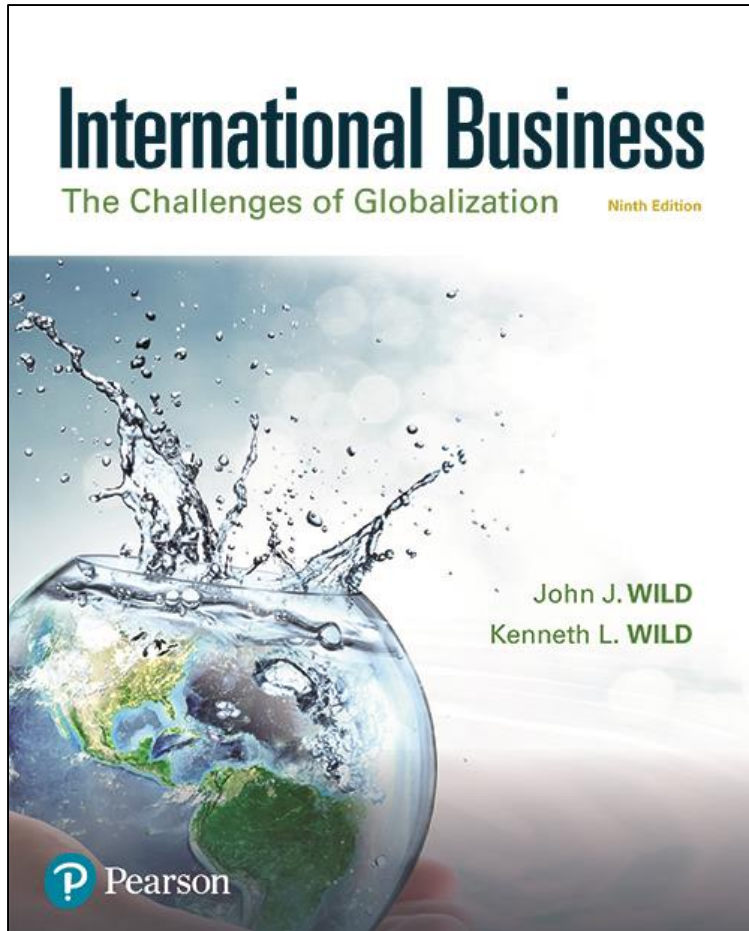


# International Business: The Challenges of Globalization

Ninth Edition



## Chapter 6

### Political Economy of Trade

# Learning Objectives

- 6.1** Explain why governments sometimes intervene in trade.
- 6.2** Outline the instruments that governments use to promote trade.
- 6.3** Describe the instruments that governments use to restrict trade.
- 6.4** Summarize the main features of the global trading system.

# Lord of the Movies

- Time Warner
  - ([www.timewarner.com](http://www.timewarner.com))
    - Television networks
    - Publishing
    - Film entertainment
- A global leader in media and entertainment
- Must tread carefully as it expands its reach
  - Big-budget Hollywood productions



# Why Do Governments Intervene in Trade?

## **Political Motives**

- Protect jobs
- Preserve national security
- Respond to unfair trade
- Gain influence

## **Economic Motives**

- Protect infant industries
- Pursue strategic trade policy

## **Cultural Motives**

- Achieve cultural objectives
- Protection of national identity

# Quick Study 1

1. Free trade is the pattern of imports and exports that occurs in the what?
2. For what political reasons does a government intervene in trade?
3. What are some economic reasons why a government intervenes in trade?
4. Some people see the products of what country as the greatest threat to local cultures around the world?

# Instruments of Trade Promotion

## Trade Promotion

- Subsidies
- Export Financing
- Foreign Trade Zones
- Special Government Agencies

## Quick Study 2

1. Financial assistance from a government to domestic producers is called a what?
2. What are the hoped-for outcomes of a foreign trade zone?
3. What are some of the ways that governments provide export financing?

