



Global Trade Module

Module Length: 6 hours

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Overview

Throughout the centuries, trade has served as a driver of globalization, connecting nations throughout the world. People and companies have been buying and selling goods and services to others around the world in an effort to sustain local and national economies and personal livelihoods. Over the past fifty years, global trade has expanded exponentially. The World Trade Organization came into existence to provide a policy framework to ensure that trading partners are playing by the same set of rules.

The Global Trade module delivers the basic understanding of cross-border transactions of merchandise. The module provides students with a theoretical background of international trade and outlines the gains from trade. The causes, patterns, and direction of trade are embodied in the learning modules. Relevant dilemmas and debates on trade policy are focused to stimulate thinking about the political economy of international trade. This module encompasses from the rationale of trade to policy issues on globalization and economic openness with a comprehensive view.

Learning Objectives

Through the completion of this module, participants will be able to:

1. Grasp an overview of global trade: transactions of merchandise in the form of exports and imports, the place of trade in international economics and the balance of payments, the composition and dynamics of trade, and the link between globalization and trade.
2. Understand *the classical Ricardian trade model* of comparative advantage based on labor productivity, and the relevant concepts and tools: the production possibility frontier, opportunity costs, specialization, and direction of trade.
3. Understand *the Heckscher-Ohlin model* of comparative advantage based on differences in resource endowments, and the relevant concepts and tools: the curved production possibility frontier, production and consumption decisions, and gains from trade.
4. Combine the ideas of the Ricardian trade model and the Heckscher-Ohlin model of comparative advantage and derive *the Standard trade model*, and the relevant concepts and tools: relative supply and demand, world price, and terms of trade.
5. Discuss different policy instruments of international trade: *tariffs, export subsidies, import quotas, and voluntary export restraint*.
6. Discuss different policy issues of international trade: free trade, trade liberalization in the developing world, the effects of international negotiations, and the role of the World Trade Organization in globalization.

Glossary of Terms

Absolute Advantage: the ability of a country to produce a good using fewer inputs than another country.

Ad Valorem Tariff: levied as a fraction of the value of imported goods

Balance of Capital Account: the amount of foreign purchases in the U.S. minus the U.S. purchases made in other countries.

Balance of Current Accounts: the flow of goods, services, income and transfer payments into and out of a country

Balance of Payments: “A record of all transactions made between one particular country and all other countries during a specified period of time. BOP compares the dollar [or other currency] difference of the amount of exports and imports, including all financial exports and imports. A negative balance of payments means that more money is flowing out of the country than coming in, and vice versa.” (<http://www.investopedia.com/terms/b/bop.asp#ixzz29gXNThoc>)

Balance of Services: “The difference between funds received by a country when exporting services and the funds paid for importing services. The balance of services is one part of the current accounts portion of the balance of payments, the other is major part is the balance of trade.” (<http://glossary.econguru.com/economic-term/balance+of+services>)

Balance of Trade: “The difference between a country's imports and its exports. Balance of trade is the largest component of a country's balance of payments. Debit items include imports, foreign aid, domestic spending abroad and domestic investments abroad. Credit items include exports, foreign spending in the domestic economy and foreign investments in the domestic economy. A country has a trade deficit if it imports more than it exports; the opposite scenario is a trade surplus.” (<http://www.investopedia.com/terms/b/bot.asp#ixzz29gY1kDaP>)

Capital Account: “A national account that shows the net change in asset ownership for a nation. The capital account is the net result of public and private international investments flowing in and out of a country.” (<http://www.investopedia.com/terms/c/capitalaccount.asp#ixzz29gYPocaG>)

Comparative Advantage: the ability of a country to produce a good at a lower opportunity cost than another country.

Current Account: “The difference between a nation's total exports of goods, services and transfers, and its total imports of them. Current account balance calculations exclude transactions in financial.” (<http://www.investopedia.com/terms/c/currentaccount.asp#axzz29gX071vr>)

Economies of Scale: “The increase in efficiency of production as the number of goods being produced increases. Typically, a company that achieves economies of scale lowers the average

cost per unit through increased production since fixed costs are shared over an increased number of goods.

There are two types of economies of scale:

-External economies - the cost per unit depends on the size of the industry, not the firm.

-Internal economies - the cost per unit depends on size of the individual firm.”

(<http://www.investopedia.com/terms/e/economiesofscale.asp#ixzz29gZ3RVMn>)

Export Subsidies: “Government help to exporters, generally in two forms (1) Service subsidy: trade information, trade shows, feasibility studies, foreign representation, etc. (2) Cash subsidy: (a) rebate on imported raw materials and duty-free import of manufacturing equipment (called indirect cash subsidy); or (b) drawback as a percentage of the value of exports (called direct cash subsidy). Although World Trade Organization (WTO, formerly GATT) recognizes that subsidies hinder fair competition and distort trade practices, it has not been able to define precisely what kind of assistance constitutes a subsidy.” (<http://www.businessdictionary.com/definition/export-subsidy.html#ixzz29gZYWN4d>)

Export Supply Curve: the difference between the quantity that foreign producers supply minus the quantity that foreign consumers demand, at each price

Free Trade: trade between countries that is not hindered government practices that discriminate against imports or exports

Gross Domestic Product (GDP): “The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis.” (<http://www.investopedia.com/terms/g/gdp.asp#ixzz29gaGWOJp>)

General Agreement on Tariffs and Trade (GATT): “A treaty created following the conclusion of World War II. The General Agreement on Tariffs and Trade (GATT) was implemented to further regulate world trade to aid in the economic recovery following the war. GATT's main objective was to reduce the barriers of international trade through the reduction of tariffs, quotas and subsidies” (<http://www.investopedia.com/terms/g/gatt.asp#ixzz29gaYVuPt>)

Heckscher-Ohlin Model/Theory: differences in labor, labor skills, physical capital, land or other factors of production across countries create productive differences that explain why trade occurs.

