



4.3 Arguments for and against trade control/protection

Learning objectives

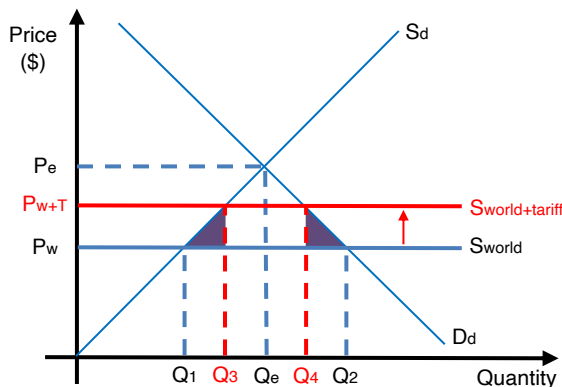
4.3 Arguments for and against trade control/protection	Depth	Diagrams and calculations
<p>Arguments for trade protection/advantages of trade protection, including:</p> <ul style="list-style-type: none">• protection of infant (sunrise) industries• national security• health and safety• environmental standards• anti-dumping• unfair competition• balance of payments correction• government revenue• protection of jobs• Economically least developed country (ELDC) diversification	AO2	

Learning objectives

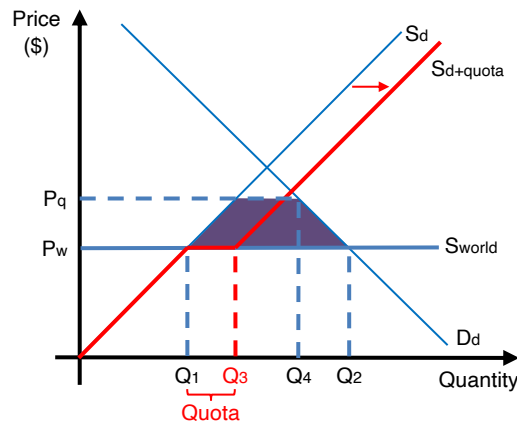
4.3 Arguments for and against trade control/protection	Depth	Diagrams and calculations
Arguments against trade protection/ disadvantages of trade protection, including: <ul style="list-style-type: none">• misallocation of resources• retaliation• increased costs• higher prices• less choice• domestic firms lack incentive to become more efficient• reduced export competitiveness	AO2	
Free trade versus trade protection	AO3	

Trade protection

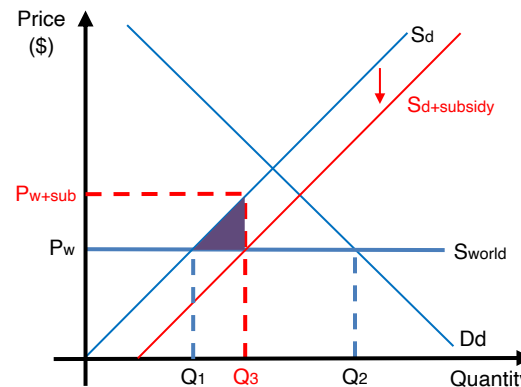
Previously in Unit 4.2 (types of trade protection), we learnt that protectionism always leads to welfare loss.



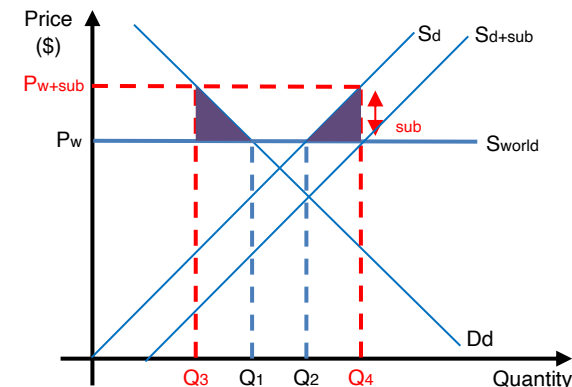
Tariff



Quota



Production Subsidy



Export Subsidy



Brainstorm possible reasons why countries may still practice trade protectionism despite welfare loss.



