

# Do Nations Benefit from Free Trade?

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# Definition or Protectionism

Trade protectionism is national policies restricting international economic trade to alter the balance between imports and goods manufactured domestically through import quotas, tariffs, taxes, anti-dumping legislation, and other limitations.

# Point #1

**Protectionist policies encourage domestic investment in specific industry.**

This will further increase:

- GDP
- Employment rate

**Protectionism also increases national security as well**

# Point #2

## Loss Bargaining Power

A historical case based on Great Famine (Ireland)



# Point #3

Lessons from  
history:

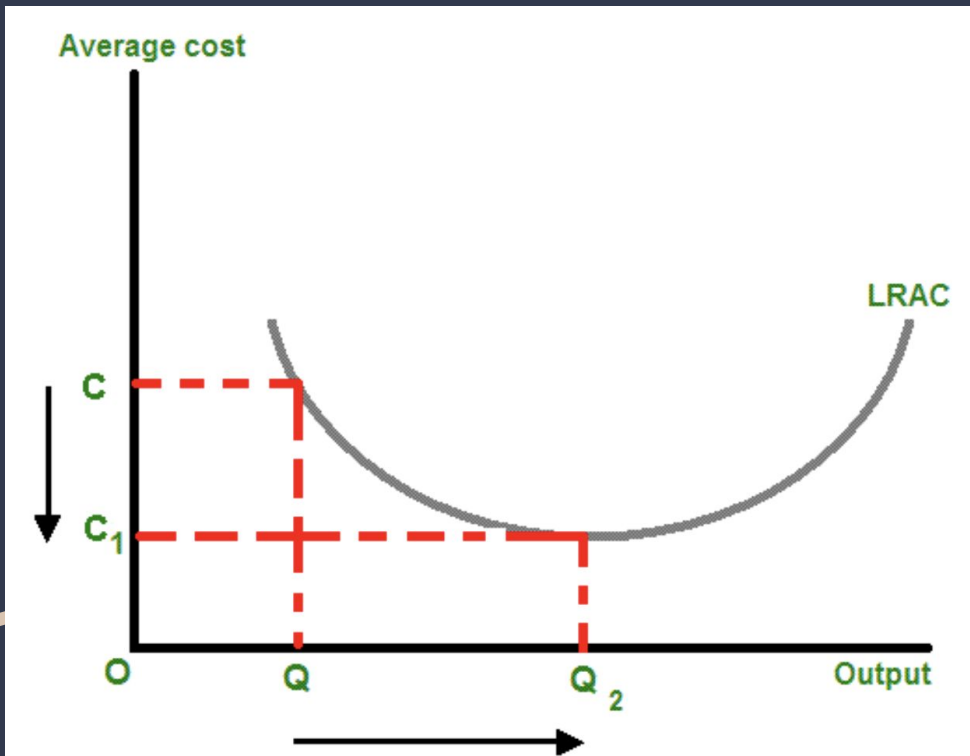
Protectionism helped  
the US and Britain gain  
competitiveness in their  
respective key  
industries.

# Point #1

**Protectionist policies encourage domestic investment in specific industry.**

**Protectionism also increases national security as well**

# Alexander Hamilton's Infant Industry Argument



New manufacturers have an extremely difficult time competing against well-established and well-funded companies. They lack:

- economic resources
- financial resources
- technology
- equipments
- research
- ...

In order for them to gain market-share and a competitive edge, governments must put into short-term support until they reach a level so they can compete with foreign companies.