Import Demand Curve: the difference between the quantity that domestic consumers demand minus the quantity that domestic producers supply, at each price.

Import Quotas: a restriction on the quantity of a good that may be imported

Index of Openness: measures the degree of a country's orientation to the external world.

Isovalue: a relationship between the production of two products in which the total market value is constant.

Labor Intensive: “A process or industry that requires a large amount of labor to produce its goods or services. The degree of labor intensity is typically measured in proportion to the amount of capital required to produce the goods/services; the higher the proportion of labor costs required, the more labor intensive the business.”

(<http://www.investopedia.com/terms/l/laborintensive.asp#ixzz29gazvyGt>)

Labor Productivity: “A measurement of economic growth of a country. Labor productivity measures the amount of goods and services produced by one hour of labor. More specifically, labor productivity measures the amount of real GDP produced by an hour of labor.”

(<http://www.investopedia.com/terms/l/labor-productivity.asp#ixzz29gbBUMLe>)

Net Exports: The value of a country's total **exports** minus the value of its total imports

Nominal value: “The stated value of an issued security. Nominal value in economics also refers to a value expressed in monetary terms for a specific year or years, without adjusting for inflation. When used in reference to securities, nominal value is also known face value or par value.”

(<http://www.investopedia.com/terms/n/nominalvalue.asp#ixzz29gbXBatB>)

Opportunity Cost: the amount of good or service that is sacrificed or given up in order to produce another good or service.

Production Possibility Frontier (PPF): “A curve depicting all maximum output possibilities for two or more goods given a set of inputs (resources, labor, etc.). The PPF assumes that all inputs are used efficiently.”

(<http://www.investopedia.com/terms/p/productionpossibilityfrontier.asp#ixzz29gc784Ec>)

Specific Tariff: levied as a fixed charge for each unit of imported goods

Tariff: a tax levied when a good is imported.

Terms of Trade: the price of exports relative to the price of imports.

Trade Liberalization: “The removal or reduction of restrictions or barriers on the free exchange of goods between nations.” (<http://www.investopedia.com/terms/t/trade-liberalization.asp#ixzz29gcrJWQd>)

Trade Specialization: “A method of production where a business or area focuses on the production of a limited scope of products or services in order to gain greater degrees of productive efficiency within the entire system of businesses or areas.” (<http://www.investopedia.com/terms/s/specialization.asp#ixzz29gdDIfmf>)

Voluntary Export Quota: the quota is imposed by the exporting country rather than the importing country.

World Trade Organization: “The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.” (http://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm)

Lesson Plans

Lesson 1: The World Economy and Global Trade

Overview

This lesson provides us with an overview of global trade: transactions of merchandise in the form of exports and imports, the place of trade in international economics and the balance of payments, the composition and dynamics of trade, and the link between globalization and trade.

Relevant Learning Objectives

1. Grasp an overview of global trade: transactions of merchandise in the form of exports and imports, the place of trade in international economics and the balance of payments, the composition and dynamics of trade, and the link between globalization and trade.

Procedure

Pre-Class Assignments

- Students read Chapters 1 and 2 of the textbook

Possible Classroom Activities

- Module Hook.
(Time: 10 minutes)(Skills: n/a) (Objective 1)(Related Resources: Global Economies - Global Exchange: Free Trade and Protectionism)

Show the five minutes of the Youtube video to introduce students the concept of international trade.

Ask students to think about the clip in a critical fashion. Who benefits from trade and why and who does not benefit and why?

- The PowerPoint Presentation: Global Trade Lesson 1.
(Time: 40 minutes)(Skills: n/a) (Objective 1)(Related Resources: Chapter 1 and 2 of the text and Global Trade Lesson 1.pptx)

Present the PowerPoint presentation. Questions are embedded in the slides. Use the glossary to define any unknown terms

The professor can supplement the presentation by looking for online data for the latest figures of global trade.

- Measuring Trade in China.
(Time: 15 minutes)(Skills: Holistic Thinking and Technology Skills) (Objective

1)(Related Resources: Chapter 1 and 2 of the text and Global Trade Lesson 1.pptx)

Students collect the time series data on exports and imports of China. Plot them in Excel and answer to the following questions.

- What does the Chinese trade pattern exhibit?
- How is the Chinese trade balance (exports – imports) different from the American one?
- Ethical Issue Activity.
(Time: 20 minutes) (Skills: Holistic Thinking) (Objective 1) (Related Resources: Wal-Mart reading)

Students read the article on Wal-Mart and discuss the ethical implications of Wal-Mart's expansion to China.

- Why is Wal-Mart and Carrefour opening stores in China?
- Who benefits from Wal-Mart's stores in China?
- Who does not benefit from Wal-Mart's stores in China?
- How is Chinese culture impacted through the Wal-Mart (or Carrefour)?
- Would your perspective be different if lived in China?
- Review.
(Time: 5 minutes) (Skills: Holistic Thinking) (Objective 1) (Related Resources: n/a)

Ask the students to each list one reason why international trade is important and how it affects their lives.

