SS7E6 The student will explain how voluntary trade benefits buyers and sellers in Southwest Asia (Middle East).

a. Explain how specialization encourages trade between countries.

b. Compare and contrast different types of trade barriers, such as tariffs, quotas, and embargos.

c. Explain the primary function of the Organization of Petroleum Exporting Countries (OPEC).

d. Explain why international trade requires a system for exchanging currencies between nations.
Voluntary Trade is an economic exchange in which all sides agree to participate because they expect to benefit.

When a person agrees to trade a product or service for money, or another product or service, both sides benefit from the trade.
Specialization

- One reason that trade is so important is that many countries specialize in the creation of one or more products.
- Specialization is when people, businesses, or countries produce specific goods or services in order to produce more.
- Many countries specialize in the creation of one product or service, due to the resources they have (human resources, natural resources, etc.) available.
No country can truly be self-sufficient (able to produce EVERYTHING they need), so countries rely on trade. Because of this, countries specialize in producing those goods and services that they CAN provide most efficiently. Most of that country’s human capital (training and education) and capital goods (machines and factories) are put into that specialized field. They then look for others who may need those goods and services so they can sell their products to those who need them. These countries would then participate in voluntary trade, which would benefit both countries. Example – Saudi Arabia specializes in the production and refining of petroleum based products (oil).
Positive Impacts of Specialization

- There are many impacts of specialization, some positive and some negative.
- Examples of positive impacts of specialization:
  - Countries trade with one another to get everything they need for their country.
  - In order to do that, each country produces what they can make the best, most efficiently, and/or cheaply.
  - These countries then they trade with one another, usually benefiting each of the countries.
Negative Impacts of Specialization

While there are a lot of positive impacts dealing with specialization, but there are also potentially negative impacts.

If over specialization exists in a country (ex., only produces one product) and a problem occurs, the citizens of that country may suffer.

Examples of negative impacts of specialization:

- If a country’s economy is based on agriculture and the country experience a severe drought (period of time with little or no rain), the country would no longer have agricultural products to use or trade. Since workers may not have been trained on other industries, or factories/machines are not available in the country, the citizens will suffer economically.
Some countries in the Middle East are very rich in oil and natural gas.

- HOWEVER...they lack farmland and the ability to produce enough food.
- The money earned from trade on the world market with oil is used to purchase food.

Saudi Arabia:
- Produces oil and natural gas to sell at great profit on the world market. Then they turn around to and use the money made to purchase food AND the technology needed to make their agriculture system more efficient.

Israel:
- Has become leader in agricultural technology even though they have a limited supply of land suitable for farming. They can sell this technology to earn money to buy food they are unable to produce.
Trade Barriers

- At times, governments of countries around the world may decide to regulate (control) trade by passing different rules/laws that impact trade. These can collectively be known as trade barriers.

- Trade barriers are anything that slows down or prevent one country from exchanging goods with another country.

- Examples of Trade Barriers:
  - Tariff
  - Quota
  - Embargo
A tariff is a tax placed on goods when they are brought (imported) into one country from another country.

Tariffs are usually created to make the imported good more expensive than a similar item made locally.

These are often called “protective tariffs” because it PROTECTS local manufacturers from competition coming from cheaper goods made in other countries.
Quota

- A quota sets a specific amount or number of a particular product that can be imported or acquired in a given period.
- Quotas are a different way of limiting the amount of foreign goods that can come in to a country.
- Example of a Quota:
  - The United States could decide that only 1500 cars could be brought into the country from Japan in a given year. That would make it more likely that people buying cars would have to buy American made cars, if Japanese cars were not available.
An embargo is when one country announces that it will no longer trade with another country in order to isolate a country and cause problems with that country’s economy.

The purpose of an embargo is to punish or persuade a country to change their actions or policies.

Example of an Embargo:
- Member countries of OPEC decided to stop all sales of oil and gas to the countries supporting Israel in the 1973 Arab-Israeli war.
The Organization of Petroleum Exporting Countries (OPEC) was formed in 1960 by Iraq, Iran, Saudi Arabia, Kuwait, and Venezuela.

Members of OPEC decide how much oil to produce and sell, and they decide the price of a barrel of oil. This is accomplished by supply and demand.

Supply and Demand – If the demand is consistent, the amount of oil produced determines the price. When the countries decide to produce less oil, the price goes up. When they produce more oil, the price goes down.

Instead of the members of OPEC competing against each other, which would drive down prices, they work together to limit supply. By doing this, all member countries are able to make more money!
Currency

- Money that is used as a way to trade goods and services.
- Examples:
  - Paper Bills
  - Coins
- Different countries around the world have their own form of currency.
- This can make trade difficult (since you don’t know how much your money is worth compared to other country’s money), unless there is a system for exchanging currencies.
Without a system for currency exchange international trade would be very difficult.
The Foreign Exchange Market, made up of large banks around the world, determines the exchange rates for different currencies. This allows a country to know the value of their money, compared to another currency. Example: 1 U.S. Dollar = 3.75 Saudi Riyal Many currencies, particularly in electronic exchanges, are converted to the U.S. Dollar when engaging in international trade. Many businesses have found doing trade in one currency (the U.S. Dollar) makes international trade easier.