

UNIT

8

# The United States and the World

## Why It Matters

Modern transportation and communication have brought people around the globe closer together. As a result, countries today are more dependent upon one another. As citizens of the United States and members of the global community, we have a responsibility to keep informed about developments in other nations and the world.



Use the **American History Primary Source Document Library CD-ROM** to find primary sources about the global economy.

### ★ BE AN ACTIVE CITIZEN ★

As you study this unit, pay attention to world events. Make a list in your civics journal of the ways in which international developments can affect your life. Next to each entry, note what you, as an individual, can do about these developments.



**The United Nations was created after World War II to support global cooperation and world peace.**

# Comparing Economic Systems

## ★ CITIZENSHIP AND YOU ★

Each nation of the world has a unique history, its own cultural values, political interests, and economic needs. Contact the embassy or consulate of a country in which you are interested. Find out about the country's history, government, people, culture, and economy. Incorporate your information into a fact sheet.



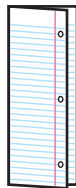
To learn more about international trade, view the **Economics & You** video lesson 24: International Trade.



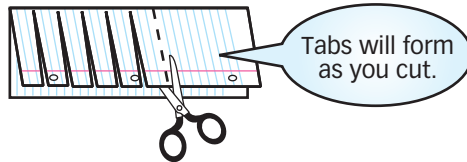
### FOLDABLES™ Study Organizer

**Explaining Vocabulary Study Foldable** Make the following foldable to help you identify and learn key vocabulary terms in Chapter 26.

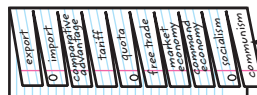
**Step 1** Fold a sheet of paper in half from side to side.



**Step 2** On one side, cut along every third line.



**Step 3** Label your foldable as shown.



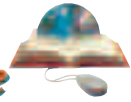
Usually forms 10 tabs.

### Reading and Writing

As you read the chapter, note the terms written on the front of your foldable and write a definition for each term under the tab.



**CIVICS**  
*Online*



**Chapter Overview** Visit the *Civics Today* Web site at [civ.glencoe.com](http://civ.glencoe.com) and click on **Chapter Overviews—Chapter 26** to preview chapter information.



**CLICK HERE**



**CONTENTS**



# International Trade and Its Benefits

## GUIDE TO READING

### Main Idea

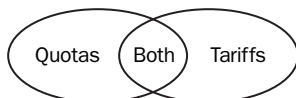
Trade is important because imports supply us with many goods and natural resources, and many American workers are employed in industries that export products abroad.

### Key Terms

export, import, comparative advantage, tariff, quota, free trade, European Union (EU), North American Free Trade Agreement (NAFTA), World Trade Organization (WTO), exchange rate, balance of trade, trade deficit, trade surplus

### Reading Strategy

**Comparing and Contrasting** On a Venn diagram like the one below, compare quotas and tariffs.



### Read to Learn

- Why do nations trade?
- How do regional trade agreements work?

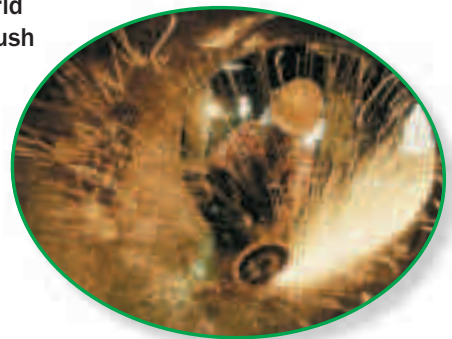


## Americans in Action

Intense competition and economic cooperation characterize today's global, interdependent economy. Although the trend toward free trade continues to grow, every nation wants to ensure that it protects its own economy and its workers—sometimes by restricting trade: “The European Union [(EU)] has threatened to impose trade restrictions against the U.S. if President George W. Bush introduces steel tariffs. EU Trade Commissioner Pascal Lamy slammed possible U.S. tariffs on steel imports in a hard-hitting speech to the [United Kingdom] Steel Association on Thursday.

Lamy said the EU would launch a World Trade Organization complaint if the Bush administration goes ahead and slaps tariffs of up to 40 percent on some products. The proposed U.S. tariffs are meant to force steel-exporting countries to cut . . . production. The U.S. steel industry contends lower-priced imports are being dumped in violation of U.S. trade laws.”

—CNN.com Europe  
(December 14, 2001)



American steelworker

## Why Nations Trade

International trade is one of the major forces in the world today. Because of trade, Americans can eat fruit grown in Central and South America during the winter. Through trade, American computers are sold in Africa and Asia. In a recent year, about 10 percent of all the goods produced in the United States were **exported**, or sold to other countries. A slightly larger amount of goods were **imported**, or purchased from abroad. These purchases give Americans products they might not otherwise be able to enjoy.

The basic problem in economics, you recall, is scarcity. People do not have enough resources to meet all their wants and needs. The same is true of nations. Trade is one way that nations solve this problem of scarcity.

## To Obtain Goods They Cannot Produce

Nations trade for some goods and services because they could not have them otherwise. The United States buys coffee and bananas from other countries because it does not have the soil and climate to grow these foods. It buys industrial diamonds from other countries because it has no deposits of these minerals.

In the same way, other nations trade for goods that they cannot produce but the United States can produce. Commercial aircraft built in Washington State are sold to other countries that do not have the factories or the skilled workers needed to build these vehicles.

## To Reflect Comparative Advantage

Countries also trade with one another because of **comparative advantage**. This is the ability of a country to produce a good at a lower cost than another country can. The United States could make color televisions. Other countries, however, can make them more efficiently. That is, they can make televisions at a lower cost. As a result, the United States buys many color televisions made abroad.

Comparative advantage allows nations to specialize. They use their scarce resources to produce those things that they produce better than other countries. Specialization can result in overproduction. Countries produce more of a good than all the people in the country could consume. The answer to the problem is to sell the extra amount abroad.

Sometimes comparative advantage is based on natural resources. Saudi Arabia, for instance, has huge deposits of oil. Its

comparative advantage allows it to export this oil. Sometimes comparative advantage is based on labor and capital. The United States has large supplies of wealth, many highly skilled workers, and advanced technology. As a result, it has a comparative advantage in making expensive products like airplanes and weapons.

