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Content of the paper! —

International Economics

Module! — 3

TOPIC! — PROTECTION POLICY
IN INTERNATIONAL TRADE

Protection is the Policy of encouraging home industries by giving subsidies to domestic producers or more usually by imposing customs duties on foreign products. The term "protection" usually carries in a very loose sense the connotation of a tariff on imports, but it may refer to any policy that raises the price received by domestic producers of any important importable commodity above its world market value.

When a country resorts to protection as a commercial policy, it can adopt many alternative devices or their combinations. The important methods of protection are mentioned as tariffs, quotas, exchange control, state trading, dumping, subsidies, commodity agreement and international cartels. By far, the tariff system is an important and most common method of protection. By tariff barriers, we mean only those taxes which are intended to restrict international trade.

There are two types of arguments in favour of protection namely economic arguments and non-economic arguments.

Economic Arguments for Protection:-

(1) Infant Industry Argument:-

It is held

that infant industries during the early stages of their development require protection from competition from foreign exporters.

An infant industry is one which has been started rather late or newly, and which has not been mature enough to face competition. By adopting Protection Policy, these industries can be protected and promoted.

(II) "Diversification of Industry" Argument:-

Prof. List and other economists have advocated Protection Policy to diversify the industries of a country. When there is unbalanced economy as a result of excessive specialisation, excessive specialisation leads to overdependence of a country on other countries. In order to bring about a harmonious and balanced growth of all industries and self sufficiency, it is necessary to bring about a diversification of industries through Protection.

(III) "Promotion of Employment" Argument:-

It is believed that imposition of tariff leads to expansion of employment and incomes. Imposition of tariff restricts certain imports so that some money is saved in domestic economy which will be spent upon the purchase of the products of protected home industries. As the protected

industries expand, employment therein increases and income of the economy increases.

(iv) "Balance of Payments" and "Terms of Trade" Argument:-

For correcting disequilibrium in the balance of Payments, tariff duty can be used as an instrument for making the terms of trade more favourable to the country.

(v) "Pauper Labour" Argument:-

Protection is sometimes advocated, especially in industrially advanced countries, in order to safeguard the interests of labour. It is argued that in absence of protection, there will be an unhealthy competition faced by countries having dear labour economy from those having cheap labour.

(vi) "Anti Dumping" Argument:-

Protection is also advocated as an anti-dumping measure. A foreign country may resort to dumping with a view to capturing markets in another country. Thus, a high tariff may be demanded in order to protect home producers against dumping of foreign goods in the home market at

a much lower price and than what the foreign monopolist charges in his own country.

NON-ECONOMIC Arguments for Protection:-

(I) Defence Argument:-

From the stand-point of national defence, each country should be self-sufficient as far as possible. It should avoid too close a dependence upon other countries, even if such avoidance involves an economic loss.

(II) Patriotism Argument:-

Protection is essential to rouse and satisfy the patriotism of the people. It is the duty of every citizen to prefer home-made goods to foreign goods. As such home-made goods should be available in the right quantity and quality.

(III) Preservation Argument:-

Protection has been advocated in some countries for the purpose of preserving certain classes of the population or certain occupations. This argument was particularly applied to agricultural duties to the preservation of agricultural community or farming industry.