

The background features abstract, overlapping green geometric shapes, primarily triangles and polygons, in various shades of green, creating a modern and dynamic visual effect. The word "PROTECTION" is centered in a bold, green, sans-serif font.

PROTECTION

History of Protectionism

- ▶ In counter to mercantilism; Classical economics taught, as we have seen, the **blessings of free trade**.
- ▶ The **taxing of imports** is probably the easiest existing means by which a government may acquire income.
- ▶ In the 1840s the **teaching of the classical** economists started to bear fruit in their home country, England.
- ▶ Income taxes were introduced, protection of agriculture was abolished, and the famous **Corn Laws were repealed** in 1846.
- ▶ Capitalists and workers joined **forces against the land-owning** class, and the tariffs which helped English agriculture were abolished.
- ▶ England continued its course toward **free trade and was, from the 1850s to the First World War**, for all practical purposes, a free-trading nation.

- ▶ There were two specific factors in the 1870s which helped protectionism.
- ▶ One was the invasion of the European Continent by **cheap grain from the United States and Russia**, made possible by railways, steamships and innovations in agriculture.
- ▶ The other was the **depression of 1873-79**, the longest and deepest period of stagnant trade the world had yet known.
- ▶ Distressed farmers in Germany and France started to ask for protection in 1880. France also revised its trade policy in the 1890s and increased tariffs.
- ▶ The period between the world wars saw a drastic increase in tariffs and other trade impediments; the 1930s especially was a period when protectionism increased.
- ▶ the Second World War the trend, especially among leading industrial nations, has been towards trade liberalisation. Many impediments to trade have been abolished and **the average level of tariffs has fallen**.
- ▶ **Protectionism is not however dead.**

Meaning

- ▶ Protectionism in trade refers to government policies and actions designed to shield domestic industries and businesses from foreign competition.
- ▶ These protectionist measures are intended to promote domestic industries, preserve jobs, and protect national economic interests.

Different Form of Protectionism

- ▶ **Tariffs:** Tariffs are taxes imposed on imported goods, making them more expensive for consumers and businesses.
- ▶ **Quotas:** Quotas set limits on the quantity of specific imported goods that can enter a country within a given period.
- ▶ **Subsidies:** Governments may provide financial support or subsidies to domestic industries, making their products more competitive in the global market.
- ▶ **Import licensing:** Import licensing involves requiring importers to obtain government approval or licenses before importing specific goods.
- ▶ **Regulatory barriers:** Governments may implement regulations and standards that foreign products find challenging to meet.
- ▶ **Buy domestic policies:** Governments may enact "buy domestic" or "buy national" policies, which require public institutions, such as government agencies, to give preference to domestic suppliers when purchasing goods and services.
- ▶ **Currency manipulation:** Some countries manipulate their currency exchange rates to make their exports cheaper and imports more expensive.

Argument in favor of Protectionism

1. Infant Industry Argument:

- ▶ Economic markets are inherently competitive, and newer economies are highly vulnerable to their more developed counterparts in other countries for a variety of reasons.
- ▶ The infant industry argument is that new industries need protection until they have become efficient enough to compete in the world market.
- ▶ The primary advantage to countries with higher economic power and bigger corporations is simply economies of scale and economies of scope, so new industries need protection from competition during the initial phase.
- ▶ The central idea of this argument is embodied in the saying- Nurse the baby, protect the child, and free the adult’.
- ▶ This argument is now widely accepted in India as a good ground of protection for a temporary period for promoting home industries at the early stages.

2. Diversification of Industries Argument:

- ▶ A country cannot rely on one or a few industries only; it is necessary that a large number of industries of diverse varieties develop in the long run.

3. Employment Creation & Protection:

- ▶ If those industries were responsible for a significant amount of employment in a country, their decline would cause problems of regional unemployment. There is justification for a country to protect a contracting industry to slow down its rate of decline so that time is given for people to find jobs elsewhere in the economy.
- ▶ Protection to home industries may create employment opportunities in the country, and thus reduce the magnitude of unemployment.

4. Reducing Trade Deficits:

- ▶ Protectionist measures can be seen as a way to reduce trade deficits by limiting imports. For countries with persistent trade imbalances, protectionism can be used to correct the trade gap.