If government imposes protectionist policies on shoe industry

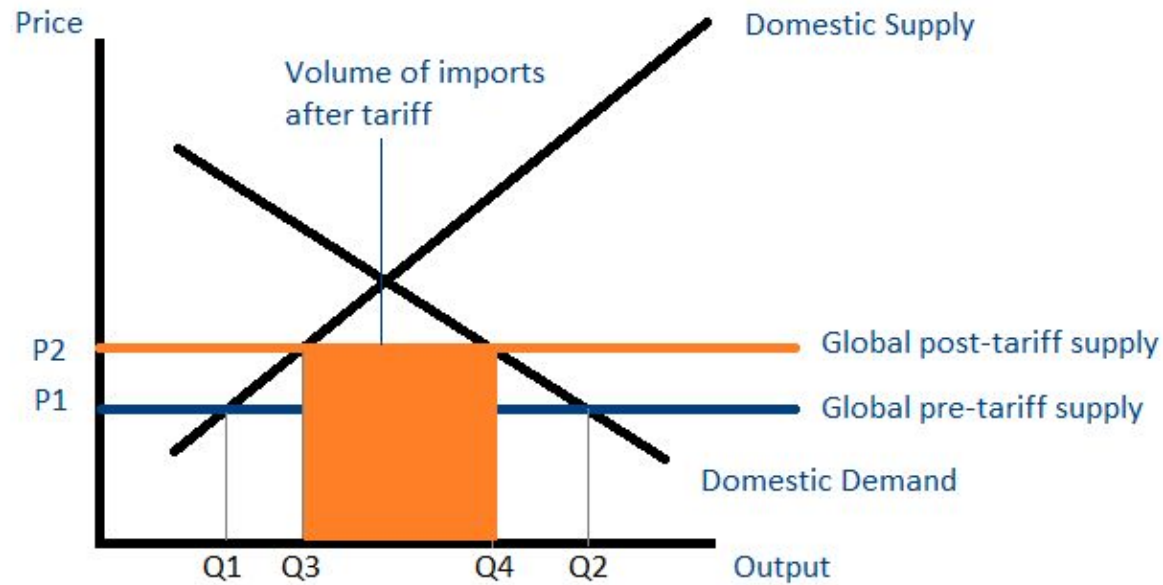
→ tariffs on the foreign import of shoes would encourage domestic producers to invest resources in shoe production

→ drive up national production

→ higher employment rates when domestic firms boost their workforce

→ increase GDP due to a rise in domestic production

→ protected from losing market share to cheaper imports



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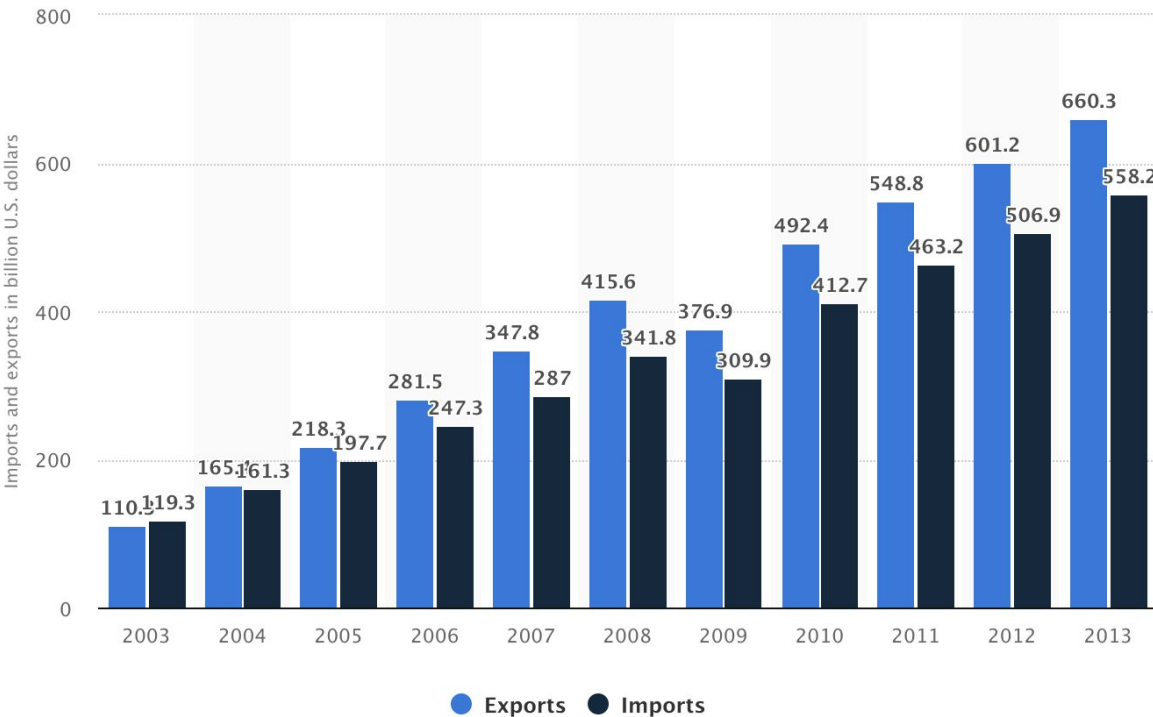
# 1.2

Domestic investments are more crucial in certain industries such as:

- defense-related products
- high-tech
  - aerospace
  - advanced electronics
  - telecommunications
  - computer manufactueres
  - machine tools
  - semi-conductors
- food products

Relying on foreign manufacturers would seriously affect a **nation's security**, particularly in time of war.

