15.11: Protectionism

Learning Objectives

- Describe why governments may justify protectionist policies
- Explain and give examples of trade barriers, including quotas, tariffs, and nontariff barriers

Protectionism

Globalization has brought fear of loss of jobs and loss of income, which are often described as the "race to the bottom," as industrialized countries are thought to have to reduce wages to be competitive with those in the developing world. Globalization has also spawned fears about loss of culture. Many countries worry about their cultures being overwhelmed by that of the United States. France is a good example. Others fear replacement of their cultures by that of Western nations (e.g., some Islamic states). Countries also fear the loss of national sovereignty as they become part of supranational entitles, like the European Union or the International Monetary Fund. And yet, history shows that globalization has corresponded to higher national incomes and increased opportunities. How can these conflicting views be reconciled?

When a government legislates policies to reduce or block international trade it is engaging in **protectionism**. Protectionist policies often seek to shield domestic producers and domestic workers from foreign competition. The Trump Administration's tariffs on steel and aluminum in 2018 are a recent example.

Watch It

A government may justify protectionist policies for one of the following reasons, which are outlined in this video:

1. Protect domestic jobs.
2. Level the playing field.
3. Raise additional revenue for the domestic government.
4. National defense—protect some industries in case of time of war.
5. Infant industries—protect new industries until they are more mature
6. Promote exports.

A link to an interactive elements can be found at the bottom of this page.

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How do people around the world feel about expanding trade between nations? In summer 2007, the Pew Foundation surveyed 45,000 people in 47 countries. One of the questions asked about opinions on growing trade ties between countries. Table 20.3 shows the percentages who answered either "very good" or "somewhat good" for some of countries surveyed.

For those who think of the United States as the world's leading supporter of expanding trade, the survey results may be perplexing. When adding up the shares of those who say that growing trade ties between countries is "very good" or "somewhat good," Americans had the least favorable attitude toward increasing globalization, while the Chinese and South Africans ranked highest. In fact, among the 47 countries surveyed, the United States ranked by far the lowest on this measure, followed by Egypt, Italy, and Argentina.

Country	Very Good	Somewhat Good	Total
China	38%	53%	91%
South Africa	42%	43%	87%
South Korea	24%	62%	86%
Germany	30%	55%	85%
Canada	29%	53%	82%
United Kingdom	28%	50%	78%

Mexico	22%	55%	77%
Brazil	13%	59%	72%
Japan	17%	55%	72%
United States	14%	45%	59%

Table 1. The Status of Growing Trade Ties between Countries. (Source: http://www.pewglobal.org/files/pdf/258.pdf)

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Barriers to Trade

Protectionism takes three main forms: tariffs, import quotas, and nontariff barriers. **Tariffs** are taxes that a government imposes on imported goods and services. This makes imports more expensive for consumers, discouraging purchases of imports in favor or domestic substitutes. For example, in recent years large, flat-screen televisions imported to the U.S. from China have faced a 5% tariff rate.

Another way to control trade is through **import quotas**, which are numerical limitations on the quantity of products that a country can import. For instance, during the early 1980s, the Reagan Administration imposed a quota on the import of Japanese automobiles. In the 1970s, many developed countries, including the United States, found themselves with declining textile industries. Textile production does not require highly skilled workers, so producers were able to set up lower-cost factories in developing countries. In order to "manage" this loss of jobs and income, the developed countries established an international Multifiber Agreement that essentially divided the market for textile exports between importers and the remaining domestic producers. The agreement, which ran from 1974 to 2004, specified the exact quota of textile imports that each developed country would accept from each low-income country. A similar story exists for sugar imports into the United States, which are still governed by quotas.

Nontariff barriers are all the other ways that a nation can draw up rules, regulations, inspections, and paperwork to make it more costly or difficult to import products. A rule requiring certain safety standards can limit imports just as effectively as high tariffs or low import quotas, for instance. There are also nontariff barriers in the form of "rules-of-origin" regulations; these rules describe the "Made in Country X" label as the one in which the last substantial change in the product took place. A manufacturer wishing to evade import restrictions may try to change the production process so that the last big change in the product happens in his or her own country. For example, certain textiles are made in the United States, shipped to other countries, combined with textiles made in those other countries to make apparel—and then re-exported back to the United States for a final assembly, to escape paying tariffs or to obtain a "Made in the USA" label.

Despite import quotas, tariffs, and nontariff barriers, the share of apparel sold in the United States that is imported rose from about half in 1999 to about three-quarters today. The U.S. Bureau of Labor Statistics (BLS), estimated the number of U.S. jobs in textiles and apparel fell from 666,360 in 2007 to 385,240 in 2012, a 42% decline. Even more U.S. textile industry jobs would have been lost without tariffs. However, domestic jobs that are saved by import quotas come at a cost. Because textile and apparel protectionism adds to the costs of imports, consumers end up paying billions of dollars more for clothing each year. Some of those "consumers" are domestic producers of other goods, like motor vehicles, for example. Higher prices for steel and aluminum increase the cost of producing motor vehicles, making them harder to sell domestically and internationally. Thus, it's not clear that protectionism saves domestic jobs or incomes.

When the United States eliminates trade barriers in one area, consumers spend the money they save on that product elsewhere in the economy. Thus, while eliminating trade barriers in one sector of the economy will likely result in some job loss in that sector, consumers will spend the resulting savings in other sectors of the economy and hence increase the number of jobs in those other sectors. Of course, workers in some of the poorest countries of the world who would otherwise have jobs producing textiles, would gain considerably if the United States reduced its barriers to trade in textiles. That said, there are good reasons to be wary about reducing barriers to trade. The 2012 and 2013 Bangladeshi fires in textile factories, which resulted in a horrific loss of life, present complications that our simplified analysis in the chapter will not capture.

Watch It

Watch this video to learn more about different types of trade barriers: tariffs, quotas, voluntary export restraints, and nontariff barriers like health and safety regulations.

A link to an interactive elements can be found at the bottom of this page.

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Realizing the compromises between nations that come about due to trade policy, many countries came together in 1947 to form the General Agreement on Tariffs and Trade (GATT). (We'll cover the GATT in more detail later in the module.) This agreement has since been superseded by the World Trade Organization (WTO), whose membership includes about 150 nations and most of the world's economies. It is the primary international mechanism through which nations negotiate their trade rules—including rules about tariffs, quotas, and nontariff barriers. The next section examines the results of such protectionism.

Learning Objectives

[glossary-page][glossary-term]globalization:[/glossary-term]
[glossary-definition]the increase in interaction between peoples around the world that involves the sharing of ideas, cultures, goods, services and investment[/glossary-definition][glossary-term]import quotas:[/glossary-term]
[glossary-definition]numerical limits on the quantity of products that a country can import[/glossary-definition][glossary-term]nontariff barriers:[/glossary-term]
[glossary-definition]ways a nation can draw up rules, regulations, inspections, and paperwork to make it more costly or difficult to import products[/glossary-definition][glossary-term]protectionism:[/glossary-term]
[glossary-definition]government policies to reduce or block imports[/glossary-definition][glossary-term]tariff:[/glossary-term]
[glossary-definition]a tax on imports, designed to protect domestic industry[/glossary-definition][/glossary-page]

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