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Chapter 19

7th

SS7E6 The student will explain how voluntary trade benefits buyers and sellers in Southwest Asia (Middle East).

a. Explain how specialization encourages trade between countries.

b. Compare and contrast different types of trade barriers, such as tariffs, quotas, and embargos.

c. Explain the primary function of the Organization of Petroleum Exporting Countries (OPEC).

d. Explain why international trade requires a system for exchanging currencies between nations.

What's Your Specialty?

If one country has something another country wants, the opportunities for trade begin to unfold! **Specialization encourages trade** among countries, because no country produces everything it needs. The country selling the product makes a profit, and the country buying the product gets what it needs.

In the Middle East, if a country has oil to export, there are plenty of customers to buy it. Saudi Arabia, Iran, Iraq, and Kuwait export millions of barrels of oil every day. The United States imports oil from the Middle East because it does not have enough oil for the country's needs. In turn, the U.S. exports food, medicine, and raw materials to Middle Eastern countries. Having a more diversified economy, Turkey exports coal, textiles, and some food to European countries. Those countries then export needed transportation materials to Turkey. Israel imports rough diamonds and exports the finished product: cut and polished diamonds.

This ~~is~~ specialization

Write About It

Yes - do! See me if you do not understand specialization.

Canada's climate is too cold to grow pistachios, so it imports them from Iran. Canada also imports Persian rugs from Iran. In turn, Canada exports telecommunication instruments and medical items to Iran because Iran has insufficient technology in place to manufacture these. How does specialization help these two countries? – Canada & Iran

Trade Barriers

*important

Countries sometimes set up trade barriers to restrict trade because they want to produce and sell their own goods. Trade barriers include:

- **Tariffs** are taxes on imported goods which cause the consumer to pay a higher price for an imported item. Demand is then increased for the lower-priced item produced at home.

- **Quotas** are restrictions on the amount of a good that can be imported into a country. Quotas can create shortages that cause prices to rise.

- **Trade embargoes** forbid trade with another country.

Examples in the Middle East include:

In the past two decades, the United States has had several **embargoes** against Iran because of Iran's involvement with terrorism. Following Iraq's invasion of Kuwait in 1990, the United Nations placed an **embargo** on Iraq, only allowing the country to export enough oil to buy food for its people. The United Nations hoped to force Iraq to make payments for war destruction and destroy its nuclear, chemical, and biological weapons.

After the September 11, 2001 attacks on the United States, the United Nations placed an arms **embargo** on Afghanistan. Members of the United Nations could not sell weapons to Afghanistan, because of the violent group in charge of the government.

When Saudi Arabia wanted to join the World Trade Organization (WTO), it lifted its long-standing **embargo** against all trade with Israel. Trade barriers are not permitted among countries in the WTO, and Israel belongs to the WTO.

In 2008, Saudi Arabia and Egypt lowered **tariffs** on food imports to help their citizens cope with rapidly rising food prices.

Quick Quiz Only 3 are true. / Write the #s of the ones that are true.

After reading the following statements, put a check beside the ones that are true.

_____1. The United States had an embargo against Iran because of Iran's activities in terrorism.

_____2. The United Nations placed an embargo against Saudi Arabia because of its invasion of Kuwait.

_____3. Saudi Arabia lifted an embargo against Israel in order to join an important world trade organization.

_____4. Quotas restrict the amount of a good that can come into a country.

_____5. Tariffs forbid trade with another country.

_____6. Trade barriers promote trade between countries.

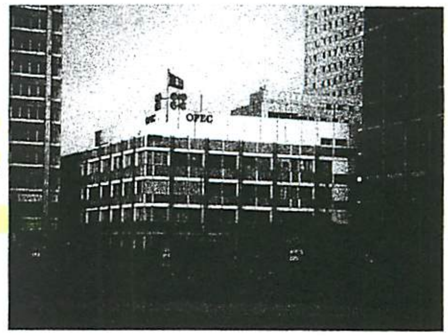
Organized Over Oil!

Word Definition

petroleum: *crude oil; occurs naturally in deposits under the earth's surface*

In 1960, five oil-rich countries formed an organization called the **Organization of Petroleum Exporting Countries, or OPEC.** These founding members of OPEC were Iran, Iraq, Saudi Arabia, Kuwait, and Venezuela.

