Why countries trade (II)

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Protectionism in context

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There are basically **three arguments** in support of using *tariffs* as a trade barrier:

1. The **infant industry** argument;
2. The **anti-dumping** argument;
3. The **environmental protection** argument.

Protectionism in context

[1]: The **infant industry** argument:

- *Block* imports for a limited time;
- Establish a *mature* industry;
- Relax restrictions and *compete* internationally.

Protectionism in context

[1]: The **infant industry** argument:

MEASURING THE PERFORMANCE OF A PROTECTED INFANT INDUSTRY: THE CASE OF BRAZILIAN MICROCOMPUTERS

Eduardo Luzio and Shane Greenstein*

Abstract—Until the beginnings of the Collor presidency in 1990, the Brazilian government strongly protected domestic producers of electronics goods. Using hedonic methods we analyze systematic evidence of the performance of the Brazilian microcomputer industry and compare it with international standards. Our analysis highlights rapid rates of advance in Brazil but lower rates than potential international competition. Technical frontiers typically lagged price/performance practices in international markets by at least three years and by as much as five. Foregone buyer surplus due to protection had to be quite high, approaching 20% of domestic expenditure on microcomputers.

I. Introduction

UNTIL the beginnings of the Collor presidency in 1990, the Brazilian government strongly protected domestic producers of electronics goods. The justification and policies for protecting "informatics" producers changed over the 1970s and 1980s, but the character of the outcome did not. Many anecdotes suggest that the policies failed to achieve their stated goals in many markets. Most observers argue that Brazilian firms did not come close to reaching parity with their potential international competitors in most markets (e.g., Reyes et al. (1990) and SEI (1988)). These laws and their consequences contain important lessons about how and why government nurturing of high-technology industries may fail (see Luzio (1993) for a review).

mance of this industry is better documented than any other. Because the Brazilian domestic market was largely dominated by Brazilian versions of IBM-PCs and Apple clones, we can directly compare the performance of the Brazilian industry with potential international competitors.

Our data set provides one novelty of this study —it is an eight year time series of price and performance characteristics for all Brazilian-produced microcomputers. Our methods are not novel in the economics of technical change: we employ standard hedonic techniques (Berndt and Griliches (1993)) to evaluate the rate of advance in the Brazilian industry. However, these methods are not common to studies of infant industries, perhaps because the necessary data are rarely available. So another novelty is our application of hedonics to evaluate the performance of the Brazilian industry relative to international standards. We think that the success of the methods here (and the increasing availability of product market data) may suggest similar applications in related issues of development economics.

Our quantitative analysis provides measures of the industry's development. First, we show that the Brazilian PC industry's price/performance often advanced at a rate that was comparable to international rates of advance. Second, despite

Protectionism in context

[1]: The **infant industry** argument:

- *How* to do?

Protectionism in context

[2]: The **anti-dumping** argument:

- What does *dumping* mean?
- How do tariffs *correct* for dumping?
- *Predatory pricing* strategies.

Protectionism in context

[2]: The **anti-dumping** argument:

`An example`

Protectionism in context

[3]: The **environmental protection** argument:

- *Strict* vs. *lax* environmental regulations.
- `A recent example`

Before we move on...

The Global Effort to Make an American Microchip (NYT)

The current tariff context

The current tariff context

Tracking Trump's tariffs and other trade actions (Brookings Institute)

The current tariff context

Tariff day podcast (Trade Talks)

The current tariff context

Trump’s trade war timeline 2.0: An up-to-date guide (PIIE)

Next time: Consumer preferences & demand