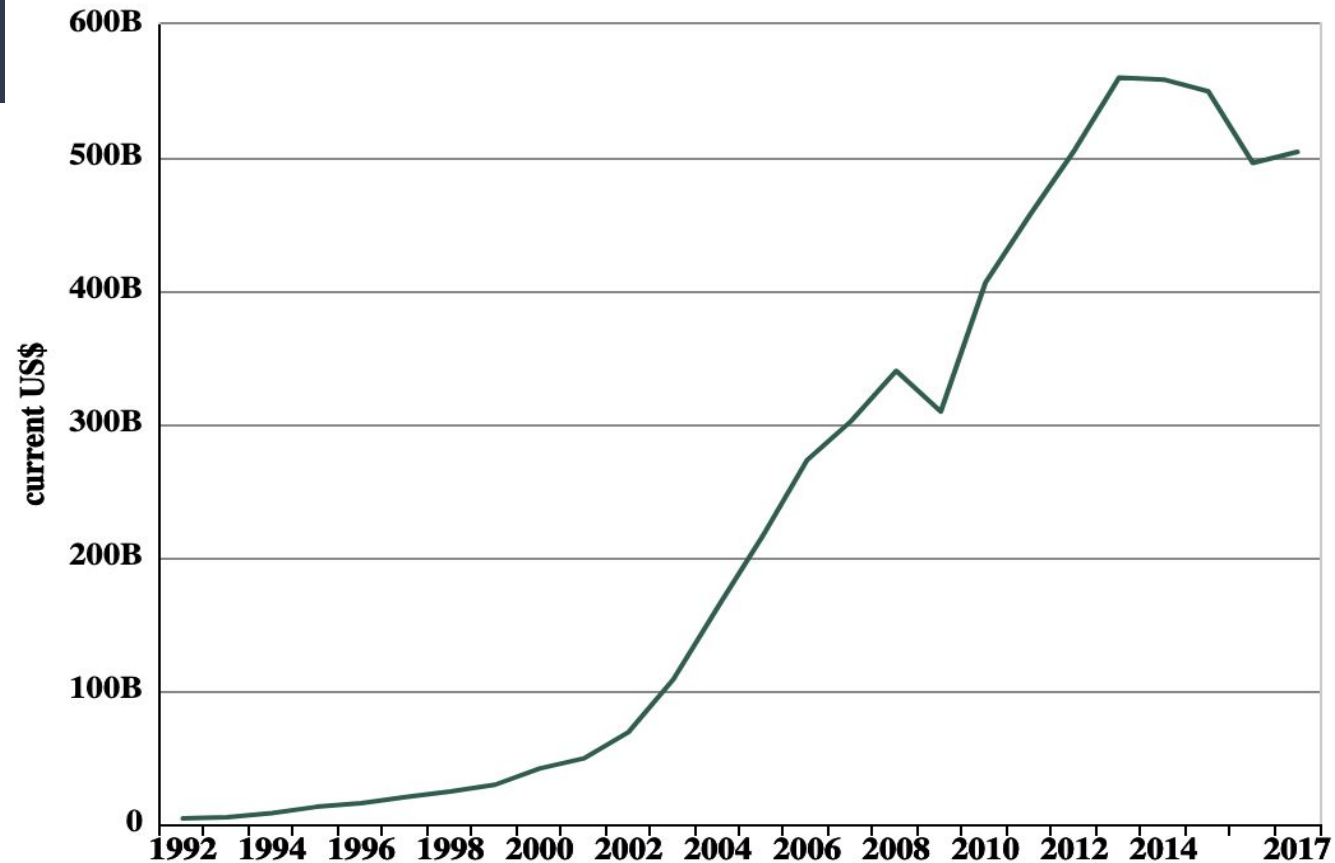
# Imports and exports of China's high-tech industry from 2003 to 2013 (in billion U.S. dollars)



1. "China: High-Tech Industry Imports and Exports 2013 | Statistic." Statista, Statista, [www.statista.com/statistics/276372/imports-and-exports-of-chinas-high-tech-industry/](http://www.statista.com/statistics/276372/imports-and-exports-of-chinas-high-tech-industry/).