Resources

- Global Economies - Global Exchange: Free Trade and Protectionism (2007, August 22). Retrieved from: <http://www.youtube.com/watch?v=xRJZWfqWcs0>
- Global Trade Lesson 1.pptx. Retrieved from: <http://www.global-workforce.globalization101.org/wp-content/uploads/2012/10/Global-Trade-Lesson-1.pptx>
- Krugman, P.R., and Obstfeld, M. (2008). Introduction. In *International Economics: Theory & Policy, 8th Edition, Pearson-Addison-Wesley*. (pp 1-11). Boston: Pearson .
- Krugman, P.R., and Obstfeld, M. (2008). World Trade: An Overview. In *International Economics: Theory & Policy, 8th Edition, Pearson-Addison-Wesley*. (pp 12-26). Boston: Pearson.
- Wal-Mart opens stores in China's hinterlands. (2008, October 19). MSNBC. Retrieved from: http://www.msnbc.msn.com/id/27241451/ns/business-consumer_news/t/wal-mart-opens-stores-chinas-hinterlands/

Optional Resources

- Where to find WTO trade and tariff statistics? (n.d.). World Trade Organization. Retrieved from: http://www.wto.org/english/res_e/statis_e/looking4_e.htm#summary

Lesson 2: Global Trade Theory-I: The Ricardian Theory of Comparative Advantage

Overview

This lesson provides us with the understanding of *the classical Ricardian trade model* of comparative advantage based on labor productivity, and the relevant concepts and tools: the production possibility frontier, opportunity costs, specialization, and direction of trade.

Relevant Learning Objectives

2. Understand the classical Ricardian trade model of comparative advantage based on labor productivity, and the relevant concepts and tools: the production possibility frontier, opportunity costs, specialization, and direction of trade.

Procedure

Procedure

Pre-Class Assignments

- Students should read Chapters 3 of the textbook Principles of Microeconomics

Possible Classroom Activities

- Introduction: What can you do best?
(Time: 10 minutes)(Skills: Holistic Thinking) (Objective 2)(Related Resources: n/a)

Scenario. The students join habitat for humanity. Ask the students what he or she might want to contribute to the project. Who has the best skills for each task involved in building a home?

Does it make sense for all the students to do each task together or does it makes sense for each to break off in small groups and do the task where they have the most skill?

*Note do not lead them to answer the above question yeah/neh. Let the students come to their own conclusions.

Explain how this exercise relates to the Theory of Comparative Advantage.

- The PowerPoint Presentation: Global Trade Lesson 2.
(Time: 40 minutes)(Skills: Holistic Thinking) (Objective 2)(Related Resources: Chapter 3 of the text and Global Trade Lesson 2.pptx)

Present the PowerPoint presentation. Use the glossary to define any unknown terms

Discussion Questions:

- Why do we choose to be interdependent?

- What are the driving forces behind trade?
- If one person is good at producing every good, then how can we determine specialization?

Activity 1.

Scenario: Kim works 4 hours a day. He takes 30 minutes to make a book and 60 minutes to make a pen. Draw Kim's PPF (production possibilities frontier). Find the OC (Opportunity cost) of book and pen for Kim.

Activity 2.

1. Country A takes 40 minutes to make a car, and 30 minutes to make a computer. Country B takes 48 minutes to make a car, and 40 minutes to make a computer. Total work time is 4 hours for both. Draw PPFA and PPFB in one diagram having car in the X-axis. Show the numbers and labels.

What is the OC_{CAR} for Country A? b) What is the OC_{CAR} for Country B? Express in number, not in fraction. c) Is there any possibility of trade? If so, which country will export car?

- Ethical Issue Activity.
(Time: 20 minutes) (Skills: Holistic Thinking) (Objectives 2 and 3) (Related Resources: Globalization Ain't All Bad, Really reading)

This activity is to be used for both models of comparative advantage (Ricardian and Heckscher-Ohlin models). The concept of comparative advantage seems like straight-forward economic concept. A country is said to have a comparative advantage in whichever good has the lowest opportunity cost. That is, it has a comparative advantage in whichever good it sacrifices the least to produce.

The everyday choices that we make are, without exception, made at the expense of pursuing one or several other choices. When you decide what to wear, what to eat for dinner, or what to do on Saturday night, you are making a choice that essentially denies you the opportunity to explore any other options. The same holds true for individuals, companies, or countries producing goods and services.

Students should research the major exports of a developing country and answer the following questions:

- What are these countries major exports and/or products?
- Who are the long-term and short-term benefits and disadvantages of pursuing these industries?
- What are the land and labor constraints on these industries? How should these constraints inform government policy for developing certain industries?
- What impact do these industries have on the environment, health care, education, politics, etc?

- Conclusion.

(Time: 5 minutes) (Skills: Holistic Thinking) (Objectives 2 and 3) (Related Resources: n/a)

Follow-up to the original class activity: Has anyone changed their mind on the distribution of labor involved in the Habitat for Human exercise? Why or why not?

Resources

- Globalization Ain't All Bad, Really!. (2010, November 16) Managing Gods Money. Retrieved from: <http://managinggodsmoney.com/wordpress/?tag=comparative-advantage>
- Global Trade Lesson 2.pptx. Retrieved from: <http://www.global-workforce.globalization101.org/wp-content/uploads/2012/10/Global-Trade-Lesson-2.pptx>
- Mankiw, N.G. (2008). Interdependence and the Gains from Trade. *Principles of Microeconomics*, 5th Edition, South-Western Cengage Learning.

Optional Resources

- The Law of Comparative Advantage. (2009, June 29). Retrieved from: <http://www.youtube.com/watch?v=j1QWKoMk6WQ&feature=related> (3 min 50 sec)
- The Theory of Comparative Advantage. (n.d.). Globalization101. Retrieved from: <http://www.globalization101.org/the-theory-of-comparative-advantage/>

Lesson 3: Global Trade Theory II: The Heckscher-Ohlin Model of Comparative Advantage

Overview

This lesson helps understand *the Heckscher-Ohlin model* of comparative advantage based on differences in resource endowments, and the relevant concepts and tools: the curved production possibility frontier, production and consumption decisions, and gains from trade.

Relevant Learning Objectives

3. Understand the Heckscher-Ohlin model of comparative advantage based on differences in resource endowments, and the relevant concepts and tools: the curved production possibility frontier, production and consumption decisions, and gains from trade.

