Barter and Trade

Define the following terms in your own words:

Trade	
Barter	

Discuss your answers with someone nearby. Make adjustments to your definitions if you feel you have not distinguished between the two terms.

Watch this Schoolhouse Rock video on bartering: https://www.youtube.com/watch?v=f3rv-t58-p8

Here is another video about trading that is true and more recent: Trading a paper clip for a house

https://www.youtube.com/watch?v=F1_OoICS2b8

It is essential to understand that trading has been a fundamental part of human history due to the unlimited needs and wants by consumers of limited resources. However, it is important to comprehend that trading did not take place before bartering. The Merriam-Webster™ Dictionary defines bartering as an exchange of (goods or services) for other (goods or services) without using money. The early days of bartering between groups has ceased to exist today, especially in the developed world. In today's world, trade is initiated between economic zones. More than ever, societies want goods that are high in quality and as inexpensive as possible. The best way for consumers to achieve that goal is to have local, state, national corporations and governments work together to create an environment for businesses and consumers.

Case Study

As an example, let's find out where this Hanes™ t-shirt came from and why. Read the following description.

The Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) is the first **free trade** agreement between the United States and a group of smaller developing economies: Central American neighbors: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, as well as the Dominican Republic (https://ustr.gov/trade-agreements/free-trade-agreements/cafta-dr-dominican-republic-central-america-fta). The CAFTA-DR promotes stronger trade and investment ties, prosperity, and stability throughout the region and along our Southern border. Combined, the countries in the CAFTA-DR represented the United States' 16th largest goods trading partner, with $53 billion in total (two-way) goods trade during in 2015. Exports totaled $29 billion while imports totaled $24 billion. The U.S. goods trade surplus with CAFTA-DR countries was $5 billion in 2015. According to the Department of Commerce, U.S. goods exports to CAFTA-DR supported an estimated 134 thousand jobs in 2014. (CITE)

BWA is a third-generation family business that is a fully integrated apparel manufacturer with strong mill partnerships in Europe, China, South Korea, and Taiwan. In February of 2006, BWA merged with Picacho, S.A in El Salvador, to provide **duty-free**, quick response solutions for clients in the United States. BWA is now the premier Central American manufacturer of woven shirts, knit tops and sleepwear for private branded apparel in the United States. (http://b-w-a.com/about-2/history/). Any woven or knit fabric that is produced either in the United States or a CAFTA-DR country can be used to make apparel for **duty-free import** into the U.S. BWA also leverages the extensive array of fabrics on the CAFTA-DR Short Supply list for duty-free import into the U.S. To date, BWA has successfully petitioned over 25 of the 100+ woven fabrics classified as Short Supply, and the vast majority of BWA's exports from El Salvador enter the United States duty free. Garments are shipped Free on Board (FOB) from El Salvador or Landed-Duty Price (LDP) from a public warehouse in Miami, FL. With only four days transit time for BWA's finished goods to reach Miami by boat, BWA's lead time represents one of the quickest and most flexible in the apparel industry today.

So what does this all mean to us and why is it relevant? Let's define some key terms before we go into this explanation. **Imports** are goods/commodities that are brought into a country from abroad for sale. **Exports** are commodities and goods that are sent out from a country for sale. **Duty free** simply means that when an export is sent from one country to another country there is no import tax charged for that product. A **free trade agreement** is one that is international and eliminates **tariffs** (taxes on goods), **quotas** (a limit on number or amount), or other restrictions on trade between countries.

Brainstorm:

Why do countries benefit from having products produced in countries across borders and overseas? List ideas below and be ready to share. Some ideas to start include: manufacturing, labor, re-sale, distribution, and resource availability.

What are you wearing today and where is it made? Take a minute and find a tag on an article of your clothing? Answer the following questions…

1. What article of clothing did you choose?	
2. In which country was it manufactured? Also, which continent?	
3. Use the internet to see why the clothing was produced in that country. Remember the brainstorming from the previous case study...	

Global Trade in Agriculture

The world is interconnected now more than ever. Social scientists started using the term **globalization** during the 1930s to explain how the world was becoming interdependent and to show how the world has integrated due to the flow of goods and services. The International Monetary Fund and the U.S.'s National Council on Economic Education stated:

> *International trade has expanded rapidly since World War II, and even more so in the 1990s due to increased technological aspects. In 1950, total merchandise exports in the world were $58 billion. In 1990 that figure was $3.5 trillion, and in 1997 it was $5.3 trillion. In 1997, world exports grew by over 9.5%, three times greater than world output growth of 3%. Over 3/4 of the world trade is in merchandise or goods--primarily industrial equipment, consumer goods, oil and agricultural products. Almost 1/4 of world trade is in services, mostly in banking, insurance, transport, telecommunication, engineering and tourism. Since the 1950s, transportation costs, based on cheap oil, as well as communication costs, have steadily declined. This has helped fuel the explosion in global trade.* (IMF Center 2005)

How do countries benefit the most from one another? Trade is based on **specialization**. Investopedia™ defines specialization as a method of production where a business or area focuses on the production of a limited scope of products or services in order to gain greater degrees of productive efficiency within the entire system of businesses or areas. In the 2014 documentary *How to Make Everything: Sandwich* Andrew George explains how complicated and expensive it would be to create a sandwich on your own (https://www.youtube.com/watch?v=k2kOeZ0KZkA). In the final segment, Mr. George states to create this chicken sandwich it took about 6 months and cost over $1500. Because of specialization and global trade, consumers around the world can enjoy high quality and cheap sandwiches that allow for convenience and significantly less money!

