

ANALYSIS ON THE TRADE PROTECTIONISM AND FREE TRADE

Written by **Rajat Yadav**

3rd Year BBA LLB Student, Amity University Rajasthan, Jaipur

Abstract

This paper is the analysis of the two most contradict subject in international trade that this free trade and protectionism and examined the argument frequently used, but it consists the analysis further than the controversies on either side; and discover why the protectionism is adopted and why free trade is adopted they both have their particular importance in an particular country, and trace the origin and history of the protectionism and connection between the free trade and protectionism. The application of free trade idea would secure the largest production and free and fair distribution of wealth .

Introduction

In March 2015, India exported more than US\$ 22718.69 million¹ in agricultural commodities, manufactured good and all other products to countries all over the globe, representing about 7.6 percentage of the nation's Gross Domestic Product for the year. Political and Industrial leaders eager to see it rising. In fact, Prime Minister Narendra Modi has set a goal of doubling India export by 2019-20

But international trade is a very uncertain issue to get right, and it can take years or even decades, for free trade program to pay off. Since the end of World War II, the most of the developed countries agreed for the reducing traffics, duties, trade quota, and other direct obstacles to free trade, most parts of the world economic prospered in last 60 yrs as trade barriers came down.

Protectionism is the economic policy of restraining trade between countries through methods such as: tariffs on imported goods, restrictive quotas, and a variety of other government

¹ Press Information Bureau, government of India, Ministry of Commerce and Industry

regulations. Protectionist policies protect the producers, businesses, and workers of the import-competing sector in a country from foreign competitors. Protectionism is beneficiary for the domestic producers of goods and services; it protects the market of the domestic producer from the foreign brands doing business within the country

While, Free-Trade is a policy followed by some international markets in which countries governments do not restrict imports from, or exports to, other countries.

Free trade agreement between India and EU. India has to help the EU in imports according to the free trade agreement. EU wants to import wine, whiskey, olive oil and 40 types of fishes, but three states of India Goa, Maharastra, and Tamil Nadu these states shows more consumption of wine and whiskey, these states imposes additional taxes on foreign wines while not subject to domestic wines helps to encourage the domestic wine industry².

Free Trade and Protectionism Used Throughout History

Trade protectionism and free trade were major issues for the government throughout history. Free trade and Protectionism based on the tariffs, restriction on import of goods, duties, etc. At the start of the Industrial Revolution in the eighteenth century, as belief in the protectionist policies of the mercantilists was decreasing. The Physiocrats believed that land is the source of worth and was the first to articulate free trade under their laissez-faire policy³, according to this policy there should be no tariffs on the export of agricultural goods. Later, English economists Adam Smith and David Ricardo rebelled against the “mercantilists” protectionist doctrine. Ricardo advocated free trade and attacked the Corn Laws⁴, which limited the import of grain into England to protect domestic farmers.

² Go through council regulation (EC) No 479/2008 in which official journal of EU introduces provisions of EU's support programs to its wine industry

³ is an economic system in which transactions between private parties are free from government intervention such as regulation privileges, tariffs, and subsidies. (<https://en.wikipedia.org/wiki/Laissez-faire>).

⁴ The **Corn Laws** were measures enforced in the United Kingdom between 1815 and 1846, which imposed restrictions and tariffs on imported grain. They were designed to keep grain prices high to favor domestic producers. (https://en.wikipedia.org/wiki/Corn_Laws)

During this period, raising revenue, rather than protection of domestic producers, was the primary objective of tariffs. For example, revenues from tariffs were used to build and maintain bridges and roads to make trade possible.

Tariffs historically have been used for three purposes: - revenue, restriction, and reciprocity.

- The first reason, revenue, is to raise funds for the government.
- The second one, restriction, means a government would restrict imports into the domestic market to help domestic producers of similar goods.
- The final reason why countries have used tariffs is for reciprocity, which is sort of like bargaining.