Procedure

Pre-Class Assignments

- Students should read Chapters 4 of the textbook

Possible Classroom Activities

- Introduction.
(Time: 5 minutes)(Skills: n/a) (Objective 3)(Related Resources: Chapter 4 of the text and Global Trade Lesson 3.pptx)

What factors are missing from the comparative advantage model?

If two countries have equally productive labor, what else might influence what a country produces?

- PowerPoint Presentation: Global Trade Lesson 3.
(Time: 60 minutes)(Skills: Holistic Thinking) (Objective 3)(Related Resources: Chapter 4 of the text and Global Trade Lesson 3.pptx)

Present the PowerPoint presentation. Questions are embedded in the slides. Use the glossary to define any unknown terms

Read the relevant chapters in the recommended texts and look for online data for the latest figures of global trade.

- Heckscher-Ohlin Model Activity.
(Time: 15 minutes)(Skills: n/a/) (Objective 3)(Related Resources: Chapter 4 of the text and Global Trade Lesson 3.pptx)

Students come up with at least three examples where the HO model can be applied.

- Review.
(Time: 5 minutes)(Skills: Holistic Thinking) (Objective 3)(Related Resources: n/a)

Ask the students to describe in their own words the difference between the Heckscher-Ohlin Model and the Ricardian Theory of Comparative Advantage?

What are the weaknesses of the Heckscher-Ohlin Model?

Resources

- Global Trade Lesson 3.pptx. Retrieved from: <http://www.global-workforce.globalization101.org/wp-content/uploads/2012/10/Global-Trade-Lesson-3.pptx>
- Krugman, P.R., and Obstfeld, M. (2008). Resources, Comparative Advantage, And Income Distribution. In *International Economics: Theory & Policy, 8th Edition*, Pearson-Addison-Wesley. (pp 54-87). Boston: Pearson.

Lesson 4: Global Trade Theory II: The Standard Trade Model

Overview

This lesson combines the ideas of the Ricardian trade model and the Heckscher-Ohlin model of comparative advantage, and derives *the Standard trade model*. This part describes the relevant concepts and tools: relative supply and demand, world price, and terms of trade.

Relevant Learning Objectives

4. Combine the ideas of the Ricardian trade model and the Heckscher-Ohlin model of comparative advantage and derive the Standard trade model, and the relevant concepts and tools: relative supply and demand, world price, and terms of trade.

Procedure

Pre-Class Assignments

- Students read Chapters 5 of the textbook

Possible Classroom Activities

- Hook.
(Time: 5 minutes)(Skills: Holistic Thinking) (Objective 4)(Related Resources: n/a)

Who benefits and who does not benefit from the Ricardian trade model and the Heckscher-Ohlin model of comparative advantage?

What factors influence trade that might not be covered in those two models?

- The PowerPoint Presentation: Global Trade Lesson 4.
(Time: 60 minutes)(Skills: Holistic Thinking) (Objective 4)(Related Resources: Chapter 5 of the text and Global Trade Lesson 4.pptx)

Read the relevant chapters in the recommended texts and look for online data for the latest figures of global trade.

Present the PowerPoint presentation. Questions are embedded in the slides. Use the glossary to define any unknown terms

Discussion questions

Which model do you like the most to explain global trade and why?

If relative demand for cloth goes up, what happens to the relative price of cloth in the world? Answer by using the diagram of world relative demand and supply.

If both relative demand for and relative supply of cloth go up, what happens to the relative price of cloth in the world? Answer by using the diagram of world relative

demand and supply.

- Ethical Issues Activity.
(Time: 30 minutes) (Skills: Holistic Thinking) (Objectives 2,3, 4) (Related Resources: Dapice reading)

Students read the Dapice article on Nigeria's food crisis and answer/debate the following questions:

- What is the role of comparative advantage in the food crisis
- What is the role of supply and demand in the food crisis?
- Which economic model do you think best explains this crisis?
- Who benefits from high food costs?
- Should governments of food exporters intervene? Food importers? Who benefits and who gets hurt by government interventions?

Resources

- Dapice, David. (2011, February 18). The Looming Food Crisis. *Yale Global*. Retrieved from: <http://yaleglobal.yale.edu/content/looming-food-crisis>
- Global Trade Lesson 4.pptx. Retrieved from: <http://www.global-workforce.globalization101.org/wp-content/uploads/2012/10/Global-Trade-Lesson-4.pptx>
- Krugman, P.R., and Obstfeld, M. (2008). The Standard Trade Model. In *International Economics: Theory & Policy, 8th Edition*, Pearson-Addison-Wesley. (pp 88-113). Boston: Pearson.

Optional Resources

- Pearson Student Quiz on The Standard Trade Model. (n.d). Retrieved from: http://wps.aw.com/aw_krgmnobstf_interecon_8/85/21941/5617109.cw/content/index.html

Lesson 5: Trade Policy Instruments

Overview

This lesson discusses different policy instruments of international trade: *tariffs, export subsidies, import quotas, and voluntary export restraint*.

Relevant Learning Objectives

5. Discuss different policy instruments of international trade: tariffs, export subsidies, import quotas, and voluntary export restraint.

Procedure

Pre-Class Assignments

- Students should read Chapters 5 of the textbook

Possible Classroom Activities

- Hook: Who Governs Trade?
(Time: 10 minutes)(Skills: Holistic Thinking) (Objective 5)(Related Resources: n/a)

Why might countries want to control trade?

Who benefits, and who does not benefit, when a country controls trade?

What factors influences those benefits and detriments?

- The PowerPoint Presentation: Global Trade Lesson 5.
(Time: 60 minutes)(Skills: Holistic Thinking) (Objective 5)(Related Resources: Chapter 8 of the text and Global Trade Lesson 5.pptx)

Read the relevant chapters in the recommended texts and look for online data for the latest figures of global trade.