Arguments for trade protection



Real world example

Article: [U.S. to impose tariffs on solar panels from China](#)

Using examples from the article, identify possible reasons for trade protectionism.



Protection of infant (sunrise) industries

An **infant (sunrise) industry** is one which is in its early stages of development and requires government protection before being able to compete with foreign competitors.

Protection of infant (sunrise) industries

Unlike established firms which have become efficient and competitive, infant (sunrise) industries do not benefit from **economies of scale**. If infant (sunrise) industries cannot compete with foreign producers, they may shut down unless they receive government protection.

Examples of protected infant industries:

- The present electric vehicle industry in China
- The automobile industry in Japan from 1955-1965
- The micro-computer industry in Brazil from 1971-1990
- The heavy and chemical industries in South Korea from 1973-1979.



Protection of infant (sunrise) industries

Article: [Import tariffs: 'Infant industry' argument and its limitations](#)

1. Why do governments use trade protection to protect infant (sunrise) industries?
2. What are some limitations of protecting infant (sunrise) industries?
3. Are governments always able to successfully identify the industries which have the potential to become efficient?



National security

Some industries must be protected by the government as certain goods are essential for national defense and should be produced domestically, in case of wars or other national emergencies.

Real world example

Article: [National security tariffs on steel imports](#)

“We're also taking action to protect American industries that are vital to our **national security**, including American aluminum and steel. [...] Aluminum and steel are the backbone of our Nation. They're the bedrock of our defense industrial base.”

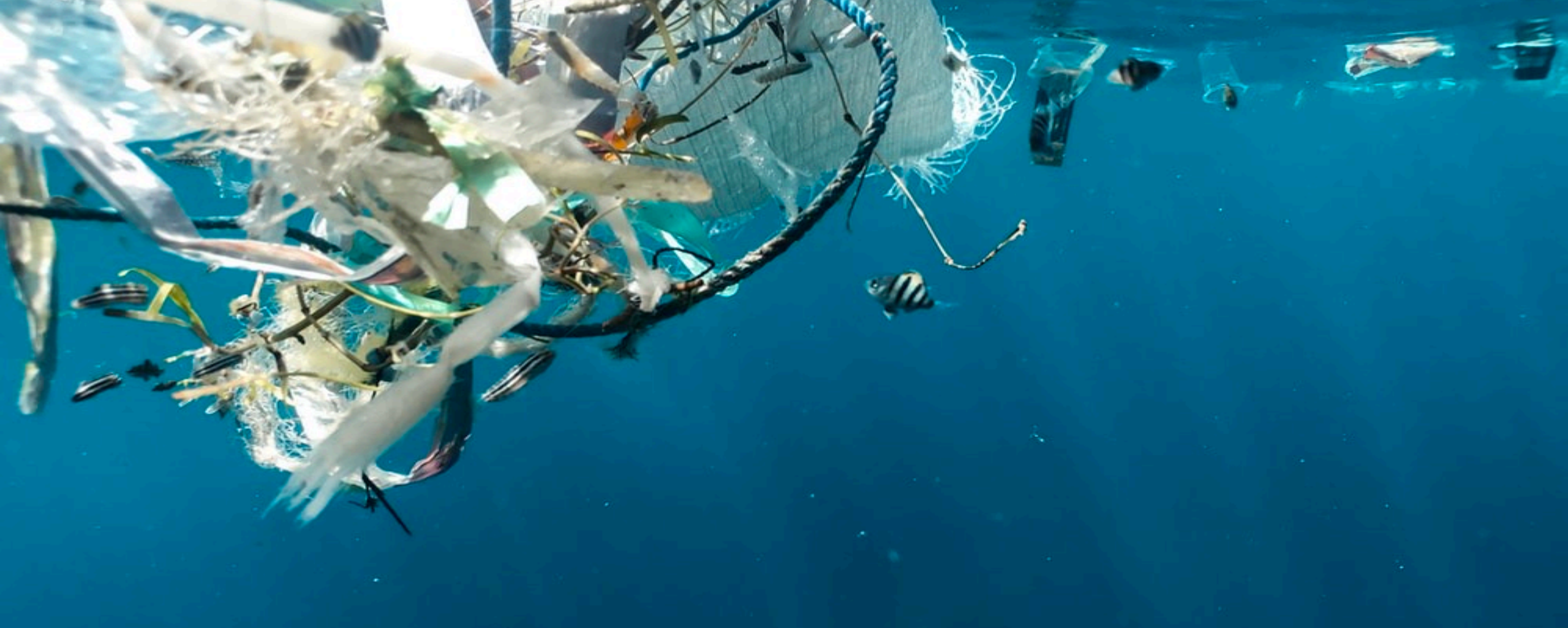
“Mr. Trump says those metals are crucial for building military weapons and aircraft, and there must be enough U.S. facilities that can produce aluminum and steel domestically.”





