

Assignment Code – PGBM04

Assignment Title – International Business Environment



Question Opted –

Critically evaluate the political and economic arguments that governments put forward for trade protectionism. To what extent are these justifiable? Draw on relevant theories, and use examples to illustrate your assessment.



Introduction – Trade Protectionism and Applied Methodologies

One of the most intense and noteworthy trading trends in the past spans has shown a prompt and persistent evolution in international businesses. Today's markets have truly become global and in-fenced for all in political and economic perspectives both. Also, this widespread progression in market interpenetration makes it gradually challenging for any country to avoid and overcome significant external influences on its economy affecting the country's political roots as well. To smoothen such situation the policymakers and economists are applying a controversial tactic, viz., *Trade Protectionism*, enhancing nations' economic well-being.

Trade protectionism is a kind of government influenced policy that limits unfair and unauthentic competition from foreign industries. It is applied to every international trading aspect in to other countries by applying different methods such as tariffs on imported goods, import quotas, and a variety of other government regulations. Generally, nations or group of nations works in unification as a trade union, creating such trade policies in terms of protecting its economy from possible threats of international tradeoff. Trade protection is the deliberate attempt to limit imports or promote exports by putting such trade barriers. In spite of realizing its futuristic negative impacts, it is widely and openly practiced and accepted by every nation. All countries operate the international trades with some form of import controls.

The only purpose is to mitigate and shield domestic commerce and diligence from external competition and preclude the conclusion ensuing from the interplay of free and independent market forces of supply and demand. Various economic and political justifications are considered by the governments as the primary roots in the need of the trade protectionism, can be outlined, but before that various trade protectionism methods implemented for nation's economic and political well-being are:

- **Tariffs** are the tax applied on imported goods from foreign countries. The domestic government imposes the tariff to ensure the fencing on imports of foreign goods and services, to protect its own manufacturing industries, and to raise tax revenues. For

example, the United States has imposed a tariff of 12% (approx.) on the import of bicycles from the UK.

- **Subsidies** are imposed both on domestic productions and on exported goods. The Government provides state aid for domestic productions to overcome financial crises. Also, export subsidies are charged to boost local production by lowering cost or soft loans are facilitated to fund the dumping of products in overseas markets. The best instance is subsidies offered to Common Agricultural Policy in the EU.
- **Quotas** are a constraint on certain goods, and commodities that can be legitimate to be imported into the nation in a given time period. Generally, quotas do not bring any revenue for the government.
- **Antidumping Policies** are applied by a nation in order to ensure the fair gain on product prices in the foreign markets. Such rules also include certain regulations restricting sales of goods or commodities compromising with its fair market value just to ensuring a place in foreign markets.
- Besides the above methods, certain implications are also brought into action such as **Administrative Trade Policies, Exchange Rate Control, Local Content Requirements, and Preferential State Procurement Policies**. Also, some hidden protectionism is also implemented by the government to ensure the benefit of local industries and to control foreign workers, investors and traders.

Political and Economic Arguments –

Any nation cannot move in free trade on this globe; however all are interconnected in some ways, hence certain arguments always put by the governments on their economic and political grounds, some of them can be enlisted here:

- a. **Infant Industry Protection** – The most common, traditional, and often used reason by the countries. Every nation claims that many up growing industries have great potential and hence are need to be taken into consideration first. Since they require a temporary safeguard to avoid the low-cost foreign producers and also to compete as equal; however they require a sufficient time to develop such fund saving methodologies to

enhance their market share and proficient home workers. This urging will make the local producers raise the price of their goods and flourishing them with equal profits.

