

# International trade and protectionism

Sociology



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Protectionism is the policy of restricting trade between the nations by resorting to restrictive regulations by the government of a state to discourage imports and to prevent the entry of foreign players in the local markets. These restrictive regulations may be of various types. The governments may impose tariffs that are taxes on imported goods, thereby discouraging the importers and making foreign goods costlier in the local markets. The other way is to resort quotas that is to limit the number of foreign goods, thereby increasing their price. Administrative rules are one other way of curtailing imports. The nations may opt for anti-dumping laws to reduce the entry of cheap foreign imports. A direct subsidy or export subsidy that is extending monetary support to the local industries and exporters is one other way of supporting protectionism. As far as monetary measures are concerned, the developed nations can reduce the price of their currencies by exchange rate manipulations, thereby making the imports dearer.

All this protectionism is against the spirit of free trade, which allows the traders to carry on their business activities without any government interference or regulations. The policy of protectionism will not only weaken the local industries in the developed nations by making them less competitive but will also jeopardize the economies of the developing nations by disabling them from taking advantage of their comparative advantages. Besides, counter-protectionist policies resorted to by the developing nations could further harm the interests of the industries hailing from the developed nations. In fact, as per the WTO, most of the member states have practically realized the counter productiveness of giving up before the temptation of going for protectionism in the present recessionary situation defined by a <https://assignbuster.com/international-trade-and-protectionism/>

general economic decline and a fall in the GDP of nations for two consecutive years. Vying for protectionism in such tough times could give way to a vicious spiral in the international trade in the form of retaliatory measures by the affected nations.

Hence, it will be wise for the politicians in the developed nations to restrain from protectionism in the face of popular pressure. This will unnecessarily sustain the non-competitive local industries and may give way to trade wars that will jeopardize the international trade.

Protectionism is not Self-Defense; It may be politically popular but promoting it would surely deepen the recession.

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Former President George W. Bush increased 300 tariffs in the final days of his administration; Congress successfully inserted " buy-America" provisions into the American Recovery and Reinvestment Act; French President Nicolas Sarkozy threatened to repatriate auto manufacturing from Eastern Europe, and UK Prime Minister Gordon Brown promised " British jobs for British workers." Desperate times often bring damaging measures. But protectionist acts will only further stifle world trade, thus lengthening and deepening the recession.

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In Book IV, Chapter 2 of "The Wealth of Nations", Adam Smith makes clear his distaste for what the modern world calls protectionism: "To give the monopoly of the home-market to the produce of domestic industry... must, in almost all cases, be either a useless or a hurtful regulation." While G-20 nations and most other free-trading countries strive to meet the letter of international trade law, some appear to be skirting its spirit.

Indeed, the World Trade Organization regularly tracks "trade and trade-related measures," country by country. Its latest survey covered September 2008 to March 2009 period, and pointed to more than 200 measures, often with multiple effects. Some of the actions are no doubt acceptable under WTO rules - and the organization says its listing "implies no judgment by the WTO Secretariat on whether or not such measure, or its intent, is protectionist in nature." But it is clear that, in many cases, the measures could limit imports.

Argentina, for example, introduced reference prices for "around 1,000 imported products considered sensitive," the WTO report states. State-sponsored reference pricing allows domestic companies to sell their goods at just below-market prices and is considered one of the basic non-tariff trade barriers.

The allure of protectionism is growing, the WTO says. "At the start of this year, most WTO members appeared to have successfully kept these pressures under control," according to the most recent reports from the director-general to the organization's Trade Policy Review Body. Now the barricades are going up, with higher tariffs, other restrictions, and anti-dumping actions on the rise. Although most stimulus bills "clearly favor the restoration of trade growth globally," several include trade-limiting

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government aid and subsidies, and various buying and hiring restrictions. And as anti-trade measures pile up, " this will worsen the contraction of world trade and undermine confidence in early and sustained recovery in global economic activity," the WTO says.

The world has experienced the misfortune of protectionism before. High tariffs didnt create the Great Depression, but they made it greater, making the downward spiral uncontrollable and unstoppable. Smoot-Hawley was a craven concession to the perceived public will, a pure-play for votes. The law passed despite the failure of the Fordney-McCumber Tariff, enacted in 1922 to protect the American farmer. Fordney-McCumber greatly limited European agricultural imports. But overproduction eroded prices, and American farmers continued to suffer. So newly elected President Herbert Hoover raised tariffs even more. In no time other industries sought and were granted similar " protection," which was solidified by Smoot-Hawley in 1930.

An escalating imposition of retaliatory measures ensued amid already weakened economies, a self-destructive virus that strangled trade and was only wiped out by a world war.

The 300 tariff hikes signed by President Bush complied with WTO rules, and the " buy-America" provisions in the stimulus bill were altered to the same effect. But Brown still stands behind his " British jobs for British workers" cry, and Sarkozy has not withdrawn his repatriation remarks. This protectionist stance may win them votes, but it will harm their economies.