Present the PowerPoint presentation. Questions are embedded in the slides. Use the glossary to define any unknown terms

Activities

Make a summary of the effects of the different instruments on trade policy. Ask the students to think about how their opinion of the impact of these policies would change if they lived in China or in Brazil?

If you are asked to adopt a single trade policy, which one would you support and why?

- Sanchez Electronic Devices—A Case Study.
(Time: 60 minutes) (Skills: Holistic Thinking) (Objective 5) (Related Resources: Appendix A)

Use appendix A to carry out the activity that examines the impact of government controls of trade.

- Alternative: Trade Simulation Activity
(Time: 60 minutes) (Skills: Holistic Thinking) (Objective 5) (Related Resources: Appendix B)

This trade simulation allows students to role-play different partners in trade throughout history. At the end of the activity, ask students what factors were missing in the simulation. This activity is great for a history class.

Please note this activity requires advanced planning and preparation and will take more than one class session. This activity often works best when the students do one round the class before to get the hang of it.

- Conclusion.
(Time: 5 minutes) (Skills: Holistic Thinking) (Objective 5) (Related Resources: n/a)

Who benefits from tariffs, export subsidies, import quotas, and voluntary export restraint? And who does not benefit from these trade policy instruments? Why?

Resources

- Appendix A
- Appendix B
- Krugman, P.R., and Obstfeld, M. (2008). The Instruments of Trade Policy. In *International Economics: Theory & Policy, 8th Edition, Pearson-Addison-Wesley*. (pp 182-211). Boston: Pearson.
- PowerPoint Presentation Global Trade Lesson 5.pptx. Retrieved from:
<http://www.global-workforce.globalization101.org/wp-content/uploads/2012/10/Global-Trade-Lesson-5.pptx>

Optional Resources

- Understanding the WTO: The Agreements. Tariffs: more binding and closer to zero. (n.d.). World Trade Organization. Retrieved from;
http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm2_e.htm
- Sanchanta, Mariko. (2011, April 4). Japan Food-Supply Issues Raises Questions on Tariffs, Imports. *Wall Street Journal*. Retrieved from:
<http://online.wsj.com/article/SB10001424052748704587004576242430334478662.html>

Lesson 6: Trade Policy Issues

Overview

This lesson discusses the three most important policy issues of international trade: *free trade*, *trade liberalization in the developing world*, *protectionism*, and *the role of the World Trade Organization in globalization*. The students will dig deep into these issues to write their essays.

Relevant Learning Objectives

- Discuss different policy issues of international trade: free trade, trade liberalization in the developing world, the effects of international negotiations, and the role of the World Trade Organization in globalization.

Procedure

Pre-Class Assignments

- Students should read Chapters 9 and 10 of the textbook

Possible Classroom Activities

- Introduction.
(Time: 5 minutes)(Skills: Holistic Thinking) (Objective 6)(Related Resources: n/a)
Why do some countries want to open up their markets to free trade and others, not?
- The PowerPoint Presentation: Global Trade Lesson 6.
(Time: 60 minutes)(Skills: Holistic Thinking) (Objective 6)(Related Resources: Chapter 9 and 10 of the text and Global Trade Lesson 5.pptx)

Present the PowerPoint presentation. Questions are embedded in the slides. Use the glossary to define any unknown terms.

Read the relevant chapters in the recommended texts and look for online data for the latest figures of global trade.

- Essay Assignment.
(Time: n/a)(Skills: Holistic Thinking) (Objective 6)(Related Resources: Chapter 9 and 10 of the text and Global Trade Lesson 5.pptx)

You need to select any one of the three international policy issues, as introduced in Lesson 6. You need to do further research on your selected topic and write your essay. The essay can be arranged in the following order:

- Title, your name, affiliation, and abstract
- Introduction

- Literature Review
- Defining the issues
- Information/Data and Arguments
- Findings of the paper
- Conclusion

The essay should not exceed 2000 words (12point 1.5 space).

- Ethical Issues Activity.
(Time: 60 minutes) (Skills: Holistic Thinking and Cross-cultural Communications)
(Objective 5) (Related Resources: Global Sugar Trade)

“Since 1953 there have been various attempts to raise and stabilise world sugar prices through international agreement. The latest agreement in 1977, established export quotas for its parties and intervention stocks in order to withdraw sugar from the market when prices were low. Like most of the previous ones, this agreement ended in failure. This failure was due in part to the fact that the European Union - one of the largest exporters - refused to sign the agreement. The agreement expired in 1984 and no further agreement on price-stabilising measures has been achieved.”

<http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=542>

Divide the class into groups: U.S., Europe, Brazil, African Sugar Exporters. Each group will need to research the sugar industry in their country/region, taking into consideration the corporations, farmers, refiners, and other domestic interest groups. Each group will write a 2 page position paper on what the country/region wants in an international sugar agreement, covering these five issues: market access, export quoats, import quotas, domestic subsidies, and tariffs.

In class, all four groups will meet and negotiate a position paper that outlines the new sugar agreement, covering all five major issues. If a comprehensive agreement cannot be reached, other options can be considered. Students must think creatively to develop these alternatives.

After the negotiations, each student should write a one-page reflection comparing and contrasting their own group’s position to that of another group.

- Module Conclusion
(Time: 10 minutes) (Skills: n/a) (Objective 1-6) (Related Resources: n/a)

What were the key lessons you learned from the module? What was missing? How does your own cultural perspective influence your opinions on trade?