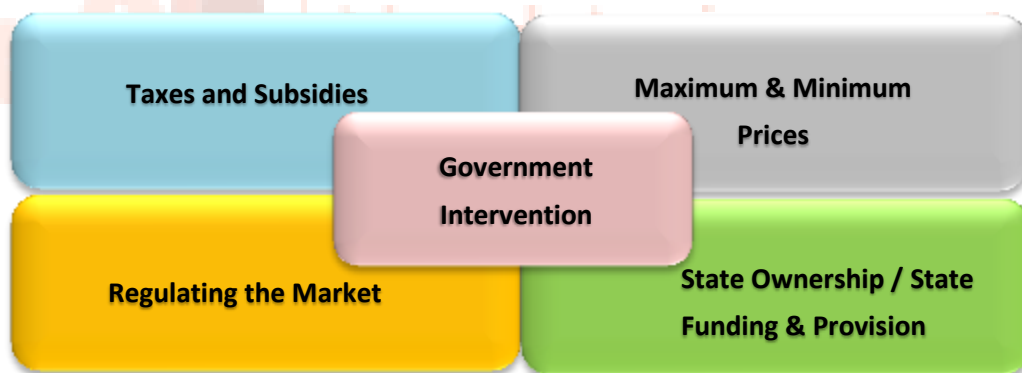
- b. Jobs and Industries Protection** – It is a political argument from the perception of saving livelihood and domestic industries that provides employment and impacts vitally in economic growth and interests. In short, without trade protection, a nation may lose long run industries resulting job crises, increased unemployment rate and hence an eventual decrease in nations' *Gross Domestic Product (GDP)*.
- c. National Safekeeping** – This implemented when the relevant industries involve defense-related companies, food manufacturers, and tech advanced firms. Here the argument lies that industries related to defense like aerospace, research organization, semiconductors, high-tech electronics are immensely important for the nation's security viewpoint, as the production of defense items also protects from foreign competition hence this protectionism is obligatory for nations' survival.
- d. Consumer's Protection** – Somehow consumers are unaware of the quality and safety of the products, hence the protection is implemented to safeguard the people from imported goods. The policymakers hence ensure the safety of such items by claiming that certain imported product is not following the set parameters of product acceptability in the domestic market. Every country has different safety standards thus can argue that the foreign traders must follow the government imposed safety requirements to enter in the domestic markets, ensuring its economic strength as well.
- e. Prevent Unethical Practices** – Sometimes countries impose some trade restrictions to force some changes in unethical practices in foreign countries. Such restriction is the way to show dissatisfaction with its neighbor and trading associate countries, in terms of unusual implemented practices there. For instance, in China employees gets low wages against a long tenured working shift. This reflects the poor safety and health legislation applied there which un-aid them with satisfactory cost compensation.
- f. Revenue Generation** – To figure-up, the revenue or to balance the fund in case of lower generated income tax or corporation tax, the concern governments of the country imposes tariffs and other implications on foreign goods. When protectionism is in the

form of tariff then instead of limiting the demand for imports via the impact of higher prices, a tariff in a tax form is applied. This is most successful said experiment of raising revenue where the imported products demand is price inflexible.

- g. Strategic Arguments** – Sometimes a particular product is a part of a strategic importance for the country's benefits no matters political, economic, social or military reasons. For example, agriculture or coal is such products which have tactical importance to the country and hence protectionism is taken at priority and justified on certain grounds.

Justification of Applied Arguments – The Pros and Cons

Every coin has its two sides and so every policy does. Trade Protectionism arguments if comprises a better opportunistic approach on one side then also possess some flaws on the other side even. The government intervention or protectionism in trading effect can be understood as:



Trade protectionism is a policy kind that confines biased competition from international industries and markets; however being a governmentally influenced self-justifying extent. It is fruitful in the short run but could be very destructive if taken away for long-term, making the nations and concern industries less worthwhile and stable in international trade.

1. Advantages

The trade protectionism argument is supported by the following opportunistic approaches:

