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Research Paper

Is Protectionism good for International Trade?

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ABSTRACT: *In this paper, the author used the Ricardian model to explain the reasons and importance of the government's imposition of tariffs and trade protectionism in international trade, as well as the resulting advantages and disadvantages by comparing and analyzing the costs and profits of growing wheat and producing cars between two countries.*

KEYWORDS： *Trade protectionism, International Trade, Consumers, Producers, Governments, Economic, Labor, Price, Cost, tariffs, trade barriers, Globalization, Ricardian Model, Car, Wheat*

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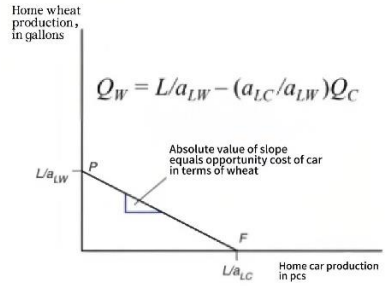
Trade protectionism has consistently been a significant part of the international trade, wherein key actors such as producers, consumers, and governments play pivotal roles. Amid the market competition fostered by economic globalization, attaining a relatively balanced competitive relationship among countries becomes an elusive objective, thereby impeding the emergence of the new-classical H-O factor endowment theory.[1] While the prevalence of trade protectionism is considered a normal occurrence, it is crucial to note that this normalization does not necessarily yield favorable outcomes for national economics and international trade.

Within the framework of trading systems, it is customary to select two distinct products with substantial value disparities for comparative analysis. This approach serves the purpose of examining the movement of trade products and discerning trade differentials between two countries. By employing this methodology, the intricate nature of international trade can be analyzed within the confines of a simplified model operating under stable circumstances.

In this paper, the Ricardian model will be used to demonstrate why governments will apply tariffs and set up trade barriers. There are two variables in the Ricardian model, opportunity cost and comparative advantage.[2] Opportunity cost is the act of giving up one thing and pursue another. Comparative advantage means that the opportunity cost of producing a product in one country is less than the opportunity cost of producing it in another country. These concepts could be applied to a situation in which one country manufactures cars and another country harvests wheat.

C-cars, W-wheat
a_{lc} and a_{lw} are the amount of labor required to produce cars and wheat.
Q_c and Q_w are the output of cars and wheat.
L is total amount of labor.
So the most obvious relationship is： $a_{LC}Q_c+a_{LW}Q_w=L$
It shows the sum of the number of possible products of a society given the total amount of labor. This is actually the production possibility frontier, and the following model can be derived.



Q_c and Q_w , an independent variable and a variable，their slope is going to be a_{LC}/a_{LW}. If Q_c increase by one unit, a_{LC}/a_{LW} will decrease by one unit. In other words, the slope here represents the opportunity cost of producing the car.[3] Since there is the cost of the car, the price of it should be introduced. Let's add two more sets of variables here，P_c and P_w are the prices of the two goods respectively；W_c and W_w represent the wages of workers in two industries.[4]It is well known that in a fully competitive market, the price of production and the final price will reach equilibrium, and the only factor in the Ricardian model, the cost, is the quantity of Labor. So now comes to the following formula.

$P_C = a_{LC}W_C$

$P_w = a_{LW}W_w$

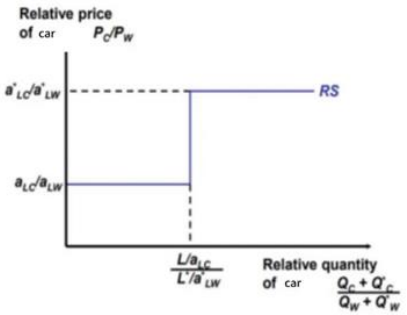
Bend the formula and get $P_C / P_w > a_{lc}/a_{lw}$

On the left is the relative price of the car, while on the right is the production cost of the car.[5]

