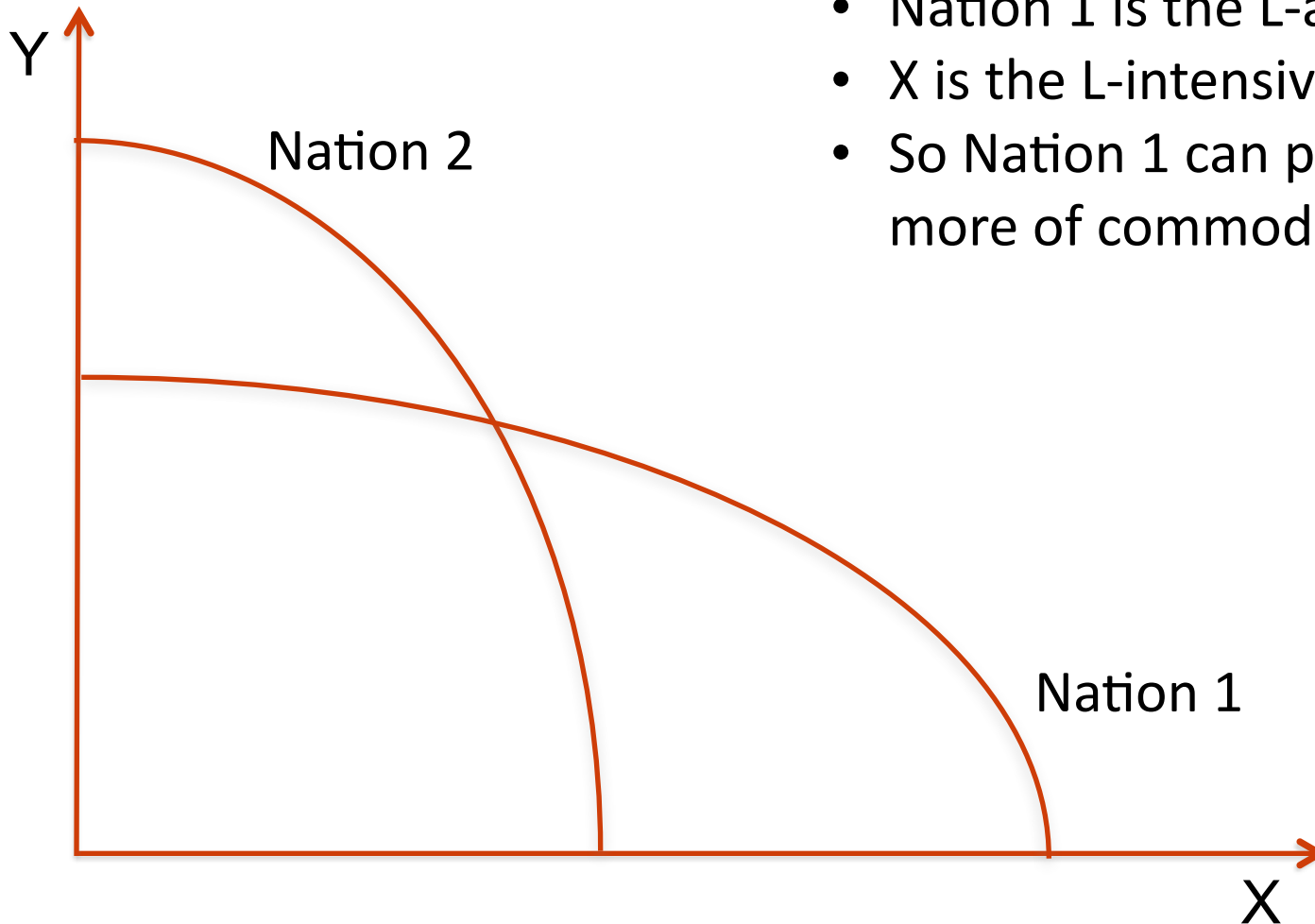
1. Land
2. Labor
3. Capital

Trade Is Mutually Beneficial

- What is a country's advantage?
- Heckscher-Ohlin trade theory



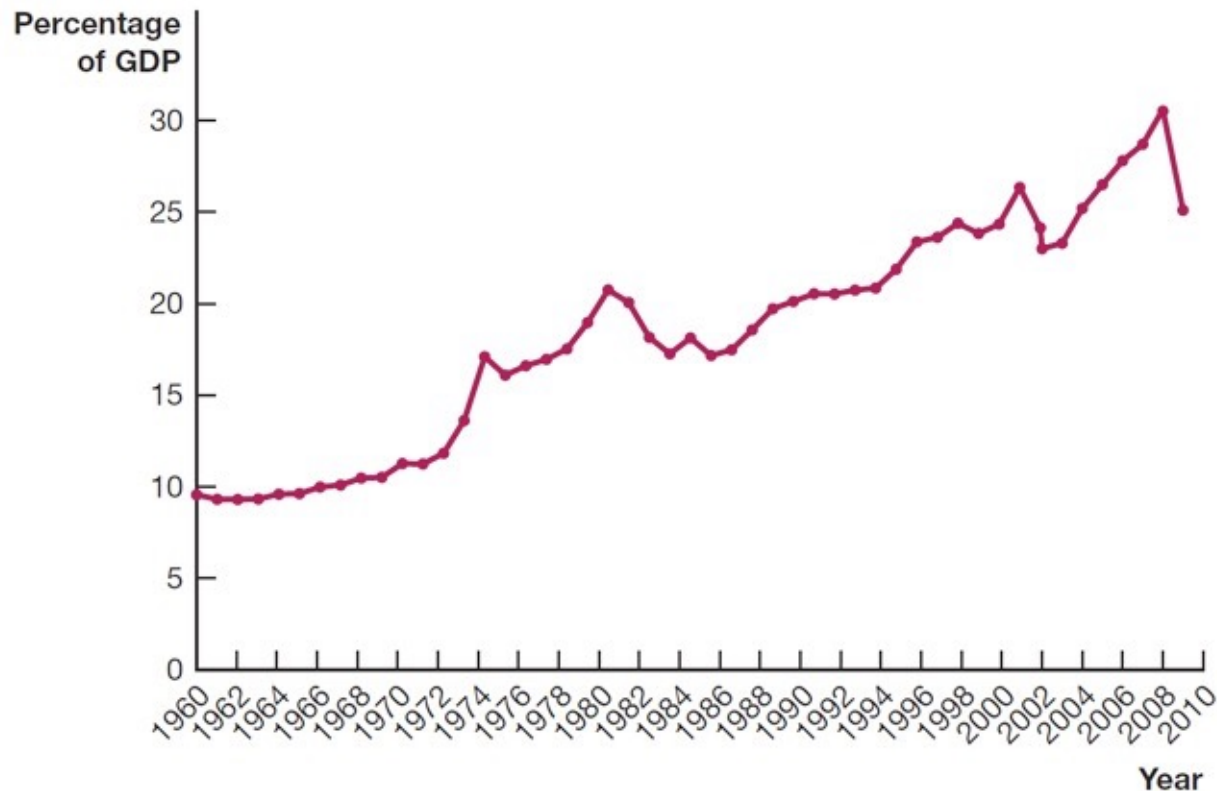
The Heckscher-Ohlin model



- Nation 1 is the L-abundant nation
- X is the L-intensive commodity
- So Nation 1 can produce relatively more of commodity X

Trade Is Mutually Beneficial

Figure 7.1: Importance of Trade to the U.S. Economy, 1960–2009



Trade Is Mutually Beneficial

In general, any policies that hinder trade hurt welfare and productivity.

Puzzle: If trade is mutually beneficial, then why do all countries restrict it?