## To Create Jobs

Trade creates jobs. Suppose American airplane makers built planes for only American airline companies. If so, they would have a limited market because each airline needs only so many new planes each year. By exporting the planes, the companies have a chance to win more orders. Then they must hire more workers so they can fulfill those contracts to make more planes.

**Reading Check** **Defining** What is comparative advantage?

## Barriers to International Trade

International trade can cause problems for workers who make a product in a country that does not have a comparative advantage. Consumers are likely to buy foreign-produced goods because they are cheaper. When they do so, though, the companies in the consumers' own country that employ these workers lose sales. Those companies



Major U.S. imports are cars and raw petroleum products.

are likely to cut back on production and lay off workers. When this happens, the affected workers and industries often demand that the government step in to remedy the situation. The two most common kinds of barriers to trade are tariffs and quotas.

## Tariffs

As you read in the Americans in Action feature, President Bush was considering putting tariffs on imported steel. A **tariff**, or customs duty, is a tax on an imported good. Suppose the United States wanted to protect American steel producers. The government could put a 20 percent tariff on all imported steel. This would add 20 percent to the price of every ton of steel brought into the country. A shipment of steel that costs \$100,000 originally would then cost \$120,000.

The goal of tariffs is to make the price of imported goods higher than the price of the same good that is produced domestically. As a result, consumers would be more likely to buy the domestic product.

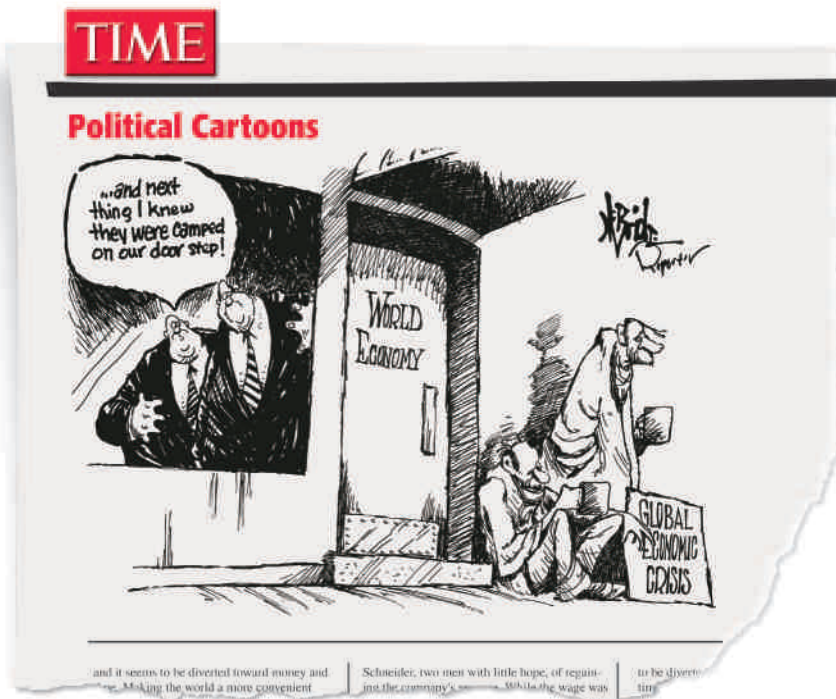
## Quotas

Sometimes people want a product so badly that higher prices have little effect. When this happens, countries can block trade by using **quotas**, or limits on the amount of foreign goods imported. No more than the amount of the good set by the quota can be brought into the country.

During most of the 1970s, for example, Japanese-made automobiles were very popular in the United States. Growing sales of these cars cut deeply into the sales of American-made cars. The jobs of American autoworkers were threatened. President Ronald Reagan then placed quotas on Japanese-made automobiles to protect automakers and autoworkers.

## Problems With Trade Barriers

Trade barriers can cause problems, however. Sometimes barriers simply do not work. The Japanese responded to the quotas on autos by building factories in the United States. The cars they built still competed with American-made cars. American



**Analyzing Visuals** The globalization of industry has brought about increased interdependence—as well as challenges—for the nations of the world. **Whom do the two sets of figures in this image represent? What is the relationship among the figures?**

## Members of the European Union



### Interpreting Maps

The European Union is an organization of 15 independent nations whose goal is to create a unified and strong market. The European Union introduced a new currency—the euro. **What did adoption of the euro mean for the member nations?**



Euro notes

automakers, then, were not helped—although the new factories did create more jobs for American workers.

A bigger problem with trade barriers is that they force consumers to pay higher prices. After all, tariffs raise prices. Quotas can increase prices, too. As a result, these barriers sometimes make consumers pay more than they should have to for the sake of protecting inefficient industries.

In general, most policymakers believe that the total costs of trade barriers are higher than the benefits gained. For this reason, most countries now try to reduce trade barriers. They aim to achieve **free trade**. That means convincing countries not to pass laws that block or limit trade.

### Regional Trade Agreements

An important trend is for countries to join together to set up zones of free trade with a few key trading partners. This increases trade among those countries.

**The European Union** Fifteen European countries belong to the **European Union (EU)**. Their combined GDP—total dollar value of all final goods and services produced—is almost as large as that of the United States. The population of these countries is nearly 380 million. The EU offers a huge market to many businesses.

There are no trade barriers among these nations. Goods, services, and even workers can move freely between them. Cheese made



# The North American Free Trade Agreement (NAFTA)



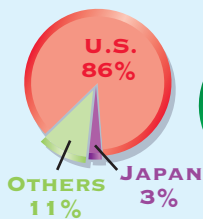
## Analyzing Maps and Graphs

The United States formed a regional trade agreement with Canada and Mexico called the North American Free Trade Agreement (NAFTA). What percentage of its imports does Mexico receive from the United States?

