

**INTERNATIONAL JOURNAL OF ENGINEERING SCIENCES & RESEARCH  
TECHNOLOGY****FREE GLOBAL TRADE V/s PROTECTIONISM – A CRITICAL REVIEW****Dr. Anand Sagar\***

\* Research Guide, Shri JTT University, Jhunjhunu, Rajasthan, India

DOI: 10.5281/zenodo.546320

**ABSTRACT**

Protectionism is the term used about the nations protecting their domestic industries and their workers by providing subsidies for their production and imposing tariffs on competing foreign products. Yet protectionism has been blamed for closing off trade from foreign countries, raising prices and giving domestic consumers less choice. A country that practices protectionism can just as easily be subjected to it by other countries imposing their own import tariffs and awarding subsidies to their industries. Free trade is based on agreements between nations to drop import barriers, allowing foreign goods and services to compete on a level playing field with domestic products. This opens markets for developing countries and in theory improves their economic conditions. Jobs lost in one industry of a developed country can grow in another industry. Free trade is meant to improve the economy of all participating nations. The World Trade Organization (WTO) regulates free trade agreements among member nations. Free trade encourages the relocation of multinational manufacturing sites from developed countries to poorer nations with much lower costs.

**KEYWORDS:** Protectionism, Free Trade, Subsidies, domestic industries, import tariffs, WTO.**INTRODUCTION**

Protectionism is the practice of nations to protect domestic industries and their workers by providing subsidies for their production and imposing tariffs on competing foreign products. Yet protectionism has been blamed for closing off trade from foreign countries, raising prices and giving domestic consumers less choice. A country that practices protectionism can just as easily be subjected to it by other countries imposing their own import tariffs and awarding subsidies to their industries. Free trade is based on agreements between nations to drop import barriers, allowing foreign goods and services to compete on a level playing field with domestic products. This opens markets for developing countries and in theory improves their economic conditions. Developing companies in turn are more capable of buying products from industrialized countries. Jobs lost in one industry of a developed country can grow in another industry. Free trade is meant to improve the economy of all participating nations. The World Trade Organization (WTO) regulates free trade agreements among member nations. Free trade encourages the relocation of multinational manufacturing sites from developed countries to poorer nations with much lower costs. The article argues that wealth in a poor country could be created more rapidly if the economy was based locally rather than on a system heavily dependent on exports, with investments and profits of exporting companies in the hands of foreign owners that limit the economic benefits to their workers and the host country.

**REVIEW OF LITERATURE**

(1) Tom Chmielewski (2015): Protectionism is the practice of nations to protect domestic industries and their workers by providing subsidies for their production and imposing tariffs on competing foreign products. Yet protectionism has been blamed for closing off trade from foreign countries, raising prices and giving domestic consumers less choice. A country that practices protectionism can just as easily be subjected to it by other countries imposing their own import tariffs and awarding subsidies to their industries. Free trade is based on agreements between nations to drop import barriers, allowing foreign goods and services to compete on a level playing field with domestic products. This opens markets for developing countries and in theory improves their economic conditions. Developing companies in turn are more capable of buying products from industrialized countries. Jobs lost in one industry of a developed country can grow in another industry. Free trade is meant to improve the economy of all participating nations. The World Trade Organization (WTO) regulates free trade agreements among member nations. Free trade encourages the relocation of multinational manufacturing sites from developed countries to poorer nations with much lower costs. The article argues that wealth in a poor country

could be created more rapidly if the economy was based locally rather than on a system heavily dependent on exports, with investments and profits of exporting companies in the hands of foreign owners that limit the economic benefits to their workers and the host country.

(2) **Kimberly Amadeo (2017)**: International trade is the exchange of goods and services between countries. Total trade equals exports plus imports. In 2016, world trade was \$30.98 trillion. That's \$15.64 trillion in exports plus \$15.34 trillion in imports. One-quarter of trade was in electrical machinery, computers, nuclear reactor parts and scientific instruments. Automotive contributed 9 percent. Commodities like oil, iron and diamonds added 19 percent. Global trade declined 4 percent from the \$32.27 trillion trade in 2015. It had grown just 2 percent in 2015, and 3.4 percent in 2014. That's much slower than the average annual 10 percent growth rate between 1961 and 2013. That's one reason why the growth in the global economy is also slowing. International trade was 26 percent of the global economy in 2016. It makes companies more efficient. Research shows that exporters are more productive than companies that focus on domestic trade. Until the 2008 financial crisis, world trade grew 1.9 times faster than economic growth. Since then, trade has grown more slowly than the global economy.

(3) **Arvind Subramanian, (2017)**: "Protectionist West can have a big impact on India", *Business Today*, 14<sup>th</sup> March, 2017.