Why have these goods been banned in different countries around the world?





Environmental standards



Real world example – case study

Article: [Microbeads banned in Canada](#)

1. What are microbeads and what types of products contain microbeads?
2. Why has Canada banned products containing microbeads?



Dumping

Dumping refers to the practice of firms selling products in foreign markets at below cost prices or prices set below their own domestic market.

Video: [How Dumping and Unfair Subsidies Impact Trade](#)

Anti-dumping

Dumping often occurs when firms experience excess supply or excess subsidies resulting in the selling of goods at very low prices abroad.

To combat this, governments often impose trade protectionist measures known as **anti-dumping measures** to prevent domestic firms from closing down or workers losing their jobs, due to 'unfair trade practices'.



Real world example – case study

Article: [US slaps taxes on wind towers from China](#)

1. Explain what is meant by dumping in the context of the article.
2. What did member countries of the coalition complain about?

Unfair competition

Examples of countries imposing trade protectionist measures against unfair trade practices:

Article: [Canada largely wins WTO case in lumber dispute with U.S](#)

- Production and export subsidies give firms a competitive advantage by lowering their costs of production.



Article: [China's Currency Devaluation Deepens Unfair Trade Practices](#)

- A currency devaluation gives exporting countries a competitive advantage by making exports cheaper and imports more expensive.





Real world example – case study

Article: [Enforcement When Trade Is Unfair](#)

1. What are the 'unfair trade policies' which the US administration has accused China of?
2. How have US tariffs on Chinese imports affected domestic US stakeholders?



Balance of payments correction

The balance of payments is a record of all transactions made between the domestic country and the rest of the world over a particular period of time.

Balance of payments correction

A deficit in the balance of payments occurs when **debits** exceed **credits**.

- **Debits** refer to an outflow of money from a country.
- **Credits** refer to an inflow of money into a country.

Governments can reduce a deficit in the balance of payments by imposing trade protectionist measures resulting in a fall in imports and subsequently reduced debit.

Real world example

Article 1: ['What is the basis for the US-China trade war?' section](#)

Article 2: [U.S. Trade Deficit With China and Why It's So High](#)

