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Chapter One

International Economics Is Different

Nations are not like regions or families. They are sovereign, meaning that no central court can enforce its will on them with a global police force. Being sovereign, nations can put all sorts of barriers between their residents and the outside world. A region or family must deal with the political reality that others within the same nation can out-vote it and can therefore coerce it or tax it. A family or region has to compromise with others who have political voice. A nation feels less pressure to compromise and often ignores the interests of foreigners. A nation uses policy tools that are seldom available to a region and never available to a family. A nation can have its own currency, its own barriers to trading with foreigners, its own government taxing and spending, and its own laws of citizenship and residence.

As long as countries exist, international economics will be a body of analysis distinct from the rest of economics. The special nature of international economics makes it fascinating and sometimes difficult. Let's look at four controversial developments that frame the scope of this book.

FOUR CONTROVERSIES

The Trade War of 2018

By mid-2018, the United States had instigated a trade war. The last time the world had a trade war, in the early 1930s, it did not go well. Instead, it contributed to global losses of the general gains from trade and made the Great Depression worse than it otherwise would have been. How did we get to a new international trade war?

In his election campaign for the presidency, Donald Trump railed against unfair trade with foreign countries and unfair trade agreements such as the North American Free Trade Area (NAFTA). He argued that U.S. trade deficits with China, Mexico, and other countries were clear evidence that the United States was the loser in its trade with each of these countries. He vowed to fight for U.S. interests, including threatening to impose 45 percent tariffs (taxes) on imports from China and to withdraw from NAFTA if the other members, Canada and Mexico, would not renegotiate the agreement. (We discuss tariffs in Chapter 8 and free trade areas in Chapter 12.)