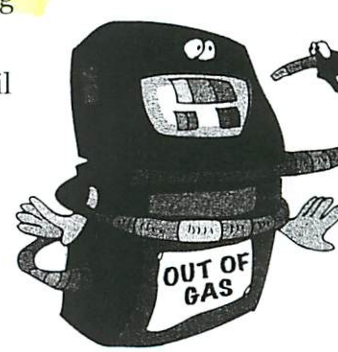
OPEC states that its **purpose** is to coordinate and unify petroleum prices in order to promote stability in the world oil market and ensure a regular supply of petroleum to other countries. OPEC sets the price and amount of oil produced by its member nations, and has a great deal of control over the price your parents pay for gasoline every day.



OPEC Headquarters in Vienna, Austria

My, How Things Change!

Before 1960, when OPEC was formed, the amount of oil produced around the world was greater than the demand for it. Because of that, oil prices dropped and the oil-producing nations made less money. Once OPEC was formed, oil supplies were controlled and the demand increased around the world. Because of that, oil prices rose and the oil-producing countries made more money.



OPEC has a lot of power and has used oil as a political tactic. For example, OPEC stopped exporting oil to countries that supported Israel in the Arab-Israeli War of 1973. This caused gasoline shortages in the United States and many other countries.

Think About It

Answer the questions below.

1. What does OPEC stand for? ______________________________

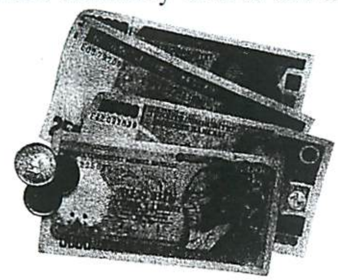
2. What is the purpose of OPEC? ______________________________

3. Why could it be a problem for one organization like OPEC to control most of the world's oil supply?

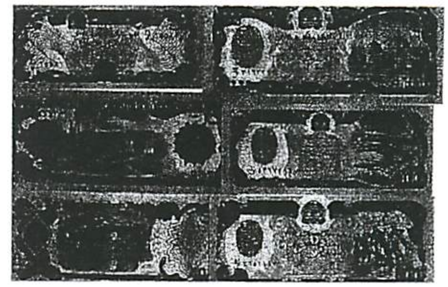
Get your information from the last 2 paragraphs.

Different Countries and Different Currencies

Currency is the type of money a country uses. Because different countries have different types of money, international trade requires a system for **exchanging currencies** between nations. Money from one country must be converted into the currency of that country to pay for goods in that country. That process is called **foreign exchange**. For example, the unit of currency in Turkey is the lira. In Afghanistan, the currency unit is the afghani.



Turkish lira



Afghanistan afghanis

Special Economics Info

You can calculate exchange rates yourself. Below are some examples of exchange rates. Study the exchange rates and then calculate the correct answers to the word problems below.

Use this → One Turkish lira = $0.80 US $ One Afghan afghani = $0.02 US $

1. Bahri has 10 lira and wants to buy a lunch that costs $6.00. Once he exchanges his currency, does he have enough money? ______________ (10 x .80 (u.s. exchange rate) =)
2. Samantha has $5.00. She wants to buy a book that costs 7 lira. Once she exchanges her money, can she afford the book? ______________ (7 x .80 = ?)
3. Mara is shopping in Afghanistan and wants to buy a scarf for 700 afghani. She has $10.00. When she exchanges her currency, can she buy the scarf? ______________ 700 x .02 = ___
4. What is worth more: one dollar or one Turkish lira? ______________
5. What is worth more: one dollar or one afghani? ______________
6. You are ready to come home from your vacation in Turkey. You have 175 lira left over that you want to exchange for American dollars. How much American money will you get back? ______________ (175 x .80 =)

Hard-To-Believe-But-True!

Do you know where to find out the current exchange rates for foreign currency? You can look in the financial section of many daily newspapers, or on specific Internet sites. You can also buy a special calculator for currency exchange or use the currency exchange feature found on many new cell phones!