

Evaluate the case for and against protectionism

Business



Evaluate the case for and against protectionism.

Protectionism is an economic policy which restricts trade in goods and services between countries. This can be done by using a tariff, which is a tax on imports, or by using non tariff boundaries. These include a quota, which is a quantitative limit on the amount of imports allowed, or even an embargo, which is a total ban on imported goods. Additionally, the government subsidises firms who export large quantities of goods and services, as this encourages domestic production. The government may also issue import licences to importers whose imports will eventually become output, for example firms who import raw materials to be made into products.

Some countries form VERs (Voluntary Export Restraints), where two countries make an agreement to limit the volume of their exports to one another over an agreed period of time. Also, governments may manipulate the currency, for example by depreciating the value of the pound against the euro, which would make it more expensive for UK households and firms to trade with countries in the euro zone. Some countries consider free trade beneficial in the long run as it leads countries to become specialised and allows less economically developed countries to develop. However, other countries do not benefit from free trade as they are not internationally competitive; therefore they decide to introduce protectionist measures to prevent foreign competition from reducing domestic output. In this case there are some economic justifications for protectionism.

Firstly, protectionism can be used to stop dumping. Dumping refers to foreign producers exporting goods at a lower price than it charges in its own

country or at a lower price than the costs of production. This is illegal under World Trade Organisation regulations; however it is difficult to provide evidence against firms located in countries where production costs are low. Anti-dumping measures, which increase the price of dumped imports, can be used to offset dumping. An example of this is the minimum import price on Norwegian salmon imposed by the European Union. This was imposed after Scottish and Irish salmon farmers accused Norwegian fish farmers of exporting salmon at a lower price.

Secondly, protectionism can help infant industries develop a comparative advantage in the short run. Protectionism will help these industries grow without them having to face international competition, which could potentially restrict the industry's growth. However, the industry may not become fully efficient in the long run, as it does not face international, in which case it will not develop a comparative advantage over another country. Thirdly, protectionism is used to reduce imports of demerit goods such as cigarettes and alcohol, which have negative externalities. These goods usually have high tariffs and there are limits on the amount of these goods that can be brought home undeclared by travellers.

These protectionist measures are used to prevent market failure as the use of demerit goods leads to market failure. For example, if there weren't any tariffs on cigarettes, the price of cigarettes would be lower, meaning consumers are willing and able to afford more cigarettes. This would lead to increased pressure on the NHS, who would be responsible for treating patients who suffer from smoking related diseases such as lung cancer. On

the other hand, protectionism can have negative economic effects.
Protectionism leads to a dead weight loss