After the end of the world war II, United States proposed to reduce tariffs barriers and free trade. Later on, U.S helped to established the General Agreement on Tariff and Trade (GATT) and after that World Trade Organization (WTO). Previously there was an International Trade Organization (ITO) which was rejected because of the lack of approval of U.S Congress. In the 1970s the U.S managed for the free trade agreement such as North American Free Trade Agreement (NAFTA) in 1990s and the Dominicans Republican Central America Free Trade Agreement (CAFTA) in 2006 and many more agreements.

Six European countries formed the European Coal and Steel Community (ECSC) in 1951 after seven years it became European Economic Community (EEC) in 1958. Two main goals of the EEC were helped to growth common market and establishing the customs union between its members. After expanding its members later on EEC became the European Union in 1993.

Example of Protectionism

There are many examples which can be mentioned here, but the researcher is mentioning here some famous examples of protectionism.

One good example comes from the British Corn Laws, which were import tariffs on grains that dated back to the 1600s. After the Napoleonic Wars, in 1815, they dramatically tightened the Corn Laws and limited imports of wheat and other agricultural commodities. It was controversial in Britain because landowners wanted those restrictions and urban consumers did

not. Of course, it raised the price of food in Britain and had a lot of adverse consequences for the economy. It wasn't until the 1840s, when potato blight caused a massive famine in Ireland, that the government began to seriously consider repealing the Corn Laws⁵.

EU Common Agricultural Policy (CAP). Despite reforms and some reduction in tariff rates, the EU still impose substantial tariff rates on many agricultural markets. The aim is to increase prices for domestic European farmers in order to increase their income.

The table below suggests that some agricultural products, e.g. beef and dairy, have very substantial tariff rates of over 75%. For example, there are 54 dairy products which have tariff rates of more than 75%

Tariff	below 20%	Above 20%; below 50%	Above 50%; below 75%	Above 75%
Meat and offal	127	50	22	34
Dairy products	33	44	44	54
Vegetables	109	7	2	4
Edible fruit and nuts	140	61	0	0
Cereals	19	23	7	6
Oilseeds	78	0	1	1
Sugar	30	6	2	9
Agricultural products	1569	352	134	149

Source: Jean, Sébastien, Timothy E. Josling, David Laborde (2008): The Consequences for the European Union of the WTO Revised Draft Modalities for Agriculture

In addition, EU farmers benefit from the domestic subsidies of the CAP which help give an advantage to exports⁶.

Protectionism and Free Trade: Country's Boom or Doom

Protectionism Blooming Glory of The Country

⁵ http://www.cobank.com/Newsroom-Financials/~media/Files/Searchable%20PDF%20Files/Newsroom%20Financials/Outlook/Outlook%202010/Outlook_0710.ashx

⁶ <http://www.economicshelp.org/blog/6911/alevel/examples-of-protectionism/>

Protectionism means that the protection of the local or home industry, manufacturer, and customer. The basics of the inner trade are not involved in trade activities across the national border. Hence this decreases the special problem which frequently arises during export and import, such as foreign languages, foreign laws customs and regulation. Furthermore, the information from the particular firm in particular country required in order to trade might be difficult to obtain, as well as the exporting countries numbers of cultural differences may have to be taken in mind while trading. All these complex and hard situations rendered many countries to think twice by staying back at home and enjoying home manufactured goods and products, oppose the practice of import and export.

Moreover, import products from a foreign country will mean that taking into consideration its currency, poorest of all if the exchange rate variation is wider than the protectionist country. Although this type of situation creates a condition of taking debt to fulfill the contract or partnership agreement of import and export. for example, if a manufacturer is in the desire of practicing export or import is always stock in currency transaction, forcing it to take debt from the world bank in order to keep the agreement running otherwise will have to face a penalty for breach of contract.

There are many another risk like

- political risk such as the imposition of restriction on imports etc
- commercial risks such as markets failure
- financial risks, adverse movement in exchange rates
- transportation risks.

Protectionism is the country's glory because protects the home industry, product, and consumer by disfavoring the foreign imports goods. It keeps domestic economic keep rolling the domestic economic is also strengthened because unemployment goes down due to the home industry and this industry will produce more goods and sell their products with very less difficulty, it gives the firm fewer reasons to decrease it costs by decreasing its workforce. These jobs will continue to consume and allowing the economy to flow.