International Trade

- Trade Is Mutually Beneficial
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- Patterns of Trade Restrictions
- International Institutions and Trade

Why Do All Countries Restrict Trade?

Trade restrictions

- Tariffs
- Quotas
- Nontariff barriers
- Subsidies
- Prohibitions

Why Do All Countries Restrict Trade?

Trade barriers redistribute income from consumers and foreign producers to domestic producers.

Patterns of Trade Restrictions

Domestic preferences in trade policy:
Factor-based preferences
(The Stolper-Samuelson Approach)

International Trade

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Patterns of Trade Restrictions

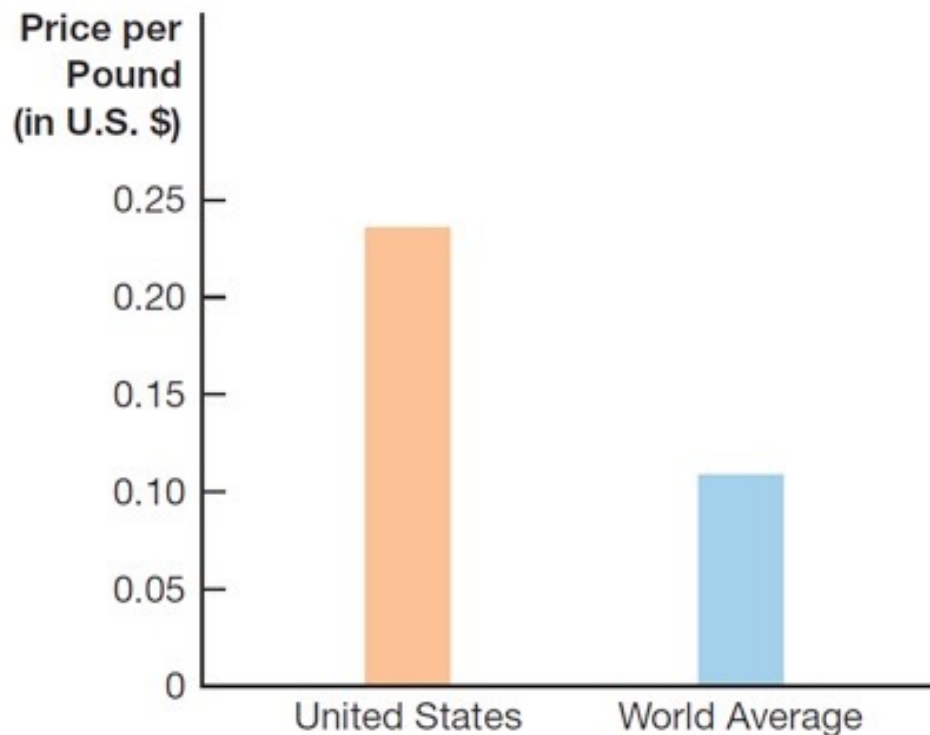
Domestic preferences in trade policy:
Specific Factors-based preferences
(The Ricardo-Viner Approach)

Patterns of Trade Restrictions

- Some actors enjoy advantages in political power over trade policy
- Collective action
- Policy change as a public good

Patterns of Trade Restrictions

Figure 7.A: The Cost of Sugar



Patterns of Trade Restrictions

Political institutions affect power over trade policy

Patterns of Trade Restrictions



Patterns of Trade Restrictions

Compensation and trade policy:

Trade produces winners and losers

International Trade

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International Institutions and Trade

- Interaction: trade policy of one country depends in part on policies of other countries
- International trade policies a result of strategic interaction among states

International Institutions and Trade

- Everyone wants to have consumers to sell to
- No one wants others to have access to their own consumers

The Prisoner's Dilemma

If two countries, A and B, both act like mercantilists . . .

