



# HL IB Economics

  
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## 4.3 Arguments for & Against Trade Protection

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### 4.3.1 Arguments for & Against Trade Protection

## Arguments for Trade Protection

- Despite the benefits that free trade offers, there are many good arguments which would support the use of protectionism in certain instances

#### Arguments for Protectionism

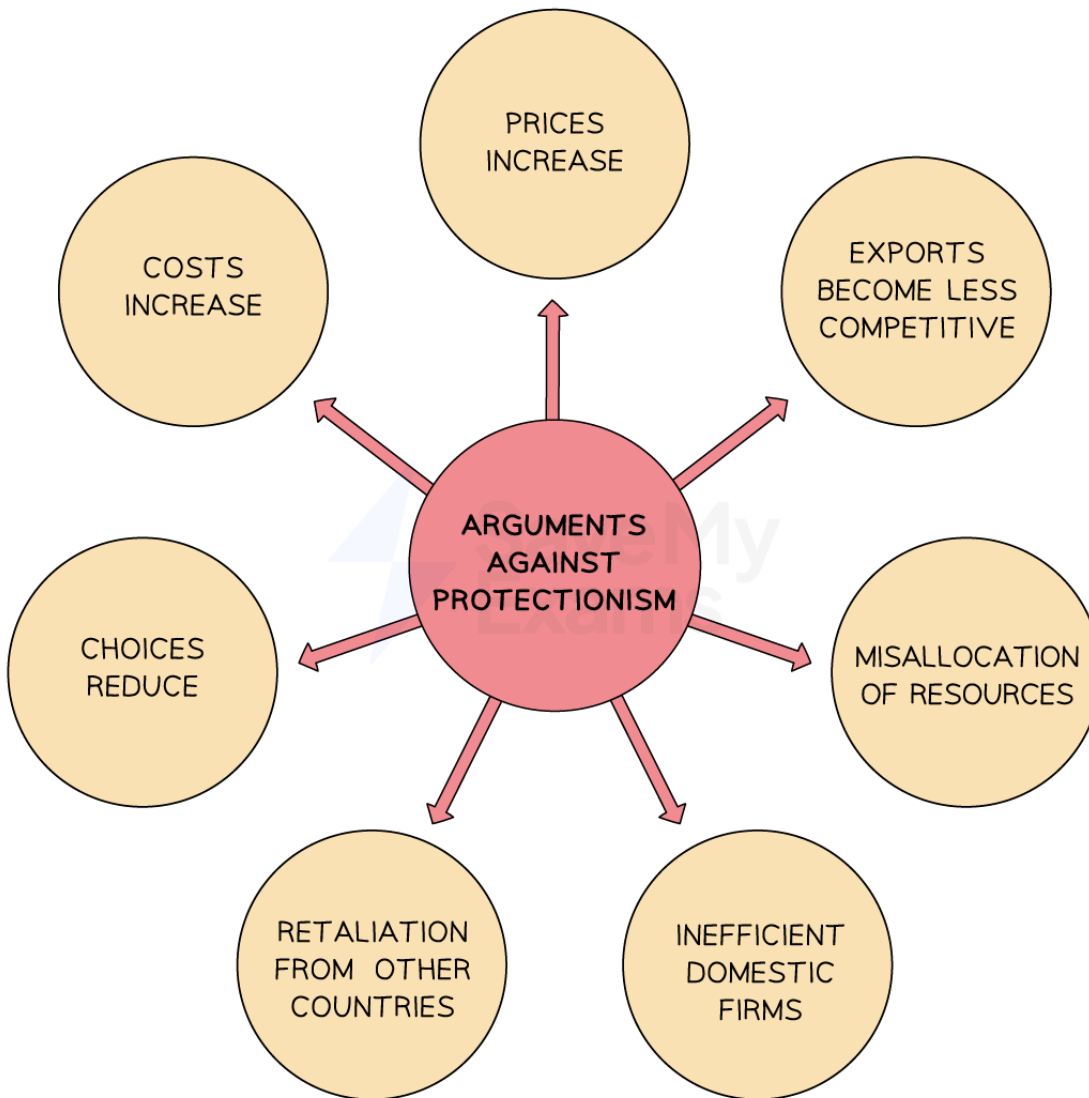
Reason	Explanation
<b>Infant industries</b>	<ul style="list-style-type: none"> <li>To protect <b>new firms</b> that would be unlikely to succeed at start-ups due to the level of global competition. Once established support is removed</li> </ul>
<b>Sunset industries</b>	<ul style="list-style-type: none"> <li>Similar to above, but at the other end of the life cycle, these firms are on their way out and the government chooses to support them to help <b>limit the economic damage</b> that would occur if they closed abruptly</li> </ul>
<b>Strategic industries</b>	<ul style="list-style-type: none"> <li>Industries such as energy, defence and agriculture are essential to <b>self-sufficiency</b> and security. Being reliant on other countries for these creates vulnerabilities for a nation</li> </ul>
<b>Dumping</b>	<ul style="list-style-type: none"> <li><b>Dumping</b> is anti-competitive and can harm a country's industries</li> </ul>
<b>Employment</b>	<ul style="list-style-type: none"> <li>When firms outsource production to other countries or certain industries are experiencing <b>structural unemployment</b> governments will step in to protect jobs</li> </ul>
<b>Current Account deficit</b>	<ul style="list-style-type: none"> <li>When <b>imports &gt; exports</b> the amount of money leaving the country to support foreign firms is greater than that entering to support domestic firms. Protectionism aims to correct this <b>imbalance</b></li> </ul>
<b>Labour/environmental regulations</b>	<ul style="list-style-type: none"> <li>Many countries offer <b>cheap labour and low-cost production</b> due to poor environmental regulations. Protectionism can help apply <b>pressure</b> to bring about change in these countries</li> </ul>