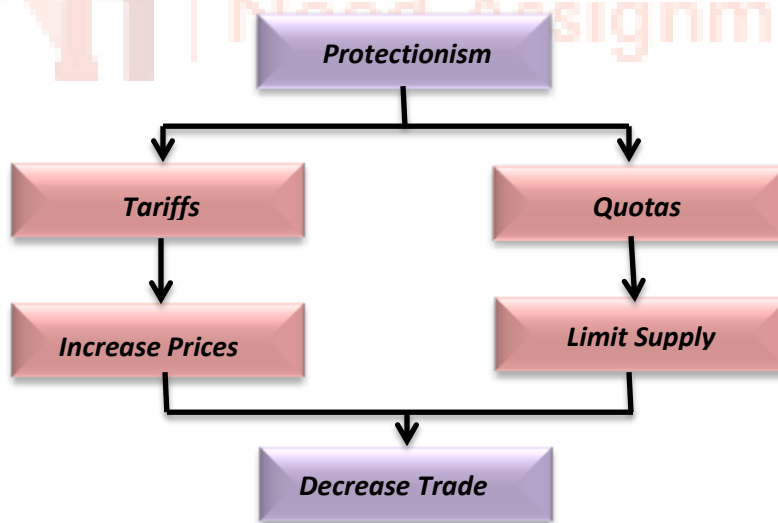
- Protectionism enables the economy of the country keeps rolling, in spite of showing a fall in imports and local industries have less competition. On decreasing imports with trade-specific restriction, the domestic companies have an opportunity of growth. In lieu of this, the unemployment rate could also be depressed gradually so as to have more opportunities in the domestic industries. Hence the firms will be more convenient in performing far better with lesser difficulties. The consistent workflow will let the economy growth ongoing and progressive.
- Domestic industries become more flourished due to having less competition with export markets, as the trade restrictions on imports raise domestic prices through higher costs for unexceptional efforts which influence price hikes in the export products hence get blurred from the market segment alongside the transnational competition.
- Opportunity for the new industries to establish and grow in the inland market at an adequate rate, as they are not irritated by the tough competition defied by experienced and set foreign firms. This ensures a continuous progress of these firms until they reach to the extent to face the level of competition in international markets.
- A country's economic well-being could also be improved due to trade protectionism if it has a monopoly over a specific item production. Policymakers and Economists even believe that if a country produces an outsized proportion of the worlds' production of a specific item, then it may have an opportunity to mark its monopoly over the product thus gain more from trade. This is the implication of simple theory that a monopolist exploits profits by raising prices and dropping yields.
- A voracious pricing behavior opted in lieu with price discrimination is generally opted by the industries under the process of dumping. Anti-dumping duties are thus applied through protectionism to restrict companies to sell their goods at lower prices than that of the production cost. This causes the higher expenditure by the local consumers in comparison of overseas areas. In short run consumers though benefitted by the lower prices of foreign goods but in the long run determined weakening of domestic prices can force the local industries out of the competitive market and create the monopoly of the

overseas industries in the same. Hence, protection via dumped goods is a justified and an advantageous process to take forward in the development of domestic industries.

- Trade Balancing is one of the chief perspectives of getting advantageous results via protectionism. Many countries sometimes feel the imbalance in their trade against the international one. In case if a country is importing goods in bulk then an appropriate tariff applied on the same. Thus, a suitable tariff policy is implemented to uphold an encouraging balance in the trade.

2. Disadvantages

When protectionism is taken as a favorable attribute in balancing the trade policies within the nation also with the associate countries, it impacts adversely as well in other aspects. As said above, if these policies kept on for a long run it will have more contrary effects in terms of sales of goods, diminution in gain and also affect the economic and political relationships with other countries. The disadvantageous effect of the trade protectionism can be assumed as:



The restrictions in trade could bring uncertainty in the coming business aspects; however, Sir Arthur Lewis added his opinion as a counter argument in trade restriction. He says, "Imports can never increase the national income since it would result only in diverting resources to the

production of items for domestic purpose. Domestic employments will also not going to increase reducing imports as in the case this would lessen the export to the same level”.

- Protectionism acts as a barrier to free multinational business. If a nation is imposing high tariff rates, the aspiring country won't be allowed to produce enough goods in which it has cost advantages. Hence, trade protection affects world to manufacture and consumption of internationally traded items.
- Consumers are also get affected by such interventions and so they reinforced to buy products of inferior quality and most probably at higher prices. In this condition consumers have a limited choice at a higher price in comparison, causing inflation at the great increase
- Weak home industries get secure shelter in the domestic market. At the time being these industries get permanent and automatically stand in competition with the foreign counterparts, with a mismatch level of product quality and standards; however, the company requires a constant protection for an indefinite period.
- The International trade war may also be highlighted due to the uneven and fallow trade fortifications. Countries will act reciprocally being affected by the trade policies of the associated country, no matter if the political and military allies. Politically this would also harm the relations with the trading nations as most of their associations are founded on trading grounds.
- Protection not only affects the economic structure of a country but tend to rise to political manipulation as well. Bestowed interests in the protected sectors are also getting affected at vast.
- The Anti-Dumping is disadvantageous as well alongside being prolific. Anti-dumping action usually indicates charging extra import duty on a product specific, exporting by an associate country in order to balance the price to its optimum value. This would imbalance the trading, political and economic relationship with its allied countries, hence need to be taken with extra concern.
- Exchange rate controls led to long-term inflation since the domestic nation keep its currency low valued. By doing so, the country can sell its products at cheaper prices at

foreign markets, and any foreign product sold in its market observes price hike. This will though help the local industries but consumers will be forced to pay higher against the consumption of certain article.

