

## Introduction: Trade and the Global Economy

In September 2008, the U.S. economy was hit by the largest financial crisis the country had experienced since the 1930s. While the crisis began in the U.S. housing market, the economic downturn soon enveloped markets around the world. In October, Iceland announced that its banking system had collapsed. Governments from Russia to Australia to the United States have stepped in to provide money and support to businesses and banks struggling to stay afloat. Unemployment has spiked around the world. Many analysts predict that it will be a long time before the economies of many countries are able to recover.

There are parallels between the economic crisis of today and the Great Depression of the 1930s. In both cases, the effects of economic disruption echoed around the world, and downturns in one country led to downturns in many others. But much has changed in the decades since the U.S. stock market crash of 1929.

In the 1930s, when economies plummeted, governments focused more on making their own industries competitive than on working with other countries to address the crisis. In the years after the Great Depression, many economists began to rethink how the global economy should operate. Globalization and trade agreements among countries pushed economies around the world closer and closer together. The rapid spread of the current economic crisis is directly related to the closeness of the world economy. Despite the dismal economic climate, leaders have vowed to continue to cooperate closely and promote trade.

***“There is a risk that slower world economic growth could lead to calls for protectionist measures which would only exacerbate the current economic situation.... We... will refrain within the next 12 months from raising new barriers to investment or to trade in goods and services...”***

***[and from]...imposing new export restrictions.”***

—Statement by leaders at the Asia-Pacific Economic Cooperation (APEC) Summit, November 2008

Trade is one important piece to consider when thinking about the global economy. In the last hundred years, countries have wrestled over how to formulate trade policy that will best help their economies. In some periods, governments have used policy to block trade and help certain businesses at home. In others, leaders have heralded global trade and economic cooperation as the way to make everyone better off. Other factors also influence trade policy. Governments must consider the effects of policy on employment and the well-being of their people. Foreign policy concerns, from strengthening allies to addressing human rights issues, also have factored heavily into U.S. trade policy over the last half-century.

Many around the world have questioned the global economic system. What have been the effects of globalization and a closely-connected global economy? How have these changes been beneficial? How have their effects been negative? What have been the results of globalization for people around the world?

In the following readings and the activities that accompany them, you will have the opportunity to explore these questions as you consider the direction of U.S. trade policy. In Part I of the reading you will examine the history of the current economic system and the changes brought about by globalization. In Part II you will consider the effects of these changes—and of U.S. trade policy—on people in the United States and around the world. As you read, think about the following questions: Is trade good for people around the world? What are the effects of different trade policies? And finally, within this new global economy, what should the trade policy of the United States be?