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# Arguments Against Trade Protection

- The arguments against trade protection are evident from the impact that each form of protection has on the stakeholders. These can be summarised in the diagram below



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**Seven common arguments against protectionism**



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### 1. Reduced choice

Protectionism reduces both the quantity and variety of goods/services available to customers

### 2. Increased prices

Protectionism either reduces the supply of goods/services which leads to higher prices - or in the case of tariffs, directly leads to higher prices

### 3. Increased costs

Manufacturers who rely on imported raw materials face higher costs of production. If protectionism is widespread it may generate inflation in the economy and/or lead to a loss of employment

### 4. Retaliation

Foreign producers are hurt by protectionism and it is common for their governments to retaliate with their own measures which further harm free trade

### 5. Reduction in export competitiveness

Protectionism reduces the need to be efficient or to innovate. Over time this leads to higher prices and worse quality products which will reduce export sales

### 6. Resource misallocation

Global welfare is reduced as protectionism shifts production away from more efficient foreign producers to less efficient domestic producers

### 7. Domestic inefficiency increases

With a reduced level of competition, domestic firms will be less **productively efficient** and will spend less on research, development and innovation

## An Evaluation of Free Trade Versus Protectionism

- **Trade liberalisation** has helped to generate significant economic growth and **economic development**
- As an economy moves towards free trade, **structural unemployment** often develops as certain industries move abroad
  - Without an **intentional government program** to retrain these workers, they often fall through the cracks and their quality of life reduces significantly
  - It has been argued that structural unemployment is at the **heart of nationalism** as angry workers seek to expel foreigners and get their jobs back
  - Voters are able to influence the **political agenda** and protectionism goes through periods of immense popularity
- **More economically developed countries (MEDCs)** have the funds available to provide significant export subsidies to their firms
  - The aim is usually not to protect these firms but to help them gain a global monopoly

- As monopolies develop they gain more revenue and **generate more tax revenue** which may go back to their government (often it goes to off-shore bank accounts)
- **Less economically developed countries (LEDCs)** are often pushed into free trade agreements by MEDCs with a focus on resource extraction
  - MEDCs frequently place tariffs on the **import of manufactured goods** with **added value** from LEDCs
  - This prevents LEDCs from **generating higher profits** e.g. cocoa beans are exported from Ghana to the USA at low prices and without any import tariffs, however, there is a high tariff on the import of Ghanaian chocolate to the USA
- This argument is not as simple as free trade is better. **The context** of the trade and the nature of the trading partners ultimately decides whether a path of free trade or protectionism would serve a nation better
  - There is no doubt free trade generates **higher output and income**, but the distribution of this income may be vastly unfair



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