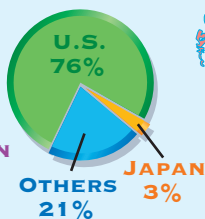
### Trading Partners

#### Canada

##### Exports

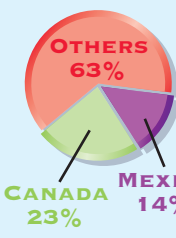


##### Imports

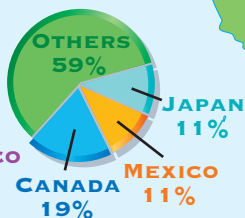


#### United States

##### Exports

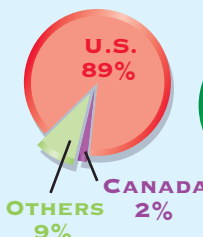


##### Imports

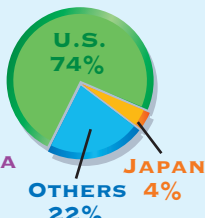


#### Mexico

##### Exports

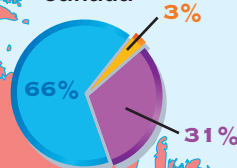


##### Imports

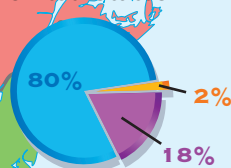


### GDP Composition

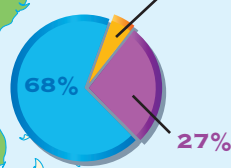
#### Canada



#### United States



#### Mexico



- Services
- Industry
- Agriculture

**CANADA**  
Population: 31.6 million  
GDP: \$775 billion

**UNITED STATES**  
Population: 281.4 million  
GDP: \$9.96 trillion

**MEXICO**  
Population: 101.9 million  
GDP: \$915 billion

0 250 500 miles  
0 100 200 kilometers  
Lambert Conformal Conic Projection

Source: The U.S. Census Bureau; CIA World Factbook.

in France can be shipped to Germany just as easily as Vermont cheddar is shipped to New York. In January 2002, these countries became even more closely linked when most began using a common currency. No longer do the French use francs or do the Germans use marks. Instead, all sales in these countries are now made with euros. (The United Kingdom, Denmark, and Sweden chose not to take part in the common currency.)

The EU is an important part of the world economy. It will grow even larger in the future. The organization is considering adding other nations as members.

**NAFTA** The growing economic power of the EU encouraged other countries to lower trade barriers in order to increase trade. In the 1990s, the United States, Canada, and Mexico signed a pact called the **North American Free Trade Agreement (NAFTA)**. This deal will eventually eliminate all barriers to trade among the three countries. Since NAFTA was enacted, trade among them has grown twice as fast as the economies themselves have grown. Opponents of NAFTA contended that American workers would lose their jobs because U.S. plants would move to Mexico to take advantage of cheaper wages and less stringent enforcement of environmental and workers' rights laws. NAFTA supporters argued that increased trade would stimulate growth and put more low-cost goods on the market.

**The WTO** An international body called the **World Trade Organization (WTO)** oversees trade among nations. It organizes negotiations about trade rules and provides help to countries trying to develop their economies. As you read in the Americans in Action feature, it also plays a role in settling trade disputes.

In recent years, the World Trade Organization and the growth of trade have been harshly criticized. Critics say that the

WTO policies favor major corporations at the expense of workers, the environment, and poor countries.

**Reading Check Explaining** Why do nations sometimes place quotas on an imported good?

## Financing Trade

Different nations have different currencies. The United States uses the dollar as its medium of exchange; Mexico, the peso; Britain, the pound; and Japan, the yen. If you travel outside the United States or invest in foreign business, you will want to know the **exchange rate**—what the price of your nation's currency is in terms of another nation's currency. Most of the world's nations use a flexible exchange rate



**Protesting WTO Policies** At an anti-WTO demonstration, protesters criticize the organization for implementing policies that erode human rights and labor and environmental standards. **What is the World Trade Organization?**

system. Under this system, the forces of supply and demand are allowed to set the price of various currencies. Thus, a currency's price may change each day.

## The Balance of Trade

A currency's exchange rate can have an important effect on a nation's balance of trade. The **balance of trade** is the difference between the value of a nation's exports and its imports. If a nation's currency depreciates, or becomes "weak," the nation will likely export more goods because its products will become cheaper for other nations to buy. If a nation's currency appreciates in value, or becomes "strong," the amount of its exports will decline.

## Trade Deficits and Surpluses

A country has a **trade deficit** whenever the value of the products it imports exceeds the value of the products it exports. It has a **trade surplus** whenever the value of its exports exceeds the value of its imports.

## Effects of a Trade Deficit

What are the effects of a trade deficit? To illustrate, the large deficit in the United States's balance of payments in the late 1990s flooded the foreign exchange markets with dollars. The increase in the supply of dollars caused the dollar to lose some of its value. The weaker dollar caused unemployment in import industries as imports became more expensive, and it caused employment to rise in export industries as the prices of these goods became more competitive.

Eventually, under flexible exchange rates, trade deficits tend to automatically correct themselves through the price system. A strong currency generally leads to a deficit in the balance of payment and a subsequent decline in the value of the currency. A weak currency tends to cause trade surpluses, which eventually pull up the value of the currency.

 **Reading Check** **Describing** What is a trade deficit?

## SECTION 1 ASSESSMENT

### Checking for Understanding

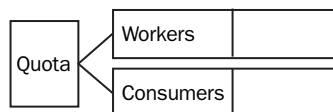
**1. Key Terms** Write a paragraph related to international trade using the following key terms: **export, import, comparative advantage, free trade.**

### Reviewing Main Ideas

- 2. Explain** How can a nation restrict imports? Why would a nation wish to restrict its imports?
- 3. Describe** What is the purpose of the North American Free Trade Agreement (NAFTA)? How is NAFTA different from the World Trade Organization?

### Critical Thinking

- 4. Evaluating Information** What do you think is the single most important reason nations trade with one another? Explain your answer.
- 5. Cause and Effect** On a diagram like the one below, explain how a quota on a good or service produced in your community might affect the workers in a particular industry. Then explain how the same quota might affect consumers.



### Analyzing Visuals

- 6. Interpret** Study the map of the European Union on page 567. How many countries are part of the organization? Is Italy part of the EU? Is Russia?

### ★ BE AN ACTIVE CITIZEN ★

- 7. Research** Find opinions about NAFTA on the Internet. Scan several articles to identify which groups support NAFTA and which groups oppose it. Provide the reasons each group gives for its position.