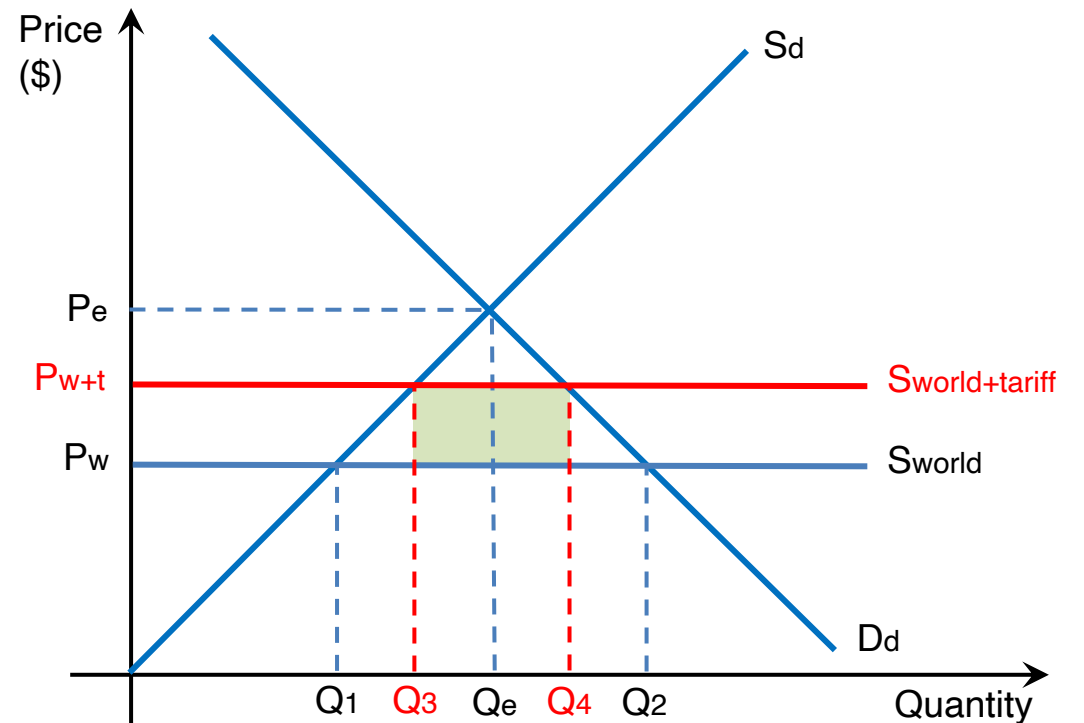
Government revenue

One way in which governments can raise revenue is by imposing tariffs.

PED and government revenue

If the government's primary objective is to raise revenue, they may impose higher taxes on goods and services which have inelastic demand.

Read: [Mainly Poor Countries Use Tariffs as a Major Source of Government Revenue](#)



Protection of jobs

Low unemployment is a key macroeconomic objective.

Trade protection helps to safeguard domestic jobs by **shifting consumer expenditure** in order to increase domestic production and consumption. However, this comes at a cost of lower efficiency and a global misallocation of resources.

In the long run, it may be more suitable for governments to use supply side policies to increase the competitiveness of firms.

Article: [The cost of using protectionism to save some US jobs](#)



Real world example – case study

Article: [The end of car production in Australia - what went wrong](#)

1. How much money had been provided to assist the Australian car industry over the past 10 years?
2. What happened to the Australian car industry when the import tariffs were reduced?
3. Which stakeholder group likely suffered the most as a result of the reduction of import tariffs?





Economically least developed countries (ELDC)

An **economically least developed country** is a low-income country which faces severe structural barriers to sustainable development.

Economically least developed country (ELDC) diversification

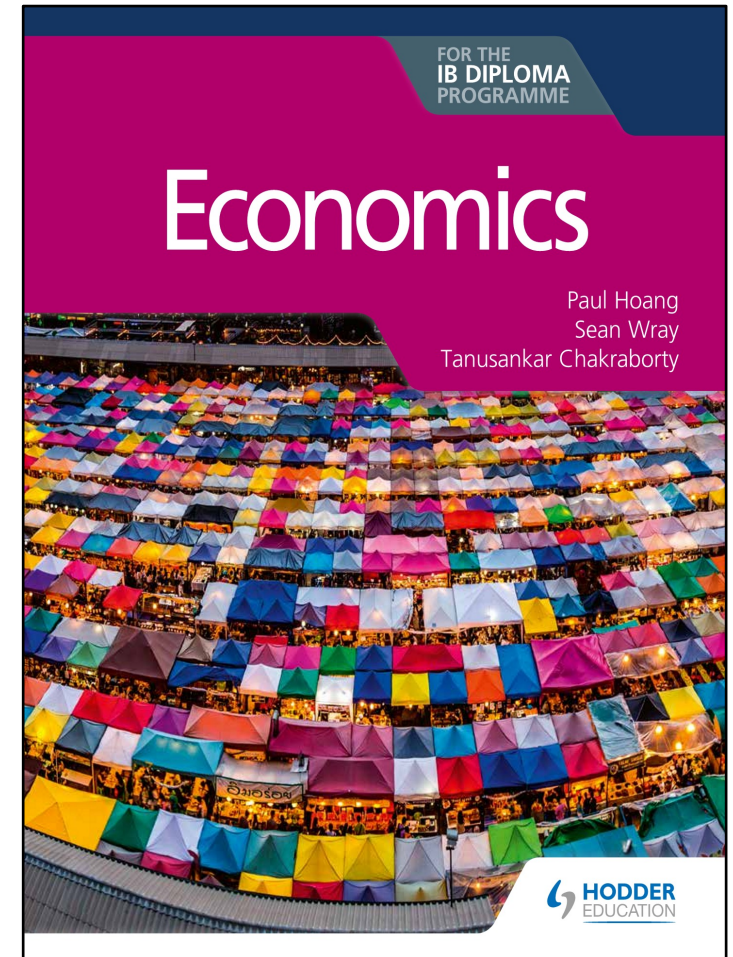
A typical characteristic of ELDCs is a high concentration of economic activity in the primary sector. Primary commodity prices tend to be volatile as the demand and supply for these products are usually inelastic. Hence, ELDCs may use trade protectionist measures to **diversify production into secondary and tertiary activities.**

