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Trade Policy: Why Arguments for Protectionist Policies Are Not Valid on a Deeper Level

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International trade is a process of exchanging commodities and capital between two or more nations. The benefits of international trade have been itemized in the economic literature to include aiding economic growth and development, granting consumers access to more goods and services at cheaper rates, enhancing relations among trading nations, etc. (Walker, 2022). Be that as it may, I firmly believe that no reason justifies any protectionist policies in an economy. Therefore, this essay will endeavor to throw light on why protectionist policies should be avoided in any economy.

Understanding Trade Policies

Trade policies are a set of rules designed by a nation to regulate its imports and exports. Most economies have trade-related policies that range from free trade to protectionism on both sides of the spectrum (Walker, 2022). Under free trade, domestic industries tend to shift production to commodities for which they have comparative advantages and allocate resources accordingly (Schoenbaum, 2023). There are times when governments are forced to intervene in an economy using protectionist policies. Trade policies vary from country to country and depend on what each country wants at a time.

Free Trade

Free trade is where the government has little or no control over international trade, and it's surrounded by contentious issues on both sides of the divide: proponents and opponents have had reasons to argue for and against free trade. The advantages of free trade are well documented in the literature.

Protectionism

Trade barriers are restrictions imposed on foreign trade to reduce or eliminate the supply of goods/services from other sovereign states in a nation's domestic market. Trade barriers are classified into tariffs and non-tariffs; a tariff is a tax that is imposed on an imported good, while a non-tariff is a restriction measure placed on imports. The negative effects of trade barriers have long been documented in the literature, some of which include creating distortion in prices of goods in domestic markets, reducing domestic consumption, curtailing consumer surplus, and creating deadweight losses in an economy.

Why I Believe That No Reason Justifies Any Protectionist Policies in Any Economy
"**The Labor Argument**"

This is one of the reasons that free trade opponents usually give to justify protectionist policies in an economy. They always argue that free trade creates job losses in an economy. However, on a deeper level, this is not the case as this has been demonstrated by many economists to be fallacious. The truth is that whenever an economy decides to lift trade barriers, along the line, some of its industries will tend to shift production to commodities in which they have comparative advantages. Because of sudden access to a larger market than before, their production will continue to expand thereby generating more jobs. On the other hand, some other industries, that continue to produce commodities for which they have no comparative advantages, will be competed out by trading partners who have comparative advantages for such commodities; as a result, the workers in such industries are laid off. However, they will ultimately be re-absorbed by the other expanding sectors of the economy as a result of free trade

Under free trade, consumers are exposed to a range of choices of goods and services from which they can choose at cheaper rates (Rana, 2022).

"**Infant Industries Argument**"

This argument is mostly used in the developing economies. They believe that they must protect their important industries against intense competition from the more advanced economies so that they can develop their economies from there. However, this is not the case most times. It is true that when some industries are discriminately protected they end up creating inefficiency and consumer exploitation, through monopoly, in the system which benefits no one. However, under free trade, there is always competition between home industries and foreign ones as everyone is contending to either retain or enlarge its market share. This enhances efficiency and helps to prevent consumer exploitation in the system, as a result, the society as a whole benefits (Rana, 2022).

"**National Security Argument**"

This is another argument that is used to justify protectionist policies in an economy. Most nations believe that there are some industries, such as defense, that must be protected to safeguard their national security, especially during times of conflict (Schoenbaum, 2023). This is a rather strange argument: if you say that you are protecting such industries as defense so that you can still have access to war materials. But do not forget that during conflicts you will still need food, clothes, etc., Why are other industries not protected for the same reason? One can see that this argument is not solidly valid.

"**Retaliation Argument**"

Retaliation is another reason that free trade critics also use to justify protectionist policies in an economy. Retaliation usually occurs whenever a nation feels it has been unfairly treated in terms of trade by another nation. As a result, the nation decides to impose its trade sanctions on the offending nation to compensate for the unfairness. However, it has been shown that any time a nation imposes restrictions on trade it ends up hurting itself. So, why would want to hurt yourself more in the name of retaliation? So, you can see that this reason, too, is not valid.