# Technology SKILLBUILDER

## Building a Database

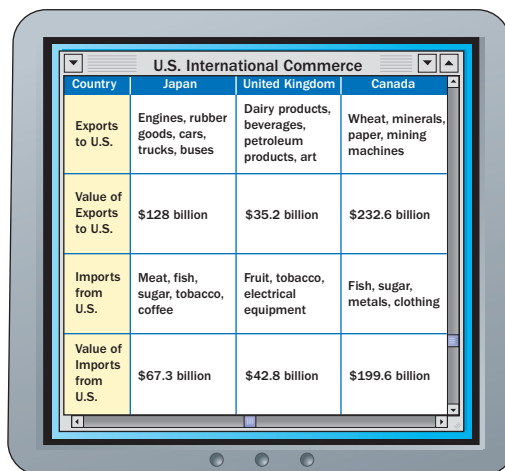
### Why Learn This Skill?

A database is a collection of information, or data, stored in a computer or on diskette files. It runs on software that organizes large amounts of information in a manner that makes it easy to access, search, sort, and make additions or deletions. It often takes the form of a chart or table. Governments and businesses maintain databases containing information they need to store and update regularly, such as tax revenues. Families may use databases for budgeting purposes. You might build databases to store information related to a class at school, your weekly schedule, or friends' birthdays.

### Learning the Skill

To create a database using word-processing software, follow these steps:

- Define the type of information your database will hold. Enter a title identifying the type of information in your document and file names.
- Determine the set of specific points of information you wish to include. For example, you might want to record data on the GDP, products, imports, and exports of countries in Asia.
- Enter the information categories along with country names as headings in a five-column chart. Each column makes up a field, the basic unit for information stored in a database.
- Enter data you have collected into the cells, or individual spaces, on your chart.
- Use your computer's sorting feature to organize the data. You might alphabetize by country name or arrange from highest to lowest GDP.
- Add, delete, or update information as needed in the future. Database software automatically adjusts the cells in the chart.



Country	Japan	United Kingdom	Canada
Exports to U.S.	Engines, rubber goods, cars, trucks, buses	Dairy products, beverages, petroleum products, art	Wheat, minerals, paper, mining machines
Value of Exports to U.S.	\$128 billion	\$35.2 billion	\$232.6 billion
Imports from U.S.	Meat, fish, sugar, tobacco, coffee	Fruit, tobacco, electrical equipment	Fish, sugar, metals, clothing
Value of Imports from U.S.	\$67.3 billion	\$42.8 billion	\$199.6 billion

You can organize information in a database.

### Practicing the Skill

On a separate sheet of paper, answer the following questions referring to the database on this page.

- 1 What type of information does this database contain?
- 2 What related fields of information does it display?
- 3 If the author sorts the data alphabetically according to country names, how will the data in the third field read?
- 4 The author learns that Canada also exports clothing, beverages, and art to the United States. Is it necessary to create a new database? Explain.

### Applying the Skill

Build a database to help you keep track of your school assignments. Work with four fields: Subject, Assignment Description, Due Date, and Completed Assignments. Be sure to keep your database up-to-date.

# Economic Systems

## GUIDE TO READING

### Main Idea

To deal with the fundamental problem of scarcity, different types of economic systems exist.

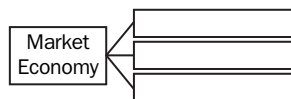
### Key Terms

market economy, per capita GDP, command economy, socialism, communism, mixed economy

### Reading Strategy

#### Organizing Information

As you read the section, complete a diagram like the one below by describing three characteristics of a market economy.



### Read to Learn

- How does a market economy work?
- What are the characteristics of a command economy?
- What is a mixed economy?



## Americans in Action

China and its 1.3 billion people joined the World Trade Organization in December 2001, ending a 15-year quest and ushering in a new era of reform expected to bring sweeping changes to the Communist-ruled nation. Reuters news agency reported that “foreign investors have waited eagerly for the world’s largest potential market to become an integral part of the global economy. The Communist Party [newspaper] *People’s Daily* urged officials to abide by WTO commitments and said entry would fundamentally change the way the government handled the economy.”



U.S. trade negotiator Charlene Barshefsky meets with China’s Minister of Foreign Trade Shi Guangsheng

## Market Economies

Not all economic systems are alike. Some, like the one in the United States, are based on markets. Others, like China’s, include far greater government control. These different economies deal with scarcity in different ways. All societies face the basic questions of WHAT to produce, HOW to produce it, and FOR WHOM to produce it. The way these questions are answered determines a society’s economic system. In a pure **market economy**, these decisions are made in free markets based on the interaction of supply and demand. **Capitalism** is another name for this system.

One of the chief characteristics of a market economy is that private citizens—not the government—own the factors of production. As you recall, those factors are natural resources, capital, labor, and entrepreneurship.

Because the factors of production are in private hands, a market economy offers a high degree of individual freedom. Businesses make their own decisions regarding what to produce, how to produce it, and for whom to produce it. Driving those

decisions is the business owner's desire to earn a profit. At the same time, consumers make their own decisions about what to buy.

In a market economy, these decisions take place in the market. Supply and demand interact to set prices, and producers and consumers base their decisions on prices.

A market economy is decentralized. That is, decisions are made by all the people in the economy and not by just a few. The economy seems to run by itself because no one coordinates these decisions.

There are no pure market economies in the world. In the United States, for example, government provides public goods such as defense and a system of justice.