Over to you...

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Economics for the IB Diploma Programme

- Page 462
- Paper 1 Exam Practice Question 29.1
- [10 marks]
- Paper 1 Exam Practice Question 29.1
- [15 marks]





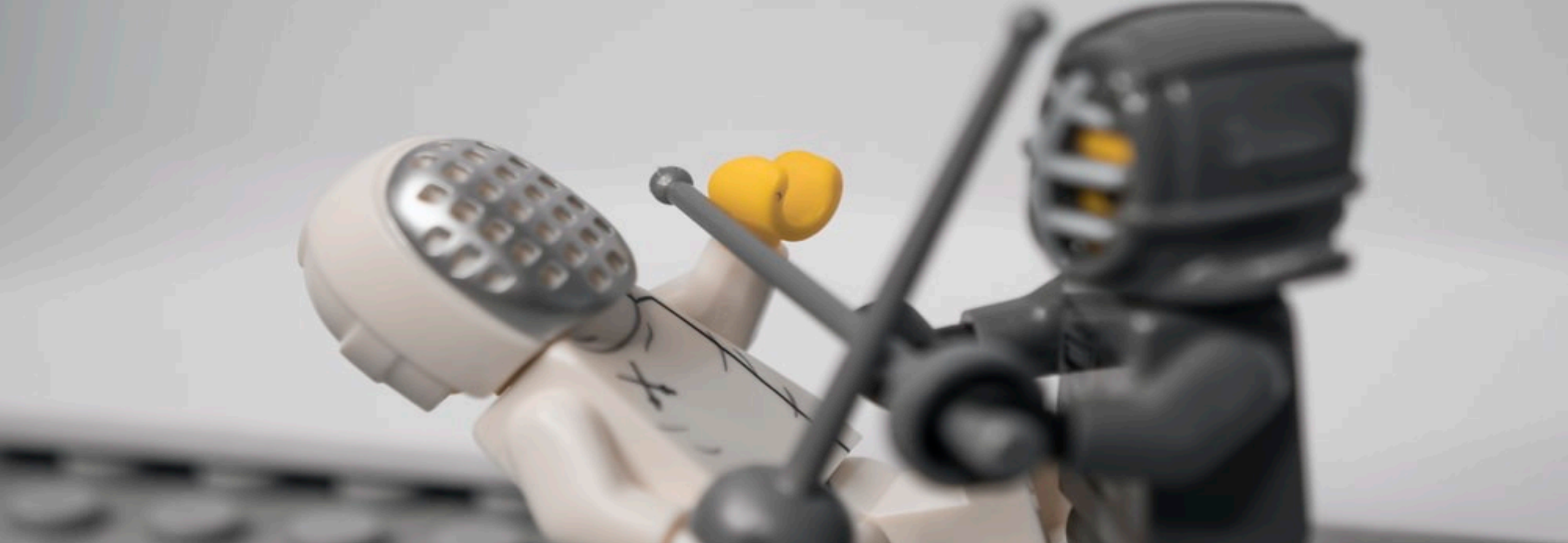
Arguments against trade protection

Allocation of resources & efficiency

Trade protection distorts prices and leads to a **misallocation of resources**.