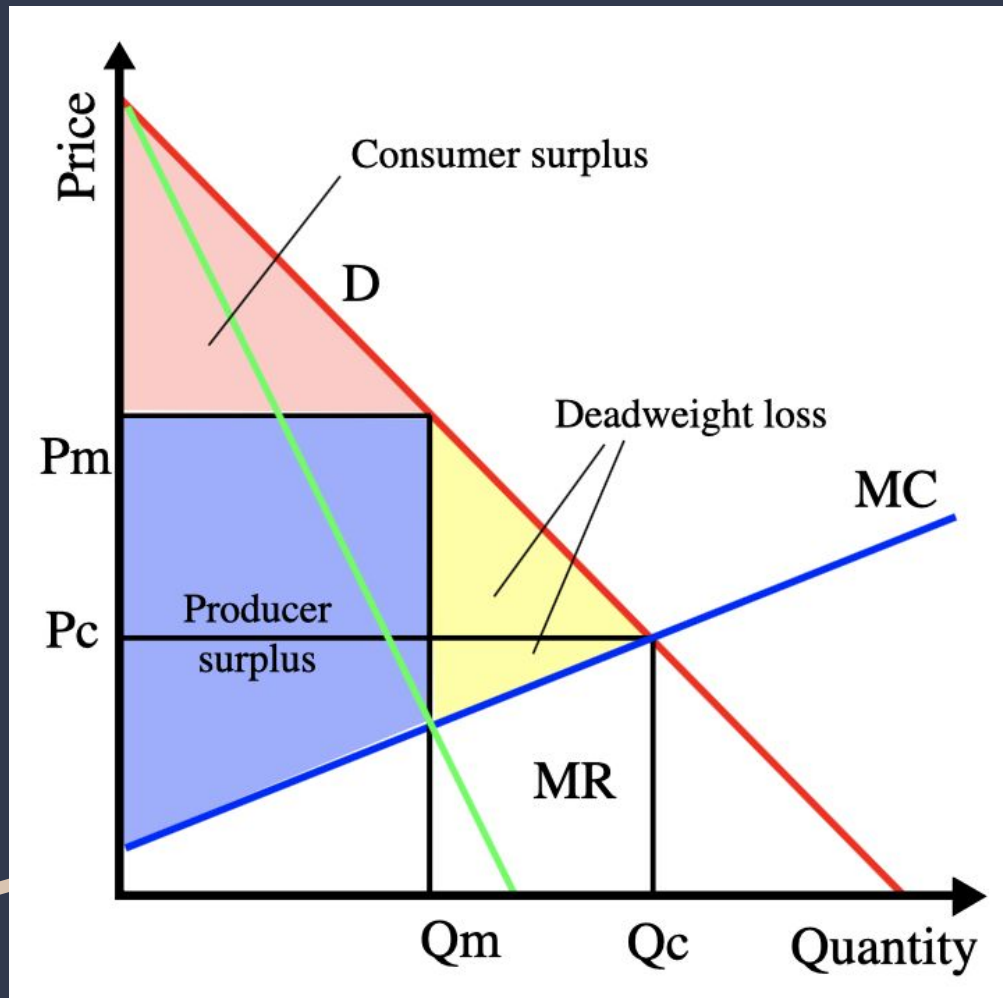
## China - High-technology exports in current prices

Average annual rate of **18.68 %**



2. "China High-Technology Exports, 1960-2018." Knoema, Knoema, <https://knoema.com/atlas/China/High-technology-exports>.

# 1.3



Threat:

Without trade protectionism, a nation would lose long-established industries and companies that first made a product in a particular nation.