6. **Trade Barriers for Negotiation:**

- ▶ Protectionism can be used as a bargaining tool in international negotiations. Threatening or implementing trade barriers can give country leverage in trade talks, potentially leading to more favourable trade agreements.

7. **Unfair Competition Argument**

a. **Anti-Dumping:**

- ▶ Dumping occurs when a company exports its products at prices that are below the prices charged in the company's home market.
- ▶ The anti-dumping policies directed at international players looking to undercut domestic business through selling at dramatically reduced prices.
- ▶ Governments can provide subsidies to reduce costs for domestic companies.

b. **Intellectual Property**

- ▶ Another critical risk in the global market is intellectual property (IP) protection. Patents, in a domestic system, protect the innovator to allow them to generate returns on the substantial time investment required to invent or innovate new products or technologies.
- ▶ On a global scale, however, it is quite common for developing nations to copy new technologies via reverse engineering. This reduces the desire for innovation and places large economic risks on countries dependent upon this for growth.

c. **Mergers, Acquisitions, and Market Dominance:**

- ▶ Another unfair competition threat is the emergence of global monopolies. Some of the larger ones attain enough global power and geographic diversification to be difficult to break up via domestic antitrust laws.

8. **National Economic Security:**

- ▶ Protectionism can be used to safeguard national economic security. It prevents foreign control of key industries and ensures a reliable domestic supply of essential goods, especially during crises or emergencies.

9. **Revenue Generation:**

- ▶ Tariffs and import taxes can generate government revenue, which can be used to fund public services and infrastructure development.

10. **Environmental and Labor Standards:**

- ▶ Some argue that protectionism can be used to ensure that imported goods meet certain environmental or labor standards. By imposing import restrictions, countries can encourage trading partners to adopt and adhere to higher standards.

Non-economic arguments

- ▶ **National defense security:** Protectionist measures can be justified on national security grounds. Some argue that certain industries, like defense or critical infrastructure, should not be heavily reliant on foreign suppliers to ensure national security in times of crisis or conflict.
- ▶ **Preserving Traditional Practices:** Protectionism can support traditional practices and industries that are important to a nation's heritage. For example, restrictions on certain imports may help preserve traditional crafts or agricultural practices.
- ▶ **Preserving Cultural Identity:** Protectionism can be used to protect and preserve a country's cultural identity. By limiting foreign cultural imports, such as movies, music, and literature, a nation can maintain its unique cultural heritage.
- ▶ **National Sovereignty:** Advocates of protectionism argue that it can help maintain a nation's sovereignty and control over its economic policies. This is especially relevant in situations where globalization and free trade agreements may be perceived as undermining a country's ability to make independent decisions.

Argument against the Protectionism

- ▶ **Uneconomic Use of Resources:** Protectionist measures, such as tariffs and quotas, distort resource allocation by propping up inefficient domestic industries. This can lead to a misallocation of resources, lower productivity, and reduced economic growth in the long run.
- ▶ **Reduced Competition:** Protectionism shields domestic industries from international competition, which can stifle innovation, lower product quality, and lead to complacency.
- ▶ **Reduced Economic Growth:** By limiting international trade and economic interactions, protectionism can slow down economic growth.
- ▶ **No cure of Unemployment:**
- ▶ **Higher Consumer Prices:** Protectionism can result in higher prices for consumers because it limits access to cheaper foreign goods. Consumers end up paying more for domestically produced goods that may be of lower quality or offer fewer choices.

- ▶ **Unequal distribution of Income:** Rich became richer in protected industry
- ▶ **Creation of Monopolies:**
- ▶ **Encouragement of Corruption:**
- ▶ **Loss of revenue:**
- ▶ **Retaliation:** When one country engages in protectionist practices, it can provoke retaliation from trading partners. This can lead to a trade war, where both sides impose tariffs and other trade barriers, harming businesses and consumers in all countries involved.
- ▶ **Global Supply Chains:** Modern industries often rely on global supply chains, where components and materials are sourced from various countries. Protectionist measures disrupt these supply chains, raising costs for producers and potentially leading to supply shortages.
- ▶ **Long-Term Economic Consequences:** While protectionism might provide short-term benefits to specific industries or regions, it can have negative long-term consequences, including reduced economic growth, loss of innovation, and a less competitive domestic economy.