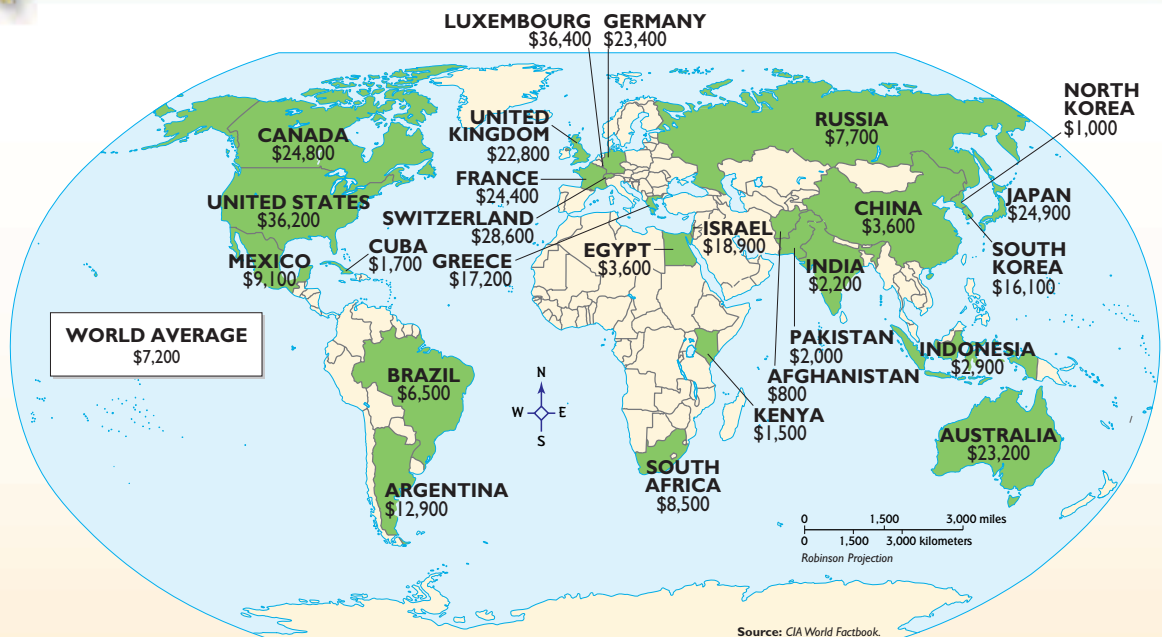
Another government role is to make sure that markets stay competitive. Effective competition requires a large number of

sellers. The U.S. government ensures this by regulating businesses. It also punishes businesses that break laws meant to ensure competition.

Finally, the government plays a role with externalities. These are the unintended side effects that have an influence on third parties. For example, the government works to reduce pollution, which is a negative externality. The government also takes steps to encourage activities that generate positive externalities. For instance, it provides money to fund basic science research. That research can be used by businesses to develop new products.

The majority of the largest economies in the world today are market economies. Look at the map on this page, which shows the **per capita GDP** for selected nations.

## Per Capita GDP, Selected Nations



### Interpreting Maps

Economists often use per capita GDP as a rough measure of a nation's prosperity. All amounts are shown in U.S. dollars. **What is the per capita GDP for the United States? Which nation has a larger per capita GDP—North Korea or South Korea?**



**Student Web Activity** Visit [civ.glencoe.com](http://civ.glencoe.com) and click on **Student Web Activities—Chapter 26** to learn more about the types of economic systems.

Per capita GDP divides the total GDP by the country's population. By expressing GDP in terms of each person, we can compare one nation's economic success to another without regard to the size of the two economies. Look at the countries that have high per capita GDPs. Most of them, including the United States, have market economies.

### Reading Check

**Explaining** Why is economic freedom a characteristic of market economies?

workers, or the proletariat, who work to produce the goods. Marx interpreted human history as a class struggle between the workers and the capitalists. Eventually, the workers would revolt and overthrow the capitalists in a revolution.

Marx first called his own ideas “scientific socialism.” He believed that in time, socialism would develop into full communism. Under **communism** one class would evolve, property would all be held in common, and there would be no need for government.

In a command economy, most productive resources—especially land and capital—are owned by government. They are not in the hands of private individuals. Because the government plays such a major role in these economies, people have less economic freedom. As a result, people in these systems generally have fewer choices than do those in market economies.

The government makes the three basic allocation decisions in a command economy. It decides **WHAT** to produce. For instance, it tells factory managers whether to make cars or buses or military vehicles. The government also regulates **HOW** goods will be produced. It tells managers where they should buy their raw materials, for example. Finally, the government decides **FOR WHOM** to produce. It fixes the wages of all workers and sets prices as well.

As you might expect, governments in command economies have planning agencies with a great deal of power. These organizations take control of different parts of the economy, such as agriculture, steel production, and shoe manufacturing. They make the important decisions in those industries.

## Command Economies

The system that we know best in the United States is the market economy. The opposite of this system is the **command economy**. In a pure command economic system, the individual has little, if any, influence over how the basic economy functions. Under this system, the major economic decisions are made by the central government. The government tells producers what to do—it *commands* the actions they should take. This form of economic system is also called a controlled economy. The term “communism” applies to command economies.

In the early 1800s, some people believed that ending the misery of exploited workers required eliminating capitalism completely. They advocated **socialism**, the belief that the means of production should be owned and controlled by society, either directly or through the government. In this way, socialists felt that wealth would be distributed equally among all citizens.

Karl Marx, a German thinker and writer, was a socialist who advocated violent revolution. Marx believed that in industrialized nations, the population is divided into capitalists, or the bourgeoisie, who own the means of production, and

Command economies can be very inefficient. As a result, they tend to grow more slowly and attain a lower per capita GDP than market economies. Cuba and North Korea are perhaps the two best current examples of command economies. Look at the map on page 573 to see how low their per capita GDPs are.

For many decades, the Soviet Union had a command economy. The Russian economy that survived it has been trying to convert to a market economy ever since. China is another command economy that is making the transition to a market economy. You will read how these two economies are changing in the next section.

## Mixed Economies

A **mixed economy** combines basic elements of a pure market economy and a command economy. Most countries of the world have a mixed economy in which private ownership of property and individual



**Command Economy** North Korea's command economy has focused on producing weapons and not consumer goods. **Who owns most of North Korea's productive resources?**

decision making are combined with government intervention and regulations. In the United States, most decisions are made by individuals reacting to market phenomena—such as prices determined by supply and demand, competition, private property, and exchange. However, federal, state, and local governments make laws regulating certain areas of business.

**Reading Check** **Contrasting** What is the difference between a pure market economy and a mixed economy?

## SECTION 2 ASSESSMENT

### Checking for Understanding

- Key Terms** Write a true statement *and* a false statement for each of the following terms: **market economy, command economy, mixed economy.** Indicate which statements are true and which are false.

### Reviewing Main Ideas

- Explain** What does it mean to say that a market economy is decentralized?
- Contrast** Does the government take a more active role in a market economy or in a command economy?

### Critical Thinking

- Drawing Conclusions** Many nations are moving away from a command economic system and toward a market economic system. Why do you think this is so?
- Making Comparisons** On a chart like the one below, describe how the role of the individual differs under different economic systems.

Economic System	Role of Individual
Market	
Command	

### Analyzing Visuals

- Interpret** Study the map on page 573. What is the per capita GDP for Argentina? For India? Does China's per capita GDP surpass the world average?