With trade protection, the market is unable to achieve allocative efficiency as more goods and services are produced by the less efficient producers.

Domestic producers who receive protection against competition with foreign producers may also **lack incentives** to become more efficient.



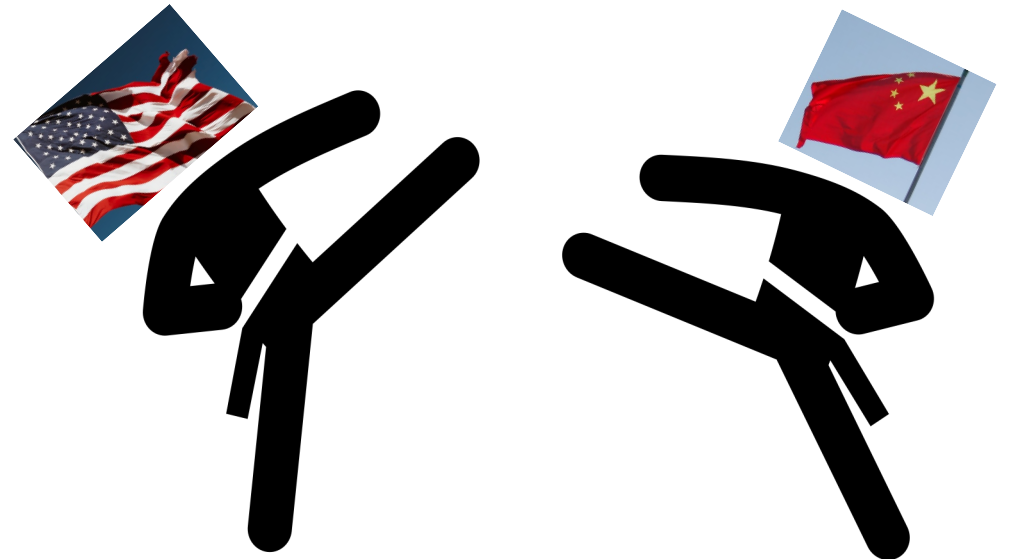
Retaliation

An argument against using trade protection is that some countries may **retaliate** by imposing trade barriers in response.

Real world example – case study

Infographic: [US-China trade war timeline](#)

1. The US announced a 10% tariff on aluminium and a 25% tariff on steel imports from China on March 9, 2018. How did China respond to these measures?
2. The US proposed a 25% tax on \$50 billion worth of Chinese exports on April 3, 2018. How did China respond accordingly?





Real world example – case study

Podcast: [China Retaliates Against Latest U.S. Tariffs With Its Own Hike On American Goods](#)

In addition to raising tariffs, how else might China retaliate against the US?



Increased costs

Trade protection raises the costs of production for domestic producers who import raw materials as inputs to manufacture other goods and services.



Real world example

Article: [Consumers facing 9% increase in cost of bread](#)

Tariffs on UK flour raises costs of production for bakers in Ireland.