Resources

- Krugman, P.R., and Obstfeld, M. (2008). The Political Economy of Trade Policy. In *International Economics: Theory & Policy, 8th Edition, Pearson-Addison-Wesley*. (pp 212-249). Boston: Pearson.
- Krugman, P.R., and Obstfeld, M. (2008). Trade Policy in Developing Countries. In *International Economics: Theory & Policy, 8th Edition, Pearson-Addison-Wesley*. (pp 250-265). Boston: Pearson.
- Primer II: Government Regulation Of Trade. (n.d.). Globalization101. Retrieved from: <http://www.globalization101.org/primer-ii-government-regulation-of-trade-2/> [alternative to textbook – students should read the full primer]
- Global Sugar Trade. (2007, February 7). Globalization101. Retrieved from: <http://www.globalization101.org/global-sugar-trade-2/>
- The PowerPoint Presentation Global Trade Lesson 6.pptx. Retrieved from: <http://www.global-workforce.globalization101.org/wp-content/uploads/2012/10/Global-Trade-Lesson-6.pptx>

Optional Resources

- Batson, Andrew. (2010, December 15). Not Really Made in China. *Wall Street Journal*. Retrieved from: http://online.wsj.com/article/SB10001424052748704828104576021142902413796.html?mod=djemITP_h
- How can trade address human rights. (2010, August 12). Retrieved from: <http://www.youtube.com/watch?v=ODn8sIJmDGg> (4 min 41 sec)
- James Traub on Promoting Democracy Through Trade. (n.d.). bigthink. Retrieved from: <http://bigthink.com/ideas/5956> (2 min 4 sec) [alternate video]
- Trade quiz. (n.d.) Globalization 101. Retrieved from: <http://www.globalization101.org/quiz-4/>

Appendices

Appendix A Sanchez Electronic Devices—A Case Study

Roberto Sanchez worked for 20 years as an engineer and manager in a factory in Dearborn, Michigan. After he left the company, he had a number of decisions to make such as: What would he make? Where would he locate his factory? Where would he sell his product?

After extensive research, Mr. Sanchez determined that he would build a small factory making a new product: a small tool useful for making personalized computer identification tags. Mr. Sanchez had experience in this sort of product, and had many friends in the United States and overseas who might be interested in the device. He built his factory in the middle of Cleveland, Ohio, where he knew he could get raw materials cheaply, the workers he would hire would be well-educated and hard-working, and transportation and communication networks would help him sell his device wherever it was wanted.

Mr. Sanchez prospered for many years. Although he sold most of his devices in the first few years to local computer dealers, over time he found the greatest interest in Japan and India for his product. Eventually, most of Mr. Sanchez' devices were exported to these countries. His factory expanded its production, and he and his employees were amply rewarded.

Although competitors in these countries tried to make similar devices and sell them, no one could match Mr. Sanchez' quality nor the service he provided. In addition, because the United States was in a recession at the time, the U.S. dollar was not worth as much overseas (compared to other currencies). A weak dollar meant that foreign purchasers would get more for their money, and they were therefore eager to do business with American exporters. American business people, on the other hand, could not import as much as they would have liked because their money was not worth as much in these countries.

A dilemma faced Mr. Sanchez, however, over the next few years. The continued success of his device encouraged others to make similar devices, and though not of the same quality, they forced him to lower prices in order to compete more effectively. Many of the workers had been with Mr. Sanchez since the beginning and their pay had been raised to the point where he had a hard time making much profit. Finally, as the U.S. economy prospered, the dollar began to increase in value, and importers in other countries found they could not make as much money reselling the items in their stores. In response to these challenges, Mr. Sanchez tried to find a way to lower his costs. Otherwise, he would have lost money and been forced to close down his business.

Throughout the development of his business, Mr. Sanchez had kept a close eye on government trade policies. Early on, the government encouraged Mr. Sanchez by helping him make business connections in Japan and India. The government forced importers

with devices similar to Mr. Sanchez' to pay a small tax on each item brought into the United States. This tariff increased the cost of the foreign goods, and helped Mr. Sanchez in the early days of his business.

Over time, however, U.S. importers began to complain about these tariffs. These importers claimed that the tariffs not only raised the cost of the devices made overseas, but since Mr. Sanchez could not make enough of the products in the United States, Americans were not able to get as many of the devices as they needed. The U.S. government eventually decided that, although Mr. Sanchez deserved to make a profit based on his hard work, American buyers should not have to suffer with the high import tariff. The government, therefore, eliminated the tariff.

Mr. Sanchez faced a real crisis. His sales to other countries were dropping rapidly because his device was no longer that inexpensive and Indian and Japanese business people had started to match his quality. Furthermore, his sales in the United States were no longer assured because now the Indian and Japanese devices were being sold in the United States for less than he could afford to make them.

Although Mr. Sanchez could not change the government's decision to reduce the tariff, he could make some decisions to help his company. After looking at the facts, Mr. Sanchez regretfully closed his factory in Cleveland and opened a new one in Ciudad Juarez, Mexico, just over the border from El Paso, Texas. He found that he could pay skilled workers half of what he had to pay in Cleveland. He also decided to reduce the quality of his product by buying less expensive parts and using a faster assembly process. With these substantial changes, Mr. Sanchez was able to reduce his costs, make a small profit, and stay in the business he loved.

Case Study Questions

- *Specialization* means to produce those goods and services which you can make most efficiently and with the greatest cost advantage. What good did Mr. Sanchez specialize in? What were his reasons?

What are some examples of specialization in the global context? Are there particular regions or countries that have historically specialized in a product or group of products? What are the reasons for that historic specialization? Are there regions or countries that have only recently begun to specialize in a product or group of products? What changes in technology, trade, or other areas do you think lead to this specialization?

- What types of decisions did Mr. Sanchez make? What types of actions did the government take? How did those decisions or actions affect the success or failure of the business?

What factors might have led Mr. Sanchez to make a decision other than the one he chose? How would access to information affect the decisions made by Mr. Sanchez?