Hence the Trade Protectionism is less advantageous but has more harm. Though it supports the nation's economy at par but could damage severely the country's economic and political roots. A couple of theories with relevant instances can be outlined here:

- a. **Classical Trade Theory**, clearly supports that trade without protection could be advantageous for countries and rest on the concept of absolute advantages in production. It is noteworthy here that the Theory clearly deals with protection in terms of taxes and tariffs, thus worthy to portray the relationship between trade policies and pattern. The basis of international trade in this theory is comparative advantages, as it outlines a clear analysis especially regarding the free market trading exemplary.

Trade Theory of Absolute Advantage was given by the Scottish economist, Adam Smith in 1776, supporting the classical trade theory. The model is determined by a simple comparison of labor efficiencies across the countries, as nations can produce higher quantities on the availability of enough workforces. This enables the lesser need of any interventions in the international trade; hence conclusively lesser the tariffs and barriers higher will be traded rate and gains.

A recent news can be taken to justify the theory is far growing country India has done a prodigious investment and trade in Germany. Near about 74 Indian companies have drawn a business of 11 billion Euros, also provided employment to about 23,000 people. As per the report titled "**Indian Investment in Germany 2018**", collectively driven by *Confederation of Indian Industry (CII) and the Indo- German Chamber of Commerce (IGCC)*, the business has been made in Automobile, Metal, Chemical and Pharmaceutical industries.

- b. **Theory of Terms of Trade Argument**, for adopting protectionism is on cost-benefit analysis based. Trade policies set by large countries or a union of countries is established on the same grounds. In the perspective of international trade, the decision

whether to implement the restriction or not by a large country may be upshot directly on the price of goods in rest of the countries.

When a large country or a group of nations enforces import interventions then this may affect the quantity supply and price along in the world market; however, the benefit is comparable with the tariff here. The applied tariff on the importable goods may eventually affect the prices of importable as well as the exportable goods in every country associated with. Hence could be said that the cost of the tariff is calculated by the alteration in production and consumption modification referring to the further changes in domestic market scenario and exchange rate ratios.

Under certain conditions, although the barriers and interventions act positively in the improvement of trade prospects among different countries; yet somehow it creates uncertainty and distress with some specific nations. Since a precise tariff value cannot be accepted by all member countries and probably it could raise the sense of dissatisfaction.

A recent incident occurred on leaving the “**Brexit**” by Britain for certain reasons. Britain voted to leave the European Union, as the EU was strangling the UK in oppressive guidelines, which was affecting the trading policies and relationships with other associate countries. An estimated figure of £600 million (\$880million) per week was the cost to British economy for EU regulations, given by Gove.

- c. **Theory on Market Failure**, states that whenever optimized implementation of resource allocation fails then it tends to market failure in the domain. Externalities are another type of market failure as well. For example, a development of new and advanced technology in a certain sector also supports to raise the economy as well; however, industries do not consider applying the economy-wide technology to derive from a potential gain perspective. The following approach may be led to catching an overall benefit of the nation with such advancement of resources, hence fails to capture the marginal social benefit; however, a marginal social benefit is underlined as a justification for adopting policies of protectionism.

Taking similar example for Britain left Brexit, manpower is the major resource for any nation indeed ensuring the sustainable growth and development. Another topmost reason for Britain to leave Brexit was the immigration of thousands of Eastern European in Britain for job purpose. This tends the dumping of its own efficient workforce which started to create dissatisfaction among the people affecting its Cultural, social, political and so economic structure as worst.

While many Brexit supporters were arguing to reduce the overall immigration, other enforced for the more sensible immigration system in the UK. Even EU regulations required the UK to admit all EU citizen want to move to Britain. This created an uneven ground for the immigrants and the local people both, which led Britain to stuck-off from Brexit.



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