Trade Dispute Report

Having accessed the website of the "World Trade Organization, (WTO)" as instructed, I found a case, involving Australia and Indonesia, that was about imposing an anti-dumping tax by Australia on "copy paper" imported from Indonesia. The complainant and respondent in the case were Indonesia and Australia respectively. Finally, I believe this case applies to "Infant Industries Argument" because Australia stated that it imposed the tariff to protect its industries.

Quantitative Analysis

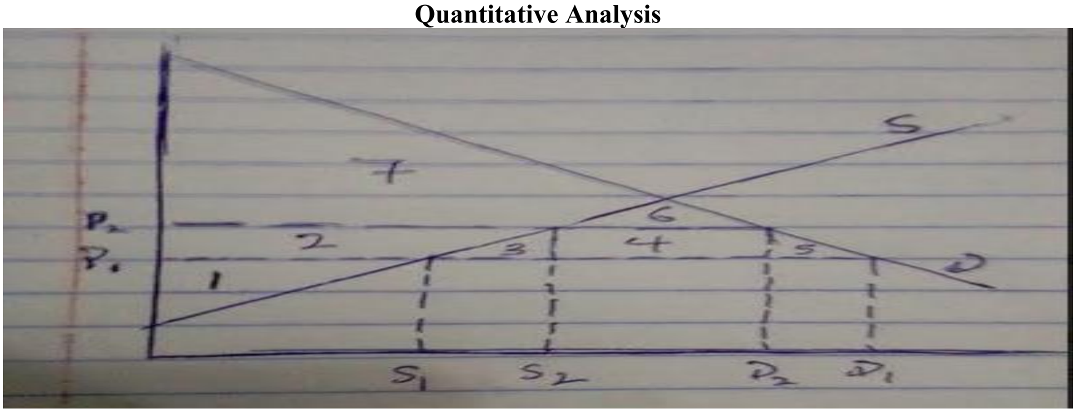

Fig. 1.

The graph above is an illustration of the demand and supply of wine which is produced locally as well as imported. The graph also shows what happens when the government imposes a tariff on the product (wine). When there is no tariff, the price of wine is P1, whether produced locally or imported; the local supply of the product is at S1, while imports cover up the remaining demand (between S1 and D1) for the product as shown in Fig 1 above. However, when the government imposes a tariff on the product, the price shoots up to P2 from P1. Therefore, local producers increase their supply of the product from S1 to S2, while imports decrease as a result of the tariff from D1 to D2.

"**Income Distribution Effects**"

From the diagram, areas 2, 3, 4, 5, 6, and 7 represent the consumer surplus in the absence of a tariff, while the producer surplus is described by area 1. So, when the government imposes a tax, consumer surplus reduces to only areas 6 and 7, while producer surplus increases from area 1 to area 2. Therefore, income is redistributed from consumer surplus to both producer surplus and government in the form of an increase in price and revenue collected from the tariff.

"**Resource Allocation Effects**"

With the imposition of a tariff on the product (wine), the price of the product is increased. Therefore, producers are motivated to boost production of the product, which they do by allocating resources from other sectors toward the production of this particular product.

"**Domestic Production and Consumption Effects**"

With the imposition of a tariff on the product (wine), the price of the product is increased. Therefore, producers are motivated to boost product production from S1 to S2; while consumers will be worse off in terms of consumption due to the price increase, and demand for the product falls from D1 to D2.

"Government Revenue Effects"

With the imposition of a tariff on the product (wine), it generates revenue for the government. It's represented by area 4.

"**Price of the Good**"

With the imposition of a tariff on the product (wine), the price of the product is increased (from P1 to P2) by the amount of the tariff imposed.

Conclusion

In conclusion, proponents of protectionist policies do not have any valid reasons to justify protectionism in an economy. As a lesson, I realized that most policymakers are ignorant about trade, therefore, I recommend that they should properly be tutored about free trade.

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