An exception in which protectionism could improve a nation's economic well-being is when a country has monopoly power over a good.

Protectionism A Fatal Failure: The Doom

No country is able to produce all the commodities that it needs. Some countries are rich in particular resources, while others may lack them. Like Brazil and Colombia have an ideal climate for growing coffee beans. The US is a major consumer of the coffee because it does not have the suitable climate to grow any of its own. This made the Colombia and Brazil largest exporter and US largest importer. If in this case US practice protectionism, they are not able to import coffee.

A country might claim that it has more than enough particular items to meet its needs and enough technology to manufacture or transform its natural products, however, this country might be consuming more than it can produce internally and thus will need to import from others depicting equilibrium in trade⁷

Protectionism results in a deadweight loss. It has been estimated by the economist Stephen P. Magee (International Trade and Distortions in Factors Market 1976)⁸ that, the benefits of free trade outweigh the losses as much as 100 to 1. Moreover, Alan Greenspan, former chairman of the American Federal Reserve, has criticized protectionist proposals as leading "to an atrophy of our competitive ability. If the protectionist route is followed, more efficient industries will have less scope to expand, overall output and economic welfare will suffer."

The consumer pays more with protectionism. Without the system of competitive market, the producer can charge more price without an increase in quality of the goods, because there is no other producers or foreign product. When a business has no competition consumer left without the option.

Trade protectionism limits consumer access to foreign goods and non-domestic companies that offer unique products and services are also subject to the restrictions. Foreign businesses and

⁷ E. R. Baldwin, —Equilibrium in International Trade: A Diagrammatic analysis, a Quarterly journal of Economics, vol. 62, 1948

⁸ : P. S. Magee, International Trade, and Distortions In Factor Markets, New York: Marcel-Dekker, 1976.

domestic consumers face the greatest disadvantages of trade protectionism. Businesses face imbalanced restrictions while their domestic competitors are offered financial advantages, and the consumer ends up paying higher prices for a limited variety of products that are not always worth their costs⁹.

Free Trade as an Advantage

The country which practices free trade the economy is extremely rich. Free trade increases the standard of the country and by allowing consumers to buy more, better-quality products at lower costs. It drives economic growth, enhanced efficiency, increased innovation, and the greater fairness that accompanies a rules-based system. These benefits increase as overall trade exports and imports increases. It allows the country to do business with other country and expand their business into another country which helps the both the nations importer and exporter. They can share new technology and innovation by sharing the market somehow other country get to know about the culture and tradition of the another country.

A fruitful example of this vision is that, in a 2006 survey of American economists, "87.5% agree that the U.S. should eliminate remaining tariffs and other barriers to trade" and "90.1% disagree with the suggestion that the U.S. should restrict employers from outsourcing work to foreign countries." Quoting Harvard economics professor Gregory Mankiw¹⁰

Few propositions command as much consensus among professional economists as that open world trade increases economic growth and raises living standards. This fact grew up drastically when again it was found out that, Free trade creates more jobs than it destroys because it allows countries to specialize in the production of goods and services in which they have a comparative advantage. Moreover, Economists, such as Milton Friedman and Paul Krugman have argued that free trade helps third world workers, even though they are not subject to the stringent health and labor standards of developed countries. This is because "the growth of manufacturing and of the penumbra of other jobs that the new export sector creates

⁹ <https://www.ukessays.com/essays/economics/the-advantages-of-protectionism-economics-essay.php>

¹⁰ G. Mankiw, *Eastern Economic Journal*, vol. 35, pp. 14 – 23, 2009

has a ripple effect throughout the economy" that creates competition among producers, lifting wages and living conditions¹¹

Free trade makes the consumer access the higher-quality product in low rates and it allows the consumer to access the new technology and innovation as they launched in the market other than the origin country. Free trade means more growth freeing trade reduces imported-input costs, thus reducing businesses' production costs and promoting economic growth.

Free trade encourages fairness. When the domestic or home industry taking the advantage of subsidies by the government of the country; the government of that country obliged to do the same with foreign producer and exporter in this way free trade promotes the free and fair trade.