- To *export* means to sell goods or services to foreign markets. To what countries did Mr. Sanchez export his devices?

In some countries, export-oriented industries are the primary source of employment. What are the advantages and disadvantages of relying heavily on exports? How might a strong export-oriented economy affect employment? Can you think of an example in which a country relies almost completely on export of one good? How has this affected the country?

- To *import* means to sell goods or services made in other countries in your home market. What products discussed in the case study were imported into the United States? How did this affect Mr. Sanchez?

What imported products are available in your community? Is there any additional value associated with the importation of any of these products (i.e., French wine, Italian shoes, Japanese electronics)? What affect on a country's culture might result from widespread availability of imported goods and services?

- A *trade barrier* is a governmental policy that affects the flow of trade. What trade barrier, put in place by the government, initially helped Mr. Sanchez? What happened when that barrier was removed?

What are some products that have barriers or tariffs restricting their trade (imposed either by the US or its trading partners)? How might a barrier based on communication, trust, and reluctance to import US products (such as in Japan) differ from a formal trade barrier? With this example, why might a removal of a formal trade barrier have little or no effect? What are the dangers of removing a trade barrier?

- What were the goals of Mr. Sanchez in opening his factory?
- What were the goals of U.S. government policy when Mr. Sanchez opened his factory? How did these goals change over time? Why do you think they changed?

Appendix B: Global Trade Simulation

Everyone is part of a group, numbered 1-9, that represents different regions of the world, and everyone is starting off with a tradable commodity, or two. The goal is to be the individual with the most cards and/or most diversity of goods AND to be part of the group with the greatest diversity and/or goods.

RULES:

- 1) Your envelope says if you are a traveling or stationary (home) merchant. Traveling merchants go out to other regions to trade. Stationary merchants stay in their region and must wait for traveling merchants to come to them.
- 2) Below is a table showing which groups traveling merchants may visit during the six rounds of this activity (A-F). Find your group number on the far left below, and then follow the chart across horizontally to see where you can go in each round. For instance, group 4 can only trade with other members of group 4 during round A, but can trade with any person in groups 3,4,5, or 7 during round B.
- 3) You can trade with up to 3 people (time allowing) during each round, but each person you trade with must belong to the same group. So continuing with the previous example, during round B someone in group 4 could make up to three trades, but they must decide before hand which *one* group (3,4,5, or 7) that they want to trade with.
- 4) The “cost” of each commodity is negotiable. So, if you have ivory, you can ask for 3 spice cards for 1 ivory card, but the buyer does not have to agree.

Rounds	A	B	C	D	E	F
1	1	1	1	1	1,3	1,3
2	2	2	2,3	2	2,3	2,3
3	3	3,4	2,3,4,5,6,7,8,9	3	2,3,4,5,6,7,8	2,3,4,5,6,7,8,9
4	4	3,4,5,7	3,4,5,7	4	3,4,5,6,7	3,4,5,6,7
5	5	4,5,6	4,5,6	5	3,4,5,6	3,4,5,6
6	6	5,6,7	3,5,6,7	6	3,5,6,7	3,5,6,7
7	7	4,7, 8	3,4,6,7,8	7	3,4,7,8	3,4,7,8
8	8	4,7,8,9	3,4,7,8,9	8	3,7,8,9	3,7,8,9
9	9	8,9	3,8,9	9	8,9	3,8,9

KEY

- 1 = North America
- 2 = South America
- 3 = Europe
- 4 = Middle East and South West Asia
- 5 = North and West Africa
- 6 = South and East Africa
- 7 = Indian Subcontinent
- 8 = East Asian continental countries (China)
- 9 = Japan

Instructor's Instructions

DAY ONE:

Pre-class :

- 1) Make cards – different colored index cards, cut-up into smaller sizes work well.
 - a. Put one category of good on each card.
 - i. Make different quantities – so, for instance, someone can get 10 ivory cards while someone else only gets 3 clock cards.
 - b. Mark some cards with colored dots. The dots represent the often unintended effects or transmissions that the exchange of goods facilitated.
 - i. green= technology. Regions learned or stole technology (or craftsmen) that let them replicate crafts or agriculture. Put dots on some guns, chocolate, porcelain, coffee, cotton, etc – BUT NOT ON minerals –gold, ivory, silver, etc.
 - ii. red =religion
 - iii. blue = disorder (goods could destabilize)
 - iv. black = disease and death.
- 2) Divide cards up as shown in excel spread sheet and place in envelopes with group numbers on outside as well as S for stationary or T for travelling. Adjust for class size.
- 3) Be sure you have cards for most commodities left over so you can add to people's collections after round C.

CLASS:

- 1) Distribute envelopes at random.
- 2) Have students try to guess what region of the world they are by their product(s).
- 3) List out all products for each region (1-9), then have students guess what 1-9 represent.
- 4) Ask who had wrong region, and discuss, stress artificial – so, for instance, gold could be many places.
- 5) Pass out instructions, and charts for when everyone can trade and with whom.
- 6) Explain rules and take questions.

DAY TWO:

Pre-class:

- 1) In classroom, mark off 10 areas: one for each region plus one for afterlife/eternal nothingness.

