

Some economists
say world and u.s.
economic growth is
declining. what do
you thin...

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12th June Question 3. Free trade, nature of the problems associated with protectionism, recommendations and possible unintended consequences of U. S. protectionism

Free trade

Free trade refers to a policy that is adopted in the international market whereby governments do not restrict exports or imports. Despite being members of the World Trade Organizations (WTO), most countries still impose restrictions that are aimed at protecting the local employment. Major ways through which protectionism is undertaken is through application of tariffs and imposing subsidies on the exports. Similarly, the government may use methods such as import quotas, strict legislation, non-tariff barriers and taxes as ways of restricting free trade. One of the notable features of free trade is that it entails trading of products without taxes. Secondly, it entails unregulated access to markets. This implies that countries can freely enter the international market without any restriction. Thirdly, it involves trading without including taxes or other barriers (Brakman 18). Fourthly, it countries are not restricted in accessing market information thus ensuring that companies within are able to get adequate information concerning global market an aspect that makes them competitive. Another significant aspect of free trade is that it involves trade agreements between states. Despite the merits of free trade especially in the efforts to achieve globalization, it has generated criticism not only in developed countries but also in the third world states.

Criticism of free trade

The first criticism of free trade is that it retrograde development. According

to Friedrich List, a German-American economist, regions that have adequate raw materials and natural resources such Africa and Arab countries develop at a slow rate as compared to states without such resources. This is based on the fact that there was a massive exportation of raw materials that was done forcefully leading to slow economic development in the exporting countries. Free trade is argued to use more resources to distribute. For example, critics indicate that delivering of products to other countries results to an environmental impact due to the fossil fuel generated. The fossil fuel also entails other externalities. The cost of reducing the environmental impact is reflected in the market prices of goods making the whole process of exporting expensive. Another criticism of free trade is that it prevents young industries from developing. Based on the importation of external products for example from developed countries, developing countries experience reduction in the demand for local products resulting to restriction of their expansion. The influence of foreign companies is another notable criticism of free trade (Krugman 24). Within developing countries, multinational companies are criticized for use of business policies that are focused at influencing the political issues foreign countries. Some of the key strategies that the international companies include tax holidays and underpaying for property making some governments favor them at the expense of local firms. This has led to public demonstrations across many countries in the world. Free trade is also said to benefit the wealthy countries. This is based on the fact that wealthy states own more capital making the cost of production to be less. Larger companies in the developed countries are also criticized for acquiring smaller companies in developing

countries thus lowering the rate of employment in third world countries. Critics also argue that free trade results to economic bubbles which may negatively affect the world economy resulting to a recession such as the one of the one that was experienced in 2007 and 2008. Besides the economic implication of the free trade, it has been argued that the trade affects the sociopolitical factors. For example, it is argued that the North America Trade Agreement can affect Canadian culture based on the challenging of Canadian cultural laws by foreign companies including television broadcasters, magazines and newspapers.

Calls for protectionism

As the result of the problems associated by free trade, countries have now turned into the policy of protectionism. This entails an economic policy that aims at restraining trade between countries. Some of major ways of protectionism that countries use includes imposing tariffs on the imported commodities, use of quotas among other government regulations.

Protectionism is supported by some countries based on various factors. First, it is deemed to support infant industries. This results to economic development of a country as well as increase in the level of employment.

However, protectionism has been noted to create wide range of problems. According to the principle of comparative advantage, the benefits that are generated by free trade outweighs the losses since free trade creates more jobs since countries are able to specialize in the production of services and goods. Additionally, free trade allows workers in countries to benefit. For example if a country insists on the policy of protectionism, workers are not assisted by the international labor standards an aspect that may result to

strikes and less production of goods and services. Protectionism also may result to wars. For example, the American Revolution was caused by various factors and among them were the protective policies that were adopted after World War I and World War II. Based on the increased need for globalization, protectionism may negatively affect the vision of the world to unite. As a result, the economy especially in the developing countries may be negatively affected an aspect that may result to low level of employment, reduction in household income and low gross domestic product.

Recommendations

I recommend that developed and third world countries to emulate free trade. Taking into consideration the high rate of unemployment for instance in the African countries, it is imperative that the government allows foreign firms to establish their branches in such countries in order to absorb the available human resources. Through allowing firms to import raw materials from other countries, it will result to availability of products in a country thus ensuring that it does not incur high costs of importing finished goods. Another recommendation is that government should not impose high taxes on the imports in order to encourage foreign companies to bring in their products. Even though adequate measures must be put in place in order to ensure that substandard and counterfeit goods are not imported. This requires passage of effective legislation by the countries' law making bodies.

Possible unintended consequences of U. S. protectionism

Protectionism policy of the United States which entails protecting the domestic industries and making their workers be provided by subsidies is not a genuine act since United States is imposing tariffs on competing foreign

countries products making it hard for those countries to trade with them. This has been blamed by trade activists for closing trade from other foreign countries and again local firms raise the prices. Domestic consumers or the native individuals of United States are given less choice on what to buy from where and from whom. This is an alarming problem that will lead to economic stability of the united state to be lowered thus making it difficult for United States to thrive in terms of trade. This will mean that poor relationship in terms of trade between United States and other countries will be the order of the day since World Trade Organization allows non tariff for trade between countries making United States to be unique which will impose their own import tariffs and awarding subsidies to their industries. Economic growth will be low in United States and wealth since specialization must be incorporated in trade which means that different countries have what they do best and thus will mean with protectionism those countries will not be conducting trade with united states.

Trade builds dependencies and this will mean that United States will not depend on other countries on what they do not have. Meaning their trade will be only within the states and thus different commodities from other countries will be locked out. low production will be experienced in united states for instance if California is to produce electricity that is required in the whole of US and is not sufficient to all the states meaning that the commodity will be sold at a high cost additionally the commodity will be unavailable when in need and scarcity will be the order of the day making it difficult for United States residents life undesirable (Antonio 26).

Unemployment will also be one of the unintended consequences since those

who depend on trade with foreign countries to import their products and then buy to sell it to others will mean their work will be over since shipping of products will not be allowed. This will mean the youth and other trade merchants who have been relying for trade will have to look for employment in other areas making life of individuals unbearable.

Conclusion

Free trade is necessary if countries are focused at attaining economic growth both in the short term and in the long term. By allowing companies to import quality raw materials, governments will increase the rate of employment as well as national demand. On the other hand, protectionism hinders importation of goods thus negatively affecting the economic progress of a country. States should on their part put in place effective legal policies to ensure that some companies do not use the policy of free trade to engage in importation and exportation of illegal goods and drugs.

Works Cited

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