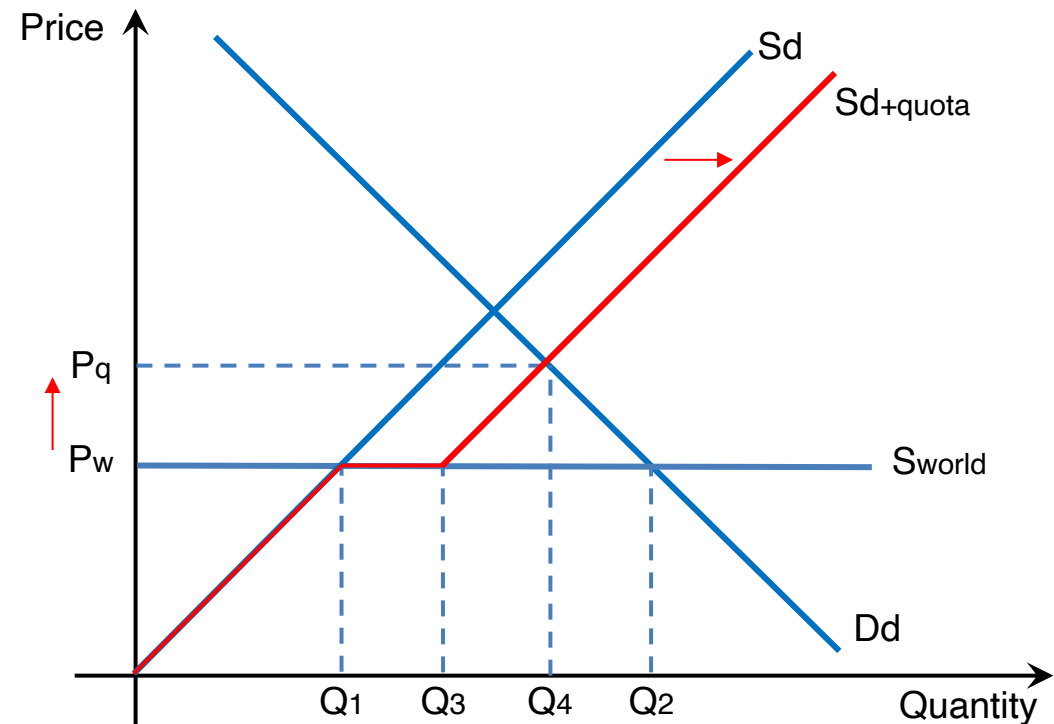
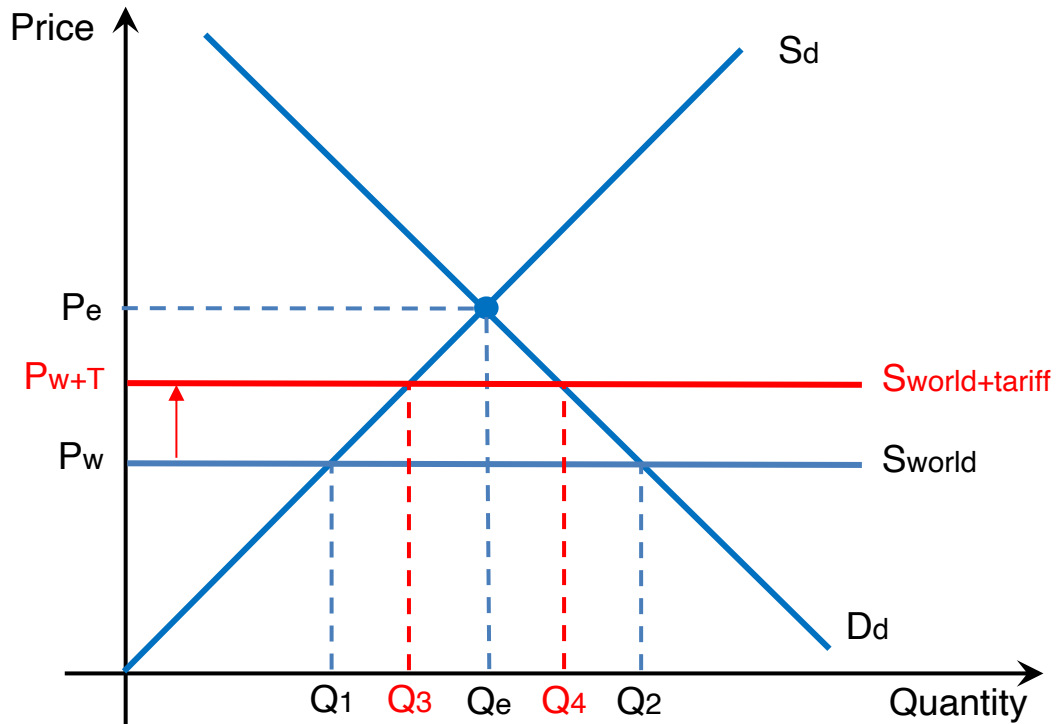


Trade protection might not benefit all domestic producers.

