



Introduction to International Relations

Chapter Notes: Chapter 10

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Chapter Ten:

Trade and Investment

Chapter Overview

The focus of Chapter 10 falls on trade and investment. This provides the students with technical knowledge about the two phenomena, while also explaining them through the lenses of the three perspectives. For realist perspectives, trade and investment are geoeconomics, or simply another zero-sum arena in which the struggle for power occurs. Liberal perspectives, meanwhile, view trade and investment as an opportunity for non-zero sum gains and the development of international institutions. Specialization, comparative advantage, and liberalized financial markets all serve to connect the world to common goals. Identity perspectives, finally, see trade and investment as reflective of competing ideas in the world, and they are particularly concerned with issues of unfair trade.

Trade from the perspectives

- Realism: Sees trade and investment as geoeconomics, or an arena for competition.
- Liberal: Views trade and investment as an opportunity for non-zero sum gains.
- Identity: Sees trade and investment as a reflection of competing ideas.

Comparative Advantage

- Specialization—brings economic freedom and Smith’s “invisible hand.”
- Comparative advantage—derived from specialization, comparative advantage allows countries to increase output.

Exceptions to unrestricted trade

- National security export controls
- Protection of infant industries
- Strategic trade theory—assisting firms break into markets with large economies of scale

Trade and jobs

- Trade destroys less-skilled, low-wage jobs.

- _ Trade creates more skilled, higher-wage jobs.
- _ On balance, trade does not create more jobs, but it does create better ones.

Trade negotiations

- _ In the 1800s, Britain unilaterally liberalized trade.
- _ In the 1940s, GATT organized first multilateral trade round.
- _ Today WTO organizes trade liberalization; most recent is Doha Round.

Investment

- _ Foreign direct investment—involves transfer of facilities to a foreign country.
- _ Portfolio investment—involves transfer of money through loans and sales or purchases of stocks and bonds.

Assessments of global investment

- _ Realism: Does global investment undermine sovereignty? MNCs control large sums of money and therefore have tremendous clout; however, countries can play them off of one another.
- _ Liberal: Emphasize the growing complexity of international markets and institutional deficiencies.
- _ Identity: fear the erosion of distinctive developing country policies and cultures caused by global investment. Foreign direct investment also raises concerns about job loss in advanced countries, particularly at the lower end of the labor structure.

Thought Questions

1. Under what circumstances do countries restrict trade? Which of these do you support, and why?
2. What is the relationship between trade and jobs? How is this relationship portrayed by politicians and the media?
3. What is unfair trade? How, in your opinion, can it best be overcome?
4. Through which perspective are you most inclined to view trade and investment? Why?
5. What is outsourcing? What are the negative ramifications of outsourcing? The benefits? What should the U.S. response to outsourcing be?