Class:

- 1) Go over rules again, take questions.
- 2) Allow to trade within group (round A).
- 3) Take first count of who is happy with what they have. (OPTIONAL)
- 4) Move on to Rounds B and C. (OPTIONAL) Tally happiness after round B.
- 5) After Round C, explain the dots and put into action.
 - green technology dots on guns, chocolate, or coffee means an extra card for the person who has that card (tech spread); guano = more of agricultural/animal commodity from their region

- red only means something if in Japan, then Japan is closed to trade in round E. Persons in Japan with red are out for rest of activity and goods redistributed – sit in afterlife area.
 - blue – disorder. Explain how goods could destabilize. Tally how many people in each group have a blue dot. Make sure that good was not one they started with. Any group with half or more of group having blue dots is closed to trade in round E.
 - black: disease and death. See who has black dots. Make sure the commodity e in their group. If yes, they are fine, but if they acquired it, that person dies and their goods (minus the tainted one) are spread amongst group members – sit in afterlife area.
- 6) Announce that 1 person (and it is best to choose specific individuals) from North America and 1 from South America are now traveling merchants. These represent European / Creole merchants.
 - 7) Ask who has guano cards. Guano is a potent fertilizer. Give that person(s) 1-2 additional cards based on which region they are from. Explain really helped with food production, which helped economy overall, but as we don't have food...
 - 1: tobacco
 - 2: nothing
 - 3: nothing
 - 4: coffee
 - 5: nothing
 - 6: nothing
 - 7: cotton
 - 8: tea
 - 8) Give additional silver, gold, sugar, and tobacco cards to Europe due to colonization of the New World. Can spread amongst European merchants, or only to those merchants who visited New World merchants in rounds B and/or C.
 - 9) Conduct Round D for internal trade.
 - 10) Round E, reminding people to sit out.
 - 11) Final round, tally happiness. (OPTIONAL)
 - 12) Everyone regroup by region, sitting in their area.
 - 13) Take survey to find out
 - a) Which groups ended up with which goods and how much of them.
 - b) Group with most goods / capita wins prize.
 - c) Group with most diversity wins a prize.
 - d) Individual with most diversity?
 - e) Individual with most cards?
 - 14) Have group brainstorm what is different and artificial about this trading scenario.

Artificial:

- no customs, taxes, etc.
- no pirates, wars, etc.
- no differentiation between high-quality goods and low quality
- no food, which people had to trade for if only for ship journeys
- some products much more widely spread out – like indigo

Wrap up being sure points below are highlighted:

- 1) it's unfair in terms of starting points due to geography, natural resources, and world demand
 - 2) goods are always accompanied by intangible things (be they disease, ideas, religion, etc)
 - 3) value is relative - different cultures will want different products and at different times
 - a. Guano – became big in 19th century
 - b. Coffee: banned at times in middle east, then big boom
 - c. Tea: low quality that could stand long overland route made it expensive and unpopular in Europe, then huge boom
 - d. Dyes: wall hangings with certain expensive colors, craftsmanship was a display of wealth that people coveted, and would give gold and silver for, etc.
 - 4) Consider connection between economics, culture, and politics
 - a. For instance, how areas united by religion might band together against enemies, or religion lead to wars that slow trade and depress economic growth.
 - 5) If time, how 17th-18th century trade was and was not different from that today
 - a) more government restrictions on trade than today
 - b) but no international restrictions or bans
 - c) continued inequality of resources and ability to acquire goods
 - d) more geographic restrictions on trade
 - e) value is slightly less relative today]
- 5) while it's unfair, trade makes increased specialization possible and *can* increase both sides' well being

POTENTIAL VARIATIONS

- 1) work in customs officials
 - These individuals would set a tax, and could forbid individuals from trading.
 - They could also tax those coming in to trade
 - Add in currency??
 - their success would be measured by overall group, but also individual wealth
- 2) Either drop North America or allow to trade with S America after round B.
- 3) Add in pirates and navies. (But then need some way to decide battles, and rock, paper, scissors is too random.)
- 4) Add in higher and lower quality goods. So, for instance, Europe has low quality porcelain, Asia has high quality (but expensive).

Assessment

Compare today's activity to the reality of global trade flows in the seventeenth and eighteenth centuries as discussed in Armesto, chapter 20. What historical constraints and/or opportunities were not represented in this activity? In other words, what challenges or opportunities did merchants and states face that we did not model in this exercise? Give three reasons (bullet points will suffice) and then choose one of those reasons and explain in a typed paragraph of at least 3 sentences how this exercise was misleading due to the absence of that constraint or opportunity.

Notes

Recommended Readings:

Husted, S., and Melvin, M., (2009). *International Economics*, 8th Edition, Addison-Wesley.

Gerber, J. *International Economics*, 5th Edition, Addison-Wesley.

Caves, R.E., Frankel, J.A., and Jones, R.W. (2007). *World Trade and Payments: An Introduction*, 10th Edition, Pearson-Addison-Wesley.

Yarbrough, B.V., and Yarbrough, R.M. *The World Economy: International Trade*, 7th Edition, Thomson-South-Western.

Mankiw, N.G. (2008). Interdependence and the Gains from Trade. *Principles of Microeconomics*, 5th Edition, South-Western Cengage Learning.

Additional Readings

Discover discussion and data in the following links:

- 1) World Trade Organization (WTO): <http://www.wto.org/>
- 2) United Nations Conference on Trade and Development (UNCTAD): <http://www.unctad.org/Templates/StartPage.asp?intItemID=2068>
- 3) The North American Free Trade Agreement (NAFTA): <http://www.fas.usda.gov/info/factsheets/NAFTA.asp>
- 4) South Asian Association for Regional Cooperation (SAARC): <http://www.saarc-sec.org/main.php>
- 5) The European Union (EU): http://europa.eu/abc/index_en.htm
- 6) Asia-Pacific Economic Cooperation (APEC): <http://www.apec.org/>
- 7) International Chamber of Commerce (ICC): The World Business Organization: <http://www.iccwbo.org/>
- 8) KOF Index of Globalization: <http://globalization.kof.ethz.ch/>

Buy the World Development Indicators (WDI) CD-ROM from the World Bank. This CD contains data on exports, imports, GDP, and other macroeconomic variables for almost all nations of the world. It includes time-series data ranging from 1960 to 2007. Visit the following link for details: <http://publications.worldbank.org/WDI/>