### ★ BE AN ACTIVE CITIZEN ★

- Research** Choose one familiar item that is imported to the United States. Collect information about the item, including where it comes from and how much it costs. Learn why the country it comes from produces this item. Present your information in class.



# Economies in Transition

## GUIDE TO READING

### Main Idea

Developing nations are those with less industrial development and a relatively low standard of living.

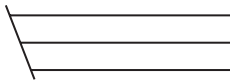
### Key Terms

developing country,  
traditional economy

### Reading Strategy

#### Organizing Information

As you read the section, complete a diagram like the one below by listing the main obstacles to economic growth in developing nations.



Obstacles to Growth

### Read to Learn

- Why are some nations moving toward a market economic system?
- What are the obstacles to economic development that countries must face?



## Americans in Action

Because the problems of developing nations are so great, economic development is a difficult task. Many approaches have been tried, and some, like the new policies instituted in Vietnam, have much promise: “During ten days in July, the Vietnamese government did more to promote economic growth . . . than it has done over the previous ten years. After three years of negotiations . . . , Vietnam signed a . . . trade agreement . . . with the United States. A few days later, . . . Vietnam opened its first post-war stock market. The decisions are of enormous . . . economic significance. . . . With economic growth at its lowest levels since 1990 and foreign investment down over 85% since its peak in 1996, [the country needed to act]. China’s trade agreement with the U.S. added further pressure on Vietnam to access global markets or risk falling further behind its neighbors.”

—*Vietnam Business Journal Archives*,  
December 12, 2001



Marketplace in  
Saigon, Vietnam

## The Transition From a Command Economy

Today many nations in the world are making the transition from one type of economy to another. Some are moving from a traditional economy to a more developed system. Others are shifting from a command economy to a market-based system.

The main reason for the transition is the remarkable success of the major market economies in the world. Market economies have prospered, and many countries hope to be able to bring that prosperity to their own people.

Command economies became increasingly unattractive in the 1980s. They were unable to achieve the economic growth that market economies could. The Soviet Union, China, and the countries of Eastern Europe all had command economies. By 1991, however, they were all in the process of changing. In Eastern Europe, this economic change was accompanied by political changes. The countries moved toward greater democracy. The same transition took place in the Soviet Union, where change was accompanied by the

actual breakup of the country. Russia emerged as the largest country to come out of the old Soviet Union.

## Russia

The Soviet Union collapsed in 1991 because Communist leaders could no longer keep the economy going. Almost all major economic decisions during Soviet times were made by a central planning body called the Gosplan. Officials in this agency developed plans that answered basic production questions.

The Gosplan made the decisions to get millions of individual products made and shipped to stores. In the process, it frequently made mistakes. Supplies did not arrive on time, too much or too little of a good was produced, and goods were not always delivered to the places that needed them the most. The process became too complicated to work effectively.

After the Soviet Union broke up, Russia's leaders wanted to convert to a market-based economy. State-owned factories had to be put in the hands of private ownership. Stock markets had to be created so that people could own these factories. People had to learn how to let supply and demand set prices and how to make decisions based on market prices.

This transition has been a very difficult one. Russia is still in the midst of the changeover today, and the process will probably go on for many more years. In recent years, the economy has shown signs of improving.

## China

China, like Russia, is moving away from a command economy and toward a market economy. The Chinese economy had been modeled on the Soviet system of central planning. By the 1980s, China was

**Changing Economies** Reforms in Russia and China gave individuals more decision-making power and the ability to sell part of their goods and services for a profit. **What role did the Gosplan play in the Soviet economy?**



falling far behind the market-based economies of its neighbors Taiwan, South Korea, Hong Kong, and Singapore. China began introducing market reforms to catch up. For example, it converted many state-owned factories to privately owned factories, and even set up a major stock exchange in Shanghai.

The reunification of Hong Kong with China in 1997 gave China even more incentive to change. Chinese leaders hoped to learn more about markets from Hong Kong.

The transition has had some success. China's economy has averaged 10 percent growth each year over the past 20 years—a very high level of growth. Many workers in China's cities can now buy goods they were never able to have in the old economy. Still, there are problems. Farmers are finding it hard to compete with cheaper food from abroad. About 160 million Chinese are unemployed. China's leaders need to find solutions to these problems.

**Reading Check** **Explaining** Why did China introduce market reforms?

## Developing Countries

Many other countries are also trying to make the transition to a market-based economy. Most of these countries are called **developing countries**, or countries whose average per capita income is only a fraction of that in more industrialized countries.

## Traditional Economies

Most of the countries trying to make this transition have **traditional economies**. In these systems, things are done “the way they have always been done.” Economic decisions of what, how, and for whom to produce are based on custom or habit. For example, if your grandparents and parents fished for a living, you will fish for a living. Farmers grow the crops that have been grown in the area for many centuries. People make pottery or cloth using traditional methods and materials.

## Problems Developing Countries Face

Developing countries are poor by western standards. They face several other obstacles that make economic growth difficult.

# American Biographies



### Daniel Katz (1961– )









Daniel Katz wanted to find some way to conserve the rain forests. In 1986, at the age of 24, he cofounded the Rainforest Alliance, a group aimed at getting environmentalists, business leaders, and the public to figure out new ways to stop deforestation, or destruction of forests.

With no money, office, or staff, everybody worked as volunteers at first. The alliance began with educational projects. Then, step-by-step, members developed two certification programs—SmartWood, the world's first program to certify tropical timber products, and ECO-O.K., the first program to certify tropical farm products, like bananas and cacao. The two programs set guidelines aimed at conserving the tropical forests while protecting workers and companies that depended upon the rain forests for income.

In the 1980s, Gibson Guitar signed on to make SmartWood guitars, while Chiquita Banana agreed to produce bananas on ECO-O.K. plantations. Other success stories followed. Under Katz's leadership, the alliance certified millions of acres of “well-managed” forests and plantations. “I think the alliance has had quite a few accomplishments,” says Katz. “But we still need everybody's help while there's still time to save our tropical forests.”