This would eventually result in:

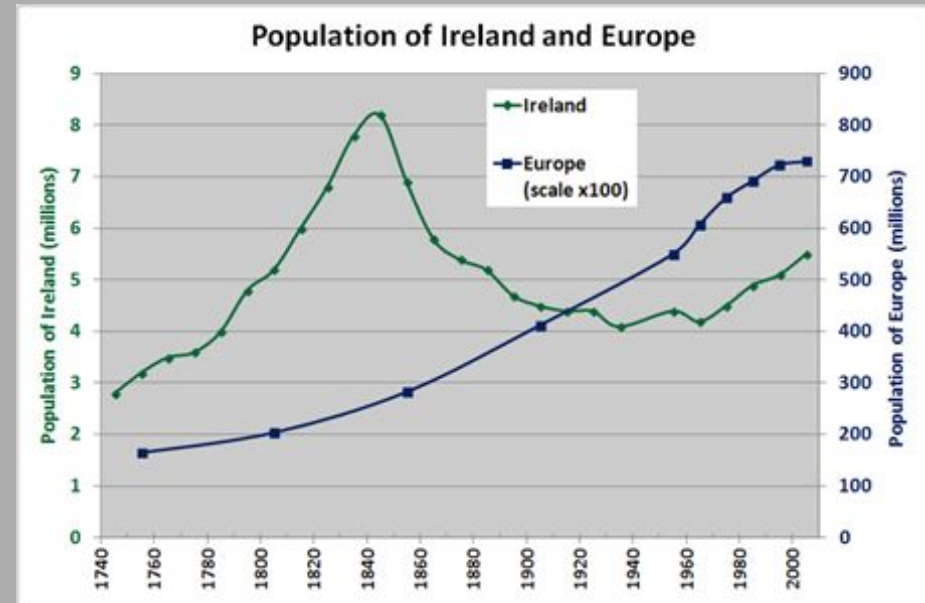
- loss of jobs
  - rising unemployment
- decrease in GDP
- reduced national security

Also, it will cause the emergence of global monopoly.

- generating deadweight loss

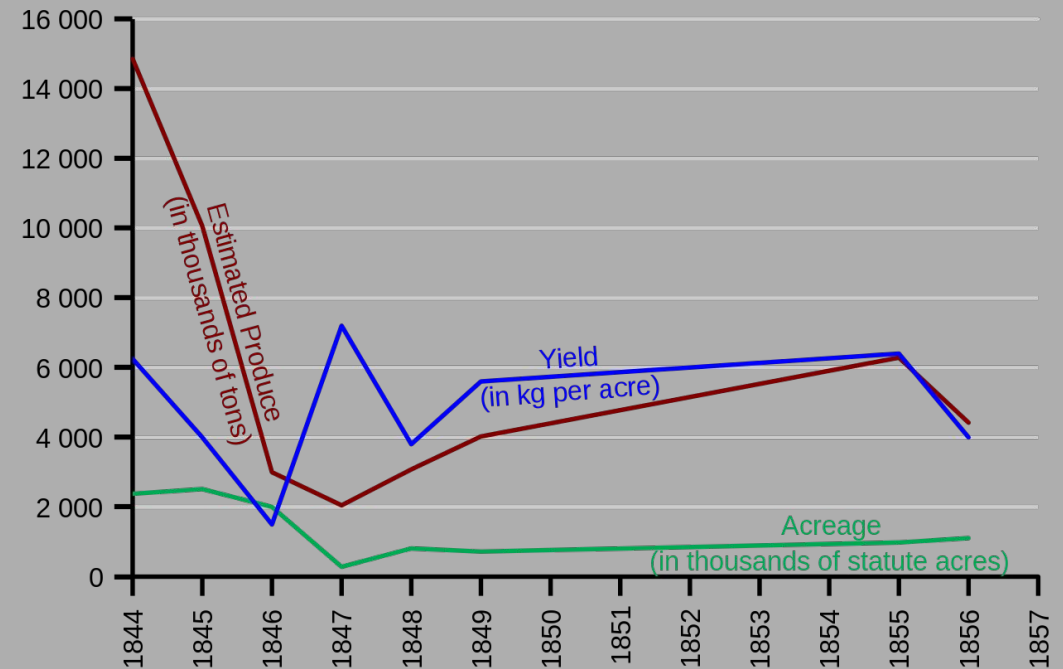
# Point #2

**#1. Background: The Irish potato famine** was of course a natural disaster — between 1845 and 1852, an infection repeatedly destroyed the potato crop on which much of the population was dependent.



