Protectionism Versus Free-Trad Essay, Research Paper

The main objective of the following paper is to explain the protectionism versus free trade argument, to explain the problems this debate has created in the arena of international trade and to outline the ways in which international agreements have contributed to their resolve. Although many of the following issues are still present in the world economy today, they are constantly improving due to agreements such as the Uruguay Round and the North American Free Trade Agreement (NAFTA).

Protectionism is easily related to the belief that a nation s resources need to be protected from international competition brought about by trade. Protectionist policies include trade restrictions which are of many natures. (See Appendix 1.A)

Nations seek protectionist policy for various reasons such as: a source of government revenue,, to satisfy domestic interest groups and for the infant-industry argument among others. (See Appendix 1.B) The on-going debate regarding protectionist measures in the world economy seems to be an everlasting struggle. The recent World Trade Organization (WTO) conference in Seattle, for example, turned into a political battleground where protectionists rioted against the free traders . (Martin Morse Wooster, 55, June 2000) Violent riots and passionate arguments come to characterize meetings regarding the following topics, however to understand the issues at hand, one must get beyond the sound and the fury and examine the basic topics at hand.

Tariffs

Tariffs are additional costs, such as taxes, that are added to a commodity as it either enters or leaves a nation. Import tariffs will be the type of tariff discussed in this paper. Tariffs can be calculated in the following three manners: the ad valorem tariff which is calculated by a fixed percentage of the estimated market value of the good, the specific tariff which is calculated as a fixed dollar amount per unit and the compound tariff which combines both a fixed sum and a percentage. (See Appendix 1.C) The effects of a tariff on the welfare of a nation result in gains only for the domestic suppliers and losses for the domestic consumers. (See Appendix 1.D)

Non-Tariff Barriers (NTB s)

Although there is some confusion to whether quotas are considered non-tariff barriers we will consider them as NTB s in any further discussion. Quotas are the first NTB we will discuss as they are considered the most important NTB in the present World Market. By definition, a quota is a quantitative limit placed on the import of a commodity. The protection offered by a quota holds more certainty than that of a tariff. Because tariffs depend on the price elasticity of the commodity it is very difficult to predict extra costs.

The second type of NTB we will examine is the Voluntary Export Restraint (VER). VERs are also very important NTBs as they are a type of quota themselves. VERs are agreement between countries to restrict the number of exports in a particular sector. They grew in popularity through the 1980’s when tariffs began to fall.

Thirdly are technical and administrative regulations such as safety and health regulations and labelling requirements on imported commodities.

International cartels are the fourth NTB we will examine. An international cartel is an organization who has suppliers located in various countries that all agree to put restrictions on the commodity in attempts to maximize total profits. International cartels are prohibited in the US and are strictly regulated outside. An example of a powerful cartel would be OPEC (Oil Producing and Exporting Countries).

Dumping is the final NTB we will examine. Dumping refers to the sale of a commodity at a higher price domestically than in outside markets. There are three classifications under which dumping behaviours fall: persistent, predatory and sporadic. Persistent dumping is also known as International Price Discrimination and occurs when a producer engages in dumping behaviours continuously. A higher price is charged domestically where the price of the good is protected by trade barriers and transportation costs and a lower price is charged internationally so the producer can compete in the foreign market. Predatory dumping is a temporary practice which aims to drive foreign producers out of the market before raising prices back to the market price.