## Social Statistics for Selected Nations

		<b>LIFE EXPECTANCY AT BIRTH</b>	<b>INFANT MORTALITY</b> (deaths per 1,000 live births)	<b>LITERACY</b> (% of people who can read and write)	<b>POPULATION GROWTH</b> (annual % 1980–2000)
Afghanistan		46	147	36	3.0
Canada		79	5	98	1.1
China		70	30	83	1.3
India		63	70	56	2.0
Japan		81	4	99	0.4
Kenya		48	76	81	3.0
Mexico		72	29	91	1.9
United States		77	7	97	1.1

Source: World Bank.

### Evaluating Charts

**A comparison of developing countries with industrialized countries shows a wide discrepancy in health and education. What nation's people have the shortest life expectancy? The longest?**



The World Bank logo

One problem is a high rate of population growth. When population grows faster than GDP, per capita GDP declines. That is, each person has a smaller share of what the economy produces. Look at the table showing social statistics of selected countries on this page. You will see that countries with higher rates of population growth tend to have lower per capita GDPs (see the map on page 573). The countries with high per capita GDPs, on the other hand, have low rates of population growth.

Another problem is geography and natural resources. Many developing countries are landlocked and do not have access to ocean trade routes. Others might have ocean access but lack natural resources.

Many developing countries face severe problems left over from war. Countries such as Afghanistan, Ethiopia, Somalia, Cambodia, and Vietnam experienced wars in

recent years. These wars destroyed roads, bridges, factories, and other resources. They also left many people dead. In addition, many unexploded land mines are still found in the countryside, making farming difficult—and even dangerous.

Some of these countries face the problem of severe debt. They borrowed large sums of money to spur economic growth. Now they owe more money than the GDP they produce in a year. This makes it difficult to pay off the loans. In fact, many cannot even pay the interest on their debt.

Finally, corruption delays the development of some economies. Nigeria, for example, is rich in oil but is still a relatively poor nation because of the chronic corruption of its government officials.

## Helping Developing Countries

Countries can try to overcome some of these obstacles on their own, but they also need help. Two international organizations exist for this purpose. The **International Monetary Fund (IMF)** offers advice and financial assistance on monetary and fiscal policy. The IMF, for example, might help a government in a developing country keep the value of its currency stable. This can help the country build its economy.

The second is the International Bank for Reconstruction and Development, usually called the **World Bank**. This organization gives loans and advice to countries as they try to improve their economies. A recent World Bank program tried to control the desert locust in East Africa to help farmers there. Another worked to improve inland water transportation in Bangladesh.

Foreign aid agencies are uneasy, as many developing countries are unable to repay their foreign debts. About 40 percent of the countries most in debt owe more than \$127 billion to the IMF and the World

**Economics and You**

### Exchange Rates

Recall from Section 1 that an exchange rate is what the price of your nation's currency is in terms of another nation's currency. One way to see whether a currency is devalued or overvalued against the U.S. dollar is to use the "Big Mac Index" developed by *The Economist*, a newsmagazine. Economists compare the price of a Big Mac hamburger in the United States to what it costs in another country's local currency. Converting the foreign price to U.S. dollars shows whether the price of a Big Mac is undervalued or overvalued against the U.S. dollar.

Bank. Recently, leaders of several major industrialized nations took steps to ease this debt burden. They proposed a plan that would cancel about \$70 billion in debt, leaving more funds for needed social programs and economic growth plans in developing nations.

**Reading Check** **Describing** What economic challenges do developing nations face?

## SECTION 3 ASSESSMENT

### Checking for Understanding

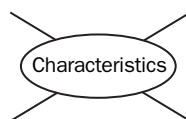
- 1. Key Terms** Write a paragraph related to economies in transition using these key terms: **developing country**, **traditional economy**.

### Reviewing Main Ideas

- 2. Explain** What was the role of the Gosplan in the Soviet economy? Why was this body needed in the Soviet Union at the time?
- 3. Explain** Why did China make changes toward a market-based economy? Has its move been successful? Explain your answer.

### Critical Thinking

- 4. Drawing Inferences** Governments in developing countries tend not to support a system of strong, well-defined property rights. Why is this a problem for farmers in these countries?
- 5. Organizing Information** Create a diagram like the one below to identify four economic characteristics of developing nations.



### Analyzing Visuals

- 6. Identify** Study the chart on page 579. Which of the nations has the highest infant mortality rates? What countries have annual population growth rates 3 percent or more?

### ★ BE AN ACTIVE CITIZEN ★

- 7. Research** Choose one of the nations profiled in this section. Go to the library to find information on the nation's move toward a market-based economy. Construct a collage of headlines about these developments.

# Issues to Debate

## Should the President Have Fast-Track Trade Power?

Opponents to fast-track trade might say it sidetracks Congress. The policy gives the president the power to negotiate trade agreements without formal input from Congress. Once negotiated, Congress has a limited time to debate the treaty. No amendments are permitted, and only a “yes” or “no” vote is accepted. Supporters argue that fast-track trade enables the president to act quickly and to show a commitment to free trade, something they say is important to ending world poverty. On December 6, 2001, the Trade Promotion Authority (TPA) bill passed by a razor-thin vote of 215–214. The vote cut across party lines as legislators asked: Should we allow the president to engage in fast-track trade?



President Bush could have the power for fast-track trade.

Yes

Sadly . . . the U.S. is party to only 3 of the estimated 133 free trade negotiations taking place around the globe today. . . . As a result, American workers and their families suffer.

The president must be granted the full authority to negotiate agreements on the behalf of the nation. The trade promotion bill . . . will give the president the ability to arrive at the best deal, and then have it either approved or disapproved by a vote of Congress. There will be no opportunity for special interest provisions to bog down the process.

—Dick Arney, Republican representative from Texas, 2001

No

I . . . would support legislation granting [the] President . . . enhanced trade negotiating authority provided it addressed effectively the key issues of labor, the environment, and the role of the U.S. Congress. . . .

The current bill merely provides for more “consultations” with Congress. . . . When international trade directly affects the lives and livelihoods of an increasing number of Americans, Congress cannot be confined to the back bench.

The president is the one negotiator, but Congress must have meaningful input. Indeed the Constitution gives it the responsibility to “regulate commerce with foreign nations.”

—Charles Rangel, Democratic representative from New York, 2001

## Debating the Issue

1. Why does Representative Arney support Trade Promotion Authority?
2. Why does Representative Rangel object to it?
3. List the pros and cons of fast-track trade. What trade-offs would you make if you supported the policy? What trade-offs would you make if you opposed it?