# Instruments of Trade Restriction (1 of 2)

## Trade Restriction

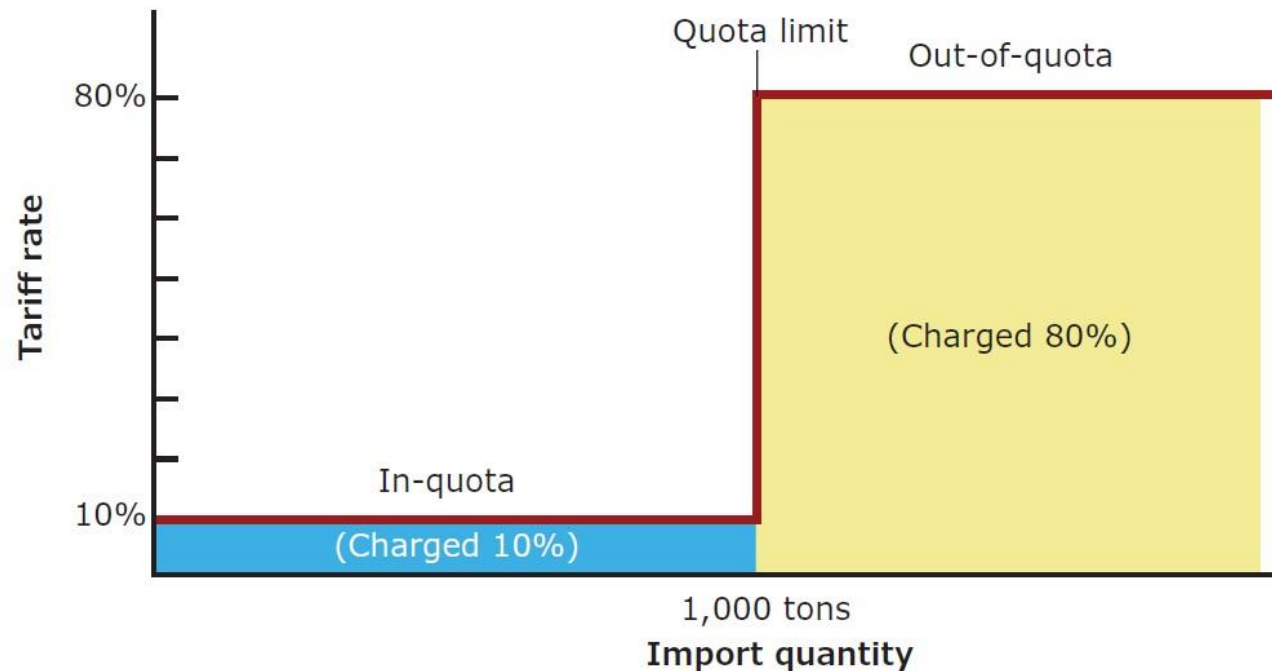
- Tariffs
- Quotas
- Embargoes
- Local Content Requirements
- Administrative Delays
- Currency Controls



# Instruments of Trade Restriction (2 of 2)

## Tariff-Quotas

Figure 6.1 How a Tariff-Quota Works



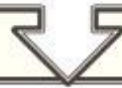
Source: World Trade Organization Web site ([www.wto.org](http://www.wto.org)).

## Quick Study 3

1. Why might a government impose a tariff on a product?
2. Why might a government impose a quota on a product?
3. A stipulation that a portion of a product be sourced domestically is called a what?

# Global Trading System (1 of 4)

World trade volume reached a peak in the late 1800s



Smoot–Hawley Act in 1930



General Agreement on Tariffs and Trade (GATT)



World Trade Organization (WTO)

# Global Trading System (2 of 4)

## General Agreement on Tariffs and Trade (GATT)

- **The General Agreement on Tariffs and Trade (GATT):** a treaty designed to promote free trade by reducing both tariff and nontariff barriers to international trade
- Between 1947 and 1988: Highly successful
  - Reduced average tariffs from 40 percent to 5 percent
  - Multiplied the volume of international trade by a factor of 20
- By the middle to late 1980s: Challenges
  - Nontariff barriers
  - Services not covered by the original GATT

# General Agreement on Tariffs and Trade (GATT) (1 of 2)

## Round of Negotiations

**Table 6.2** Completed Rounds of GATT

Year	Site	Number of Countries Involved	Topics Covered
1947	Geneva, Switzerland	23	Tariffs
1949	Annecy, France	13	Tariffs
1951	Torquay, England	38	Tariffs
1956	Geneva	26	Tariffs
1960-1961	Geneva (Dillon Round)	26	Tariffs
1964-1967	Geneva (Kennedy Round)	62	Tariffs, antidumping measures
1973-1979	Geneva (Tokyo Round)	102	Tariffs, nontariff measures, “framework agreements”
1986-1994	Geneva (Uruguay Round)	123	Tariffs, nontariff measures, rules, services, intellectual property, dispute settlement, investment measures, agriculture, textiles and clothing, natural resources, creation of the World Trade Organization

Source: Based on About the WTO, World Trade Organization website ([www.wto.org](http://www.wto.org)).

# General Agreement on Tariffs and Trade (GATT) (2 of 2)

## Uruguay Round of Negotiations (1986-1994)

- Agreement on services
- Agreement on intellectual property
- Agreement on agricultural subsidies
- Creation of the WTO

# Global Trading System (3 of 4)

## World Trade Organization (WTO)

- **The World Trade Organization (WTO):** the international organization that regulates trade among nations
- Main goals of the WTO ([www.wto.org](http://www.wto.org))
  1. Help the free flow of trade
  2. Help negotiate further opening of markets
  3. Settle trade disputes among its members
- The principle of nondiscrimination (normal trade relations)

# Global Trading System (4 of 4)

- Dispute Settlement in the WTO
- Dumping and the WTO
- Subsidies and the WTO
- Doha Round of Negotiations
- WTO and the Environment



# Quick Study 4

1. The first system of multilateral agreements to promote free trade was called what?
2. What are the main goals of the World Trade Organization (WTO)?
3. Exporting a product at a price that is lower than that normally charged domestically or one that is lower than production costs can expose a firm to charges of what?

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