* International trade is ⅙ of total economic activity worldwide
* International political economy - study of politics of international trade and economic activities

Theories of trade

* Mercantilism -
  + Each state must protect its interests at the expense of others
  + Don’t rely on IOs
  + Like realists, emphasize power balance and relative well being
    - How your gains compare to others is more important than the magnitude of your gains (distribution of wealth)
  + Emphasize effects of economic decisions on military power
  + Believe states are key actors
    - Government should practice protectionism
  + history
    - Was prominent among britain during colonial era
    - Back then the strategy was: get surplus from trade, stockpile money, then use it to build a nice army
    - Became relevant again between the world wars
* Liberalism -
  + Emphasizes cooperation and IOs for common gains
  + The magnitude of your gains is more important than its relativity to others
  + Dominant in the west
  + Believe that supply, demand, and free trade should rule world markets
  + Individuals and firms are key actors
    - Government should practice noninterference
* Mixed interest - even though both parties gain, one gains far more than the other
* Balance of trade -
  + Export value minus import value
  + A trade surplus is important to mercantilists
* Comparative advantage - some states are better at producing certain goods than others
  + Thought of by adam smith and david ricardo
* Political interference in markets
  + Market imperfection - deviation from optimal market conditions. Most government interferences are market imperfections
    - Oligopoly, monopoly, etc.
  + Sanctions - prohibition of trade between sanctioning and sanctioned
    - most explicit type of interference
  + Autarky - when a state tries to produce most if not all of its products domestically
    - Does not work for goods for which the state does not have comparative advantage
  + Protectionism - attempting to strengthen domestic industry
    - Using tariffs on foreign goods
    - Often used by states on their new ‘infant industries’ and then rolled back when the industry gets big enough to compete
    - Anti predatory practices
      * Predatory - refers to efforts by a state or firm to capture a near monopoly in a market
      * Dumping - putting cheap goods into a market at below zero profit to ward off predators
    - Nontariff barriers
      * Maximum quota of foreign goods, subsidies, tax breaks, loans

Trade Regimes

* WTO - IGO that promotes and monitors international trade
  + General Agreement on Tariffs and Trade (GATT) - precursor to WTO
  + Most favored nation concept - a member state cannot apply one tariff rate of product X to one state and another to another state’s product X
  + Generalized system of preferences - exception to MFN concept, allows a rich state to give tariff breaks to poor states
  + Uruguay Round (1986 - 1994) - negotiations under GATT that created the WTO
  + Doha Round - (2001 - present) - focuses on agricultural subsidies, intellectual property rights, and other issues
* Bilateral agreements - agreement to lower trade barriers between two states
* Regional agreements - between multiple countries
* Free trade areas - groups of neighboring states agree to remove most if not all barriers amongst themselves
* NAFTA - US Can Mex free trade agreement
* Cartel - association of producers and/or consumers (mostly producers) of a certain product formed to manipulate its price on the world market
  + OPEC - controls about 40% of oil worldwide
* Industrial policy - strategies by which a state works with industries to promote their growth
* Service sector - part of economy that provides services instead of goods
* Intellectual property rights - copyright

Globalization

* Lowering of trade barriers over time
* Evolution of world economy
  + Industrialization, usage of Keynesian economics (embracing deficit spending)
  + US leadership since WWII
  + Centrally planned economy - controlled by political authorities
  + State owned industries
  + Mixed economy - mostly free market but a few key industries either heavily regulated or outright owned by the state
* A nationalist counter movement to globalizing trade has caused isolationism in some countries