Chief Economic Adviser Arvind Subramanian said that if the Western economies become more protectionist, it can have a "big impact" on the domestic economy. Calling 2016 as a watershed year for advanced economies, he said, "Year 2016 will go down in history as the moment when the advanced economies -- Europe and America -- actually decided to change their model of development and how they run economy by becoming more inward-looking, retreating from open markets and globalization."

## FINDINGS

1. Protectionism is aimed at protecting domestic industries and their workers by providing subsidies for their production and imposing tariffs on competing foreign products. A country that practices protectionism can just as easily be subjected to it by other countries imposing their own import tariffs and awarding subsidies to their industries.
2. Free trade is based on agreements between nations to drop import barriers, allowing foreign goods and services to compete on a level playing field with domestic products. This opens markets for developing countries and in theory improves their economic conditions. Developing companies in turn are more capable of buying products from industrialized countries. Jobs lost in one industry of a developed country can grow in another industry.
3. Free trade is meant to improve the economy of all participating nations. The World Trade Organization (WTO) regulates free trade agreements among member nations. Free trade encourages the relocation of multinational manufacturing sites from developed countries to poorer nations with much lower costs. The article argues that wealth in a poor country could be created more rapidly if the economy was based locally rather than on a system heavily dependent on exports, with investments and profits of exporting companies in the hands of foreign owners that limit the economic benefits to their workers and the host country.
4. Four Reasons Why Global Trade Is Slowing:-
  - First, the Soviet Union collapsed in the 1990s. That allowed countries like Poland, the Czech Republic and East Germany to catch up as they rejoined the global economy.
  - Second, China joined the World Trade Organization in 2001. These two events super-charged growth. But after 15 years, their contributions have stabilized.
  - Third, the 2008 financial crisis slowed trade and growth. Many companies became more cautious. Consumers were less likely to spend. Part of that is because they'd grown older. They had to rebuild their retirement savings.
  - Fourth, countries are implementing more protectionist measures. In 2015, governments quietly added 539 trade restrictions. These included tariffs, government subsidies to domestic industries and anti-dumping legislation. (Source: "World Trade Growth Is Slowing," Global Finance, January 2016.)
5. Advantages of International Trade: Exports create jobs and boost economic growth. They give domestic companies more experience in producing for foreign markets. Over time, companies gain a competitive advantage in global trade. Imports allow foreign competition to reduce prices for consumers. It also gives shoppers a wider variety of goods and services. Examples include tropical and out- of-season fruits and vegetables.



6. Disadvantages of International Trade: The only way to boost exports is to make trade easier overall. Governments do this by reducing tariffs and other blocks to imports. That reduces jobs in domestic industries that can't compete on a global scale. It also leads to job outsourcing. That's when companies relocate call centers, technology offices and manufacturing. They choose countries with a lower cost of living. Countries with traditional economies could lose their local farming base. That's because developed economies subsidize their agribusiness. Both the United States and the European Union do this. That undercuts the prices of the local farmers.

## CONCLUSION

If the world becomes more protectionists, it is going to have a big impact on the Indian economy. If the world was to become protectionist, India's exports cannot grow at 25 per cent, which means our growth will suffer quite a bit.

India should follow in China's footsteps to advocate open markets. Since we've a stake in ensuring that other countries remain open, we need to be more proactive in becoming champions of keeping world markets more open. If something happens on H1-B visas, we should be out there mobilizing coalitions internationally and maybe, even taking negotiations proactively to ensure that world markets remain open.

That in turn requires that we are willing to open our markets. In the old days, we were considered a poor country, a small country which didn't matter. We could say 'you open your markets, I will do whatever I want'. Those days are long gone because we've become big, we've become important,. China has been playing its role quite well and India also needs to do something similar. We need to mobilize a coalition of middle income countries. We need to become champions of open markets internationally and that's something the Chinese are doing very seriously.

At Davos, President Xi Jinping went and said 'we the Chinese are now going to take leadership of the international trading system if Europe and US can't do so.' I think we need to do something similar as well.

It is a big surprise that votes are sought in our country for building highways but not for health and education infrastructure. Moreover, if the demonetization is to be successful, the cash-to-GDP ratio of more than 12 per cent should come down over time.

## REFERENCES

- [1] Tom Chmielewski (2015): "Free Trade Vs. Protectionism"
- [2] Kimberly Amadeo (2017): Trade Protectionism: 4 Methods with Examples, Pros and Cons Why
- [3] Protectionism Feels So Good, But Is So Wrong, CIA World Factbook, 01<sup>st</sup> March, 2017
- [4] Arvind Subramanian (2017): "Protectionist West can have a big impact on India", *Business Today*, 14<sup>th</sup> March, 2017.