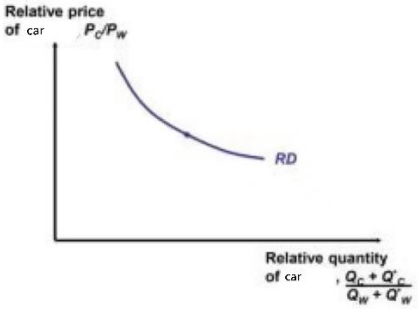
The conclusion drawn is that when the relative price of cars surpasses the opportunity cost of car production, the wages of car producers will exceed those of wheat producers, leading to a situation where the production of cars becomes the preferred choice for all individuals involved.[6] Consequently, this creates an imbalance between supply and demand within society. In such a scenario, the corresponding prices of car and wheat production will adjust accordingly.[7]

The preceding discussion focuses solely on the relationship inside one country. From the perspective of the international trade between two countries, there will be two assumptions.[8] The first assumption posits that the cost of producing cars in one country is lower compared to other countries, thereby indicating the country's comparative advantage in car production ($a_{LC}/a_{LW} < a^*_{LC}/a^*_{LW}$). The second hypothesis suggests that this country possesses a comparative advantage in the production of both commodities, cars and wheat, which is known as absolute advantage.[9] This assumption raises the question of whether, given its advantage in producing cars and wheat, the country should engage in trade with other nations.

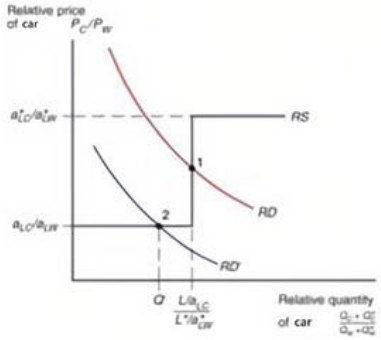
The horizontal axis of below chart represents relative production of cars , while the vertical axis represents the relative price of cars. [10]



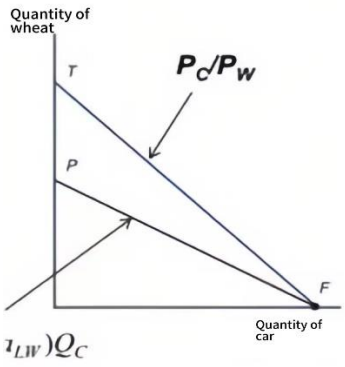
The RS curve can be depicted as the relative supply of automobiles at each corresponding relative price. Additionally, the below demand curve is essential to complement the above supply curve, as it illustrates the relative quantity of automobiles demanded at a specific price level.



Then shift the line and intersect it with the supply curve.



The red curve is taken as the premise to analyze the benefits of trade. For autoworkers in the country, the relative price of cars has risen from non-trade a_{LC}/a_{LW} to P_C/P_w. Wages have also increased. For the wheat country worker, the relative price of the car also dropped from a in the non-trade period to $a*_{LC}/a*_{LW}$ P_C/P_w.So the relative price of wheat goes up, but so does wages. In this case, it is not only workers who benefit, but also consumers.[11]The black line represents the consumption possibility frontier for consumers in their own countries, which now expands to the blue line.



In this manner, the preceding hypothesis can be addressed, highlighting the necessity of engaging in trade with other countries despite the productivity of its wheat and cars. The absence of an absolute relationship between them underscores the potential benefits of trade for the country.

Ricardo's model provides compelling evidence for the substantial advantages brought about by international trade for both participating nations. However, these benefits can conflict with the prevailing landscape characterized by the imposition of tariffs and trade barriers. It is crucial to acknowledge that economic models, including Ricardo's model, exist as theoretical constructs designed for hypothetical scenarios [12]. Consequently, implementing any economic model in the present world is impractical, and it is highly improbable for any government to refrain from intervention.

While the exchange of wheat for cars may be viable in the short term, the long-term economic value generated by high-tech products far surpasses the production value of wheat [13]. At present, the dilemma of developing countries is that the production cost of high-tech products in developed countries is significantly lower

compared to the cost of low-value-added products in developing countries. Consequently, the profitability associated with high-tech products greatly exceeds that of low-value-added products [14]. For instance, from a global perspective, Apple's parts production takes place across various countries, while assembly is predominantly conducted in China, Vietnam, and other nations. However, the majority of Apple's mobile phone profits, approximately 80%, remain concentrated within the company [15]. This disparity can lead the developing countries to an overreliance on foreign countries for economic dominance, thereby challenging the nation's sovereignty. Additionally, hindrances