

The us economy and foreign trade essay

[Business](#), [Industries](#)



The article focuses on foreign trade on several levels.

On the first part, the article discusses about the advantages of free trade in economic theories. Adam Smith had always espoused international trade and its benefits especially when countries divide their labor in production and specialize in a particular output. He argues that “ countries gain in a similar manner as a result of international specialization and division of labor.

” It also mentions David Ricardo’s concept of a country producing what it has a comparative advantage in. This reduces opportunity costs of producing something else, spending more for acquiring less. With these two theories, the article surmises that if goods are produced this way, it would be best to trade them internationally to lessen all opportunity costs and improve the global economy. Furthermore, the article also stressed the free trade argument that trade barriers should not be put in place in order to increase competition, therefore increases efficiency.

The article, then, goes on to explain why trade barriers are necessary for a few economic cases. These cases are: (1) the protection of “ infant industries”, (2) to protect industries important for national security reasons, (3) to correct differences in environmental and labor laws in countries with fewer environmental and safety laws, and (4) to reduce adjustment costs with job losses due to the loss of comparative advantage in an industry. Aside from the stated economic reasons, Political reasons exist for trade barriers as well, in the form of: (1) special interest group lobbies, and (2) reduce wages in a high-wage economy. Although politics is involved, the rationale that both low-income workers and wealthy owners and managers

benefit from the trade barriers still carries weight. Because of this, much of the debate has been focused on the GATT, NAFTA, “fast-track” authority, other trade agreements, and the creation of the Free Trade Area of the Americas. The issues on trade barriers have always been discussed in several trade issues from agricultural to industrial products and services. It is a world-wide concern that pits the idea of cooperation and sacrifice of industries against competition and protection of their own businesses. One of the controversial trade protectionist acts, as described in the article, involves former President Bush’s decision to impose a tariff on imported steel in March 2002, which caused the cost of construction to rise.

The main issue in this article is the value of foreign trade to the U. S. economy. Free trade and nonexistent tariffs are shown to be the best case scenario to improve the world economy in the spirit of cooperation. However, the interests of both the country and the constituents of the country (whether they are necessary for the country’s economic health or not) make this ideal inapplicable in the international community. Looking at this issue more closely, tariffs and barriers to trade affect many economic issues in America.

One of the many examples is the agricultural import barriers that make some agricultural products more expensive in the United States. The barriers does not only include high amounts of tariff on imported agricultural products (such as corn), but it also includes agricultural subsidy (protectionist policies) to the farmers to be able to compete against the price of imported goods even with the increased price from the tariff imposition.

This has irked many exporters to America, finding their products uncompetitive against the local goods with the barriers in place. This makes the floor price of agricultural goods sold locally comparably expensive as opposed to other countries. The implication of this is that these products, which should be cheap and very accessible in the first place, are actually pricey when compared to the world market. Another more recent example is the trucking controversy between Mexico and the United States.

Mexican lorries, which had been allowed free access to American roads in support of free trade between the two countries has been stopped by America. This is seen as a protectionist policy in the US trucking industry and brought Mexico to retaliate. Moreover, the spill over of this trade barrier will affect, according to BBC, \$2. 4bn worth of agricultural and industrial products that comes from Mexico to 40 US states. This means that 40 US states that rely on Mexican goods will experience an increase in the value of the products they import. This renders Mexico less competitive in terms of price.

This trade barrier may increase the finances coming into the federal funds, the local economy, however, suffers because sales and consumption slow down because consumers find the products too expensive. This is a bad move for America considering that it has benefitted so much from the free trade agreement that they have with Mexico. With America's ailing economy, America doesn't need more enemies to weaken their economic standing. What they do need now is to make their trade policies even more free in order to regain competitiveness.