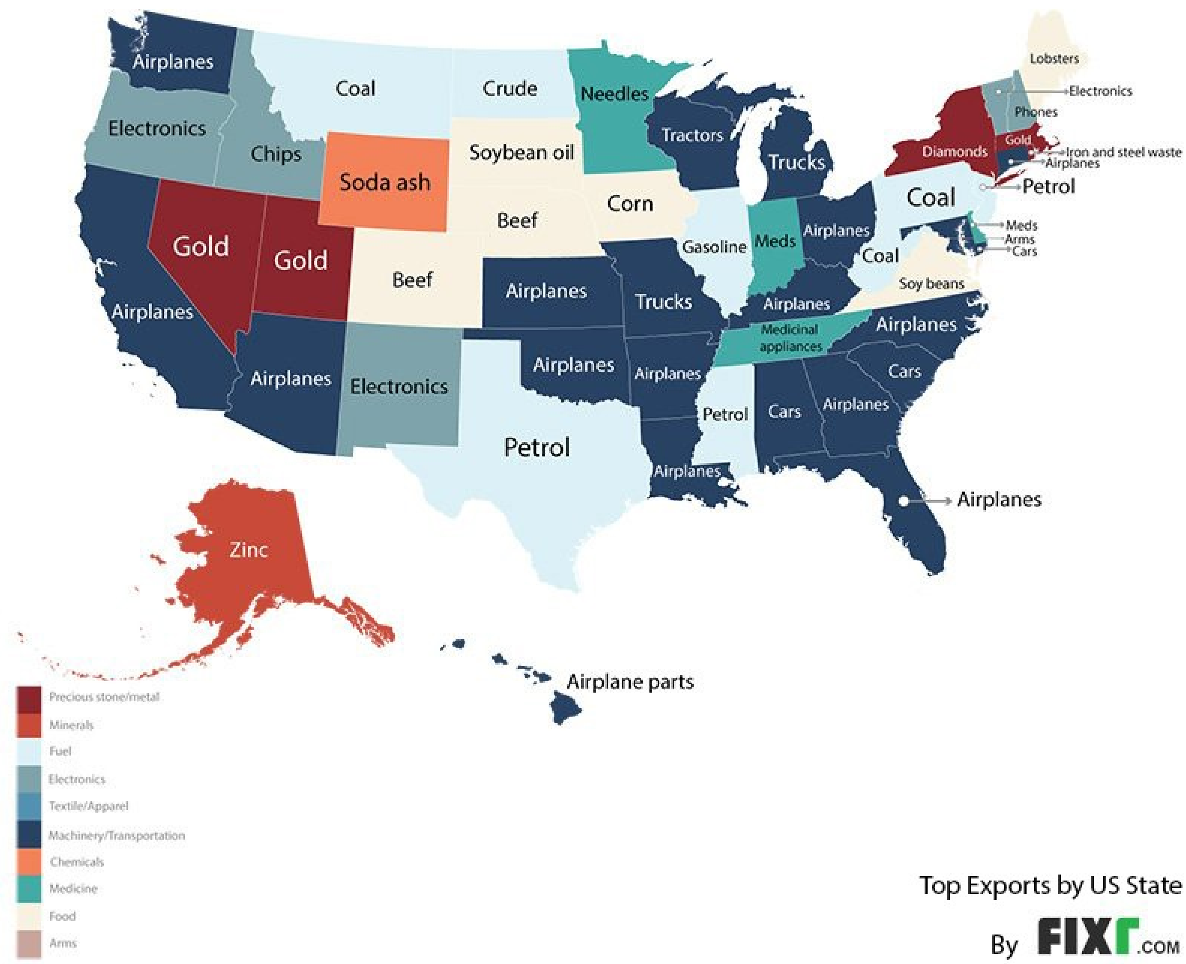
In many ways understanding trade is not a complicated study. Countries and economic regions will export items that they can harvest, mine, and manufacture — more efficiently — better than others. Many parts of the globe, such as Latin America and Southeast Asia, tend to lead the world in manufacturing due to cheap labor. These areas have advantages over the rest of the world due to their lack of unions for workers, which creates cheaper labor, and minimized government regulations for environmental standards, which may trigger corporations to relocate to their area to increase profits.

The United States is a world leader in exports. This map shows leading exports by each state in America by dollar value. The map was prepared using 2014 data from the US Census Bureau. (Visit http://www.fixr.com/blog/2015/05/01/exports-us-map-by-state/ to see the original map.)

After analyzing the map, it is evident that there are multiple states that completely depend on exporting **commodities. Commodities** are raw materials, primarily agricultural products, that are bought and sold. Some agriculture examples on the map include meats, corn, soybeans. Many countries around the globe are dependent on these products.

Although agriculture is Ohio's number one industry, why might airplanes be the top export?

Global Trade in Agriculture



Key Terms You Should Know

- Trade
- Barter
- Free trade
- Globalization
- Specialization
- Export
- Import
- Commodity
- Duty Free