Name ______________________ Date __________

What is Trade?

Learn more about this topic! Each section gives more detail on one of the lyrics from the song. Read each section, and then respond by answering the question or taking notes on key ideas.

1. Trade is the exchange of goods and services. Individuals, businesses and nations all participate in trade. The reason? Resources, including natural and man-made resources, are unevenly distributed across the Earth. No one country has all the resources it needs or wants, so they need to trade goods and services with others. People, businesses and countries specialize in certain goods and services that they have more skills and resources to produce. They trade with other countries for goods and services that others are better at producing. An import is something a country brings in from another country. An export is something a country puts out to sell to other countries. Trade between countries has created a world of global economic interdependence. Because countries are interdependent, what happens to the economy in one country may affect many other countries.

Notes

2. Trade can be voluntary or forced, like slave trade. Voluntary trade always results in both parties being better off than they were before. Richer, poorer, smaller, larger—everyone benefits from voluntary trade. That's because no one voluntarily enters a trade unless they think they will gain something in return. For example, the US exports natural gas to many other countries in exchange for money. Because natural gas is not found everywhere, these countries value it very highly and are willing to pay a lot of money to get it. They would rather lose the money and gain the gas. Since natural gas is found in abundance in the US, it is less valuable to Americans, who would rather lose the gas and gain the money.

Notes

3. Trade between countries can be free or restricted. Free trade creates the most overall wealth around the world. Sometimes countries sign free trade agreements, which allow them to trade with each other with few barriers. For example, the North American Free Trade Agreement (NAFTA) was implemented in 1994 to reduce trade barriers between the US, Mexico and Canada. In 2018, the three countries signed a new trade deal to replace NAFTA. The new deal, called the United States-Mexico-Canada Agreement (USMCA), includes updates for automakers, labor standards and environmental practices.

Notes

4. Sometimes countries impose trade restrictions. These restrictions limit competition from other countries. One type of trade restriction is a tariff, also called an import tax. Tariffs raise the price of imported goods, making domestic goods the lower-priced option. They also generate revenue for the government. Quotas are another type of trade restriction. A quota is a limitation on the quantity of a product that may be imported. Quotas reduce the supply of imported goods, indirectly raising their prices. Again, the domestic product becomes the lower-priced alternative. Tariffs and quotas are used to encourage people to buy domestic products instead of foreign ones.

Notes

5. Another type of trade restriction is an embargo. An embargo is a ban on the trade of specified goods with a specified country. It is used as a political tool to persuade the embargoed country to change particular actions or policies. These policies include human rights violations and support of terrorists. Countries that have been or remain under US embargo include Iran, Cuba, Sudan, Syria and North Korea.

Notes

6. International trade increased dramatically after World War II, resulting in questions and political disagreements among countries. Several international economic institutions were created to provide guidelines for the new global economy. Some of these are the World Trade Organization (WTO), the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank). These institutions try to help nations achieve important economic goals. They do this by helping to provide public goods and infrastructure, promoting economic development and reducing barriers to trade.

Notes