# Assessment & Activities

## Review to Learn

### Section 1

- The United States is heavily involved in international trade.
- Nations trade according to the theory of comparative advantage.



### Section 2

- A pure market economic system operates on the basis of price, profits, and private property.
- Under a command system, there is little private property and the government owns virtually all the factors of production.



### Section 3

- Countries changing from command economies to market-based systems face severe challenges.
- Developing nations receive financing through foreign aid and technical and economic assistance.



## FOLDABLES™

### Study Organizer

#### Using Your Foldables Study Organizer

Pair up with a classmate and use your completed foldables to take turns asking each other to define a chapter term correctly without looking under the tab.

## Reviewing Key Terms

Write the key term that matches each definition below.

1. a tax placed on an imported product
2. a system in which economic activity is the result of habit or custom
3. an economy that is neither pure market nor pure command
4. a country with a relatively low per capita GDP
5. goods sold to other countries
6. total GDP divided by the country's population
7. a system in which the government controls the factors of production
8. goods bought from other countries for domestic use
9. a system in which individuals own factors of production and make economic decisions
10. a legal limit on the number of units of a foreign-produced good that can enter a country

## Reviewing Main Ideas

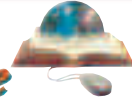
11. How do nations gain from importing products?
12. How can nations restrict imports?
13. Why do nations restrict imports?
14. Identify two major countries that are making the transition to a market economy.
15. What is the exchange rate?
16. How is per capita GDP calculated?
17. What does the World Bank do?

## Critical Thinking

18. **Making Comparisons** State-run factories in the former Soviet Union could make products of extremely low quality and yet continue to exist. What do you think would happen to such a firm in the United States?
19. **Making Inferences** Is an abundance of natural resources required in order for a country to have economic growth and development? Explain your answer.

CLICK HERE

**CIVICS**  
*Online*



**Self-Check Quiz** Visit the *Civics Today* Web site at [civ.glencoe.com](http://civ.glencoe.com) and click on **Self-Check Quizzes—Chapter 26** to prepare for the chapter test.

- 20. Cause and Effect** Create a chart like the one below to explain how exchange rates affect the balance of trade.

	Effect on Exports	Effect on Balance of Trade
Weak Currency		
Strong Currency		

## Analyzing Visuals

Study the chart on page 579; then answer the following questions.

21. What is the literacy rate? What nations have a literacy rate below 60 percent?
22. Define infant mortality. Which nation has the lowest infant mortality rate?

## Practicing Skills

- 23. Building a Database** Research and build a database that organizes information about U.S. trade with countries in South America. Explain why the database is organized the way it is and how it might be used in class.



## Economics Activity

- 24.** Suppose the United States buys 1 million cars from Japan in the year 2010. If the dollar appreciates relative to the yen in 2011, will Americans buy more or fewer than 1 million cars from Japan? Explain your answer.

## ★ CITIZENSHIP COOPERATIVE ACTIVITY ★

- 25.** Divide into at least five groups. Each group will study one part or region of the world, such as northern Africa, Central Africa, Southeast Asia, Central America, or western Europe. The goal of each group is to determine the percentage of the economy devoted to agriculture and the percentage devoted to industry. Each member of each group will obtain the relevant information for

one or more countries in his or her chosen region. Compare the information obtained, selecting one person to prepare summary statistics for your group's region.



## Technology Activity

Use the Internet to find out more about international trade. Type "international trade" into your search engine. From the list of Web sites that appears on the monitor, select at least three to read. Answer each question below; then summarize your findings in a brief essay.

26. What types of Web sites did you find on your initial search?
27. List at least three trade organizations.
28. Select a country. What are three products that the United States trades with this country?



## Standardized Test Practice

**Directions: Choose the best answer to the following question.**

If the value of a nation's exports is \$100 and the value of its imports is \$200, what does the balance of trade equal?

- F** a surplus of \$100  
**G** a deficit of \$100  
**H** a deficit of \$200  
**J** a surplus of \$200

## Test-Taking Tip

As you read the multiple-choice question, try to anticipate the answer before you look at the choices.



**“THE MARKET,”** OBSERVED FORMER Soviet President Mikhail Gorbachev, “is not an invention of capitalism. It has existed for centuries. It is an invention of civilization.” As Gorbachev pointed out, markets have flourished for thousands of years within a variety of economic systems. And though markets have taken many forms—ranging from the vast open-air gathering places of the ancient world to the computer-powered auction sites of the digital age—their essential function has remained the same. Through the ages, markets have served as forums that bring buyers and sellers together to exchange goods, services, or other commodities. On these pages, TIME presents a gallery of images that illustrate some remarkable continuities—and some striking contrasts—among markets of the past 2,500 years.



BETTMAN/CORBIS (4)

**1 ANCIENT GREECE** (c. 500 B.C.) The agora, or marketplace, was the center of economic and political life in Athens. Citizens of Athens generally spent most of their day at the agora.



**2 THE MIDDLE AGES** (13th century) Medieval merchants offered their wares while entertainers performed at this outdoor market in a European village square.



**3 WALL STREET** (late 1700s) The first securities market in the U.S. was held outdoors. Brokers gathered near Wall Street in New York City to trade stocks.



**4 BLACK MARKET** (1944) In Bucharest, Romania, buyers inspected bottles of salad oil that were being sold despite a government order that citizens obtain food only through state-run markets.

# TRADING THROUGH THE AGES



5

WOLFGANG KAHLER/CORBIS

## 5 FLOATING MARKET

In Thailand, merchants travel by boat to seek out their customers.

## 6 PRODUCE MARKET

Vendors offer chili peppers—an important crop in Nigeria—at a market in the city of Kano.

**7 AUCTION** Villagers bid for freshly baked bread at this auction in Portugal.

## 8 THE LANGUAGE OF TRADE

Options traders convey their buy and sell orders via a complex system of hand signals.

## 9 POWERFUL TOOLS

At the New York Stock Exchange, brokers use high-speed computers to aid in their trading.

## 10 A NEW ERA

The Internet has brought the marketplace into computer users' homes.



6

PAUL ALMASY/CORBIS



7

BOB KRIST/CORBIS



8

REUTERS NEWMEDIA INC./CORBIS



9

CHARLES O'REAR/CORBIS



10

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