Whenever in any market there is perfect competition the seller and producers would give less false information about the particular product and goods because ever seller and producer wants to increase its profit otherwise the consumer already have other enough option to chose.

Free Trade As A Grave Setback

A strong debate lies is in the new industry, if developing countries have the manufacturer and producer that are comparatively new, at this moment these industries would struggle against international industry which is fully develop and mature and know all about the market ; these infant industries don't know how to survive in this international completion and they get finished. Protection allows them to progress and gain.

To diversify the economy, free trade tries to maintain but denies facing the fact that, many developing countries rely on producing primary products where they currently have a comparative advantage. However relying on agricultural products has several disadvantages such as; Prices can fluctuate due to environmental factors, as well as, Goods have a low-income

¹¹ Milton and R. Friedman, *Free to Choose*, New York: Harcourt Brace Jovanovich, Inc., 1980, pp. 40–41, See also Robert McGee, —The Cost of Protectionism,| *The Asian Economic Review*, vol. 32, no. 3, December 1990, pp. 347–64, A Trade Policy for Free Societies, New York: Quorum Books, 1994, Walter Block and Robert McGee, —Ethical Aspects of Initiating Anti-Dumping Actions,| *International Journal of Social Economics*, vol. 24, no. 6, 1997, pp. 599–608, —Must Protectionism Violate Rights?| *International Journal of Social Economics*, vol. 24, no. 4, pp. 393–407, 1997.

elasticity of demand. Therefore with international economic growth, demand will only increase a little¹².

Free trade is incompetent to increase revenue for the government. This is because import taxes used to raise money for the government; however, this will only be a small amount of money.

Free trade policy will work freely only when all the country co-operates with each other then only this policy works otherwise it will not work. If the two countries agreed to do free trade between them but of them is not co-operate with another country by imposing customs duties and tariffs etc, in this case, this system will not work. This can create conflicts between two countries which lead to war. According to Frederic Bastiat, "When goods cannot cross borders, armies will."

It promotes the dependence of the country's economy with other countries for essential commodities like food grains, raw materials, and other necessary goods. This dependence shows the harmful effects of the free trade in wartime.

The country must protect dumping in the country and there is a need for this because the EU sold a lot of its food surplus from the CAP at very low prices on the world market. this caused problems for world farmers because they saw a big fall in their market prices. Also, environmentally, it is argued that free trade can harm the environment because LDC may use up natural reserves of raw materials to export. Also, countries with strict pollution controls may find consumers import the goods from other countries where legislation is lax and pollution allowed. However, supporters of free trade would argue that it is up to individual countries to create environmental legislation¹³.

Conclusion

As a student of International trade law, I would like to conclude this paper as; today's world is fully globalized and every international product are in reach of every country because of this international trade, which includes some policies that protect the right of importer and exporter.

¹² A. G. Kenwood and A. L. Loughheed, 1999. *The Growth of the international Economy 1820-2000*, 4th ed. London: Routledge

¹³ *International Journal of Trade, Economics and Finance*, Vol. 3, No. 5, October 2012

The world trade organization (WTO) leads the international trade between the member countries. Because free and fair trade has to be done between the member countries.

After some research in international policies such as protectionism and free trade. There is a lot of issues like how protectionism used in throughout history, example and advantage and disadvantage. But one can easily notice that the protectionism is not much used by many countries and it is outdated but in many countries, first preference is given to protectionism. On the other hand, free trade is mostly preferred in so many countries around the globe, of course, countries are rapidly adopting the free trade in avoidance of economic war led by tariffs, quotas, and barriers etc. For Ludwig V. Mises, the whole basis of economics is human action, and human action means change. Human conditions also change: populations grow and shift, and younger members replace the older ones, bringing fresh ideas with them. Production methods change too, with new processes being invented and old ones fading into disuse¹⁴.

As the time goes by; the condition of the international trade will improve. As the time change, the new idea will come which make the world better place to do the trade.

¹⁴ : L. Von Mises, A Primer, The Institute of Economic Affairs (IEA), Great Britain, 2010