Higher prices

Tariffs lead to higher prices for consumers who import goods and services.

Quotas lead to a shortage in the market which also leads to higher prices for consumers.





Less choice

Trade protection limits the variety of goods and services available to domestic consumers which corresponds to lower standards of living.



Reduced export competitiveness

When domestic producers are protected against foreign competition, there is less incentive to lower costs and to innovate.



Free trade versus trade protection

Free trade versus trade protection

Video: [Free Trade or Protectionism?](#)

1. What is the main argument of the mercantilism trade theory?
2. What was the role of the government during the 15th century?
3. What did Adam Smith argue in *The Wealth of Nations*?
4. What did Adam Smith believe the role of government should be?
5. What were the results when Smith's ideas were put to a test?
6. What steps can the government take to mitigate the consequences of free trade?

Free trade versus trade protection

Arguments for free trade:

- better allocation of resources
- economies of scale
- lower prices
- more choice
- domestic firms have incentive to become more efficient
- increased export competitiveness

Arguments for trade protection:

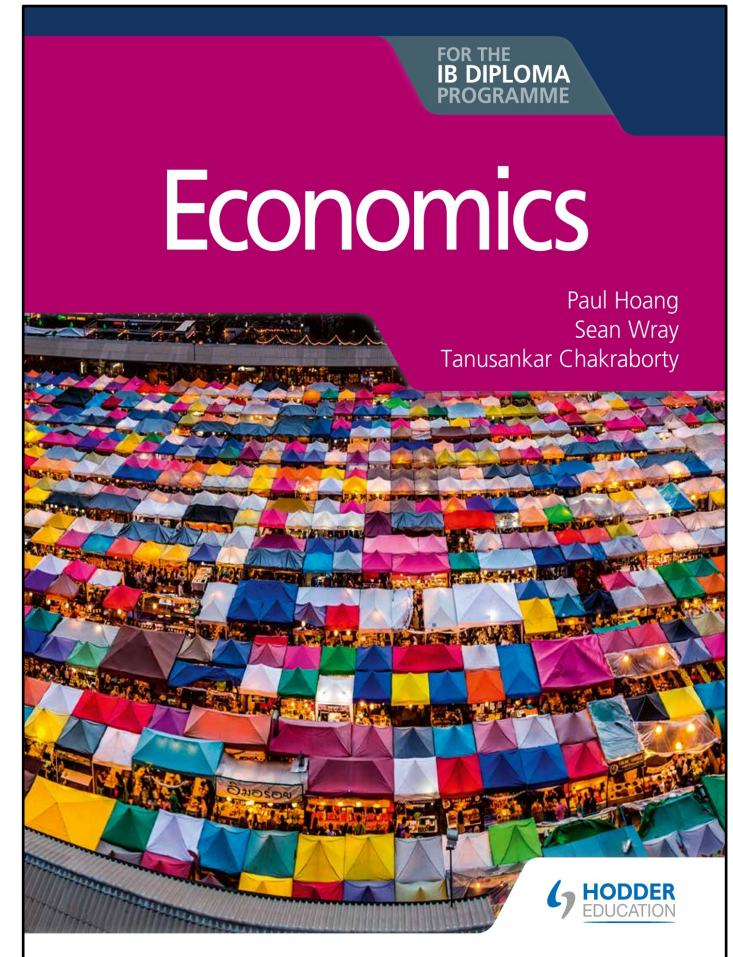
- protection of infant (sunrise) industries
- national security
- health and safety and environmental standards
- anti-dumping and unfair competition
- balance of payments correction
- government revenue
- protection of jobs
- Economically least developed country (ELDC) diversification

Over to you...

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Economics for the IB Diploma Programme

- Page 467
- Paper 2 Exam Practice Question 29.2
- [15 marks]





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