A has a choice

close

open

B has a choice

close

open

3rd best for both	worst / best
best / worst	2nd best for both

International Institutions and Trade

Global Trade Agreements (GATT)

- Norms of reciprocity and national safeguards
- Negotiating rounds addressed different issues or sectors

International Institutions and Trade

- The World Trade Organization (WTO) replaced the GATT in 1994
- Differences between GATT and WTO

International Institutions and Trade

Why the WTO?

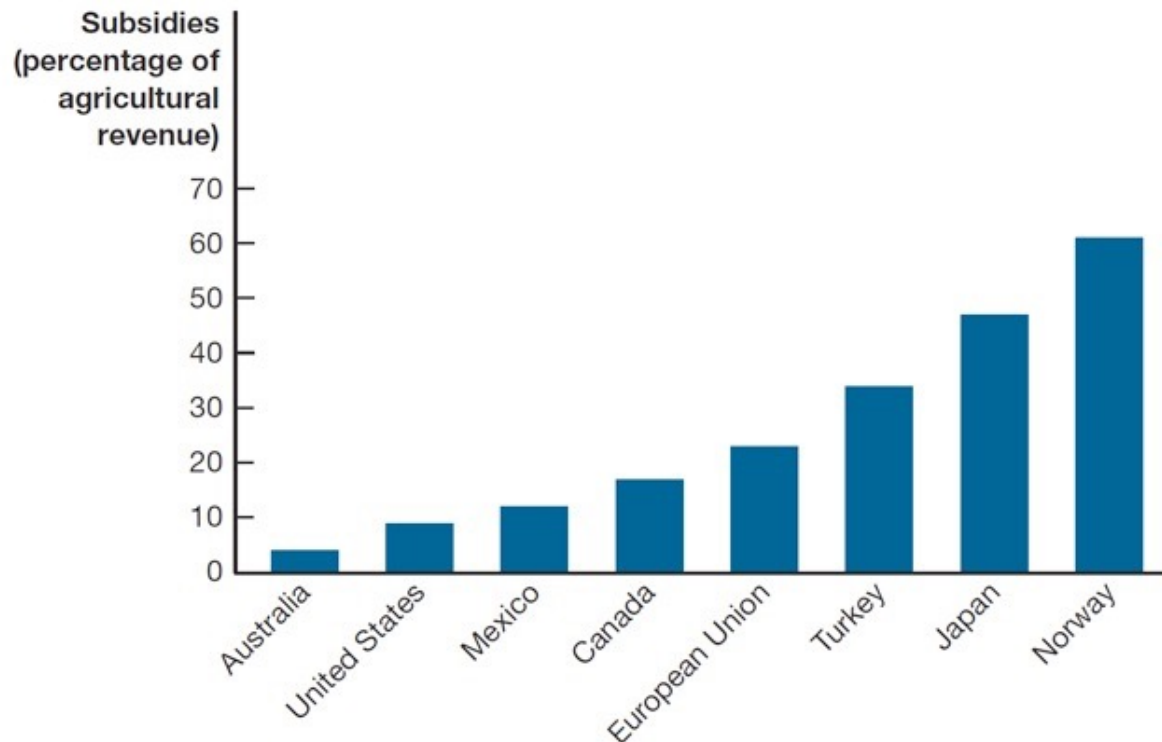
- With more members, a stronger institution was needed
- GATT addressed the easiest issues, such as visible tariffs, yet stalled on more contentious ones, such as services and agriculture

International Institutions and Trade



International Institutions and Trade

Figure 7.2: Agricultural Subsidies for Selected Countries, 2007–2009



International Institutions and Trade



International Institutions and Trade



International Institutions and Trade



Map 7.1: Selected Regional Trade Agreements

International Institutions and Trade

Map 7.1: Selected Regional Trade Agreements



International Institutions and Trade

Interests: producers, consumers,
importers, exporters,
capital, labor, land

Interactions: Prisoner's Dilemma

Institutions: Can promote cooperation

Political Science 12: International Relations