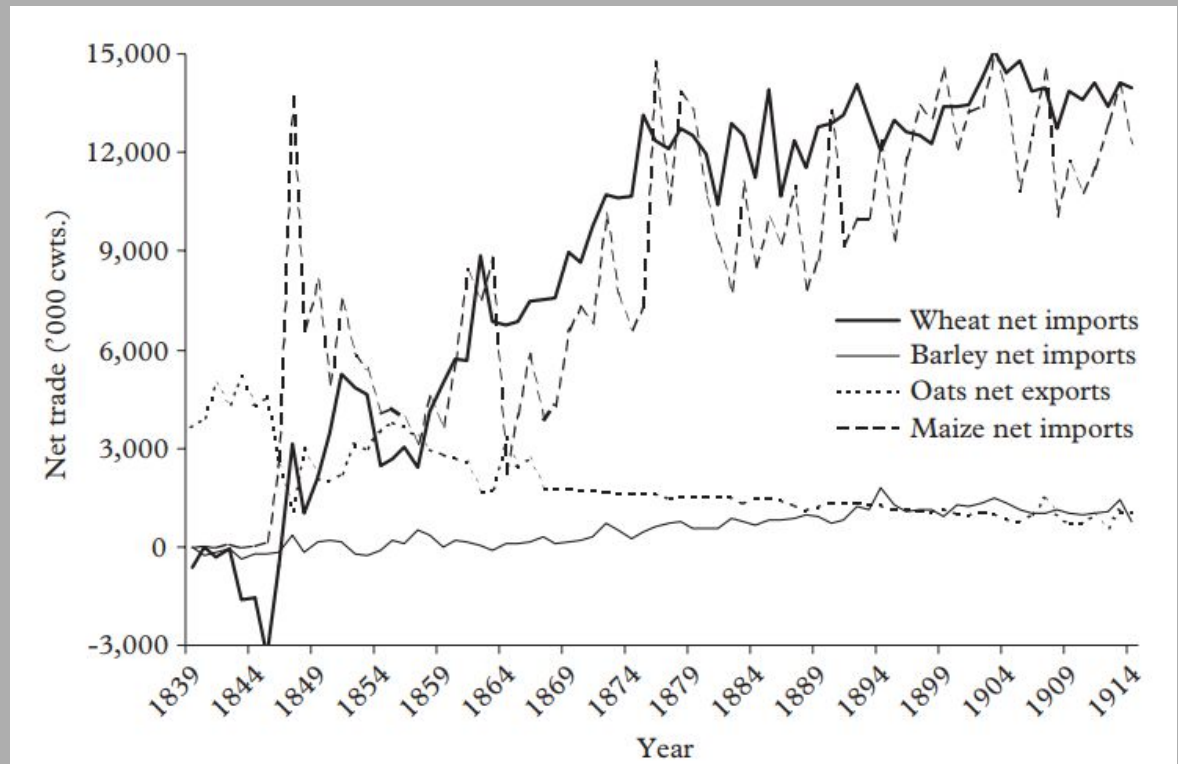
# Point #2

**#2. Reaction 1:** Ireland exported huge amounts of food during the Famine years, mostly to **England**.



## Point #2

**#3. Reaction 2:** The British official in charge of famine relief, Sir Charles Trevelyan, saw the famine as "a direct stroke of an all-wise and all-merciful Providence".



# Point #3

In 1880s, the US steel industry had a too high cost to compete with British import without protection.

The US's tariff on British Steel Rail

In 1881, tariff \$28/ton, American Steel Rail price, \$61/ton

In 1897, tariff \$7.84/ton, American Steel Rail price, \$19.60/ton

In 1910s, the US can sell Steel at a lower price than Britain's and export it to Britain.

Source: Frank William Taussig (1931). *The Tariff History of the United States*.

# Point #3

In 1750, India is the dominant country in exporting Cotton Goods.

Britain's tariff on Indian Cotton Goods

1685, 10%

late 18th century, 50%

1813, 85%

In 1830s, Britain displaced India as the dominant country in exporting Cotton Goods.

Source: Alavi, H. 1982. "India: The Transition to Colonial Capitalism," in H. Alavi, *Capitalism and Colonial Production*



# Conclusion

Although free trade brings many advantages to countries, countries also benefit from protectionism because protectionism

- i. encourages domestic investment
- ii. helps countries to maintain their bargaining power
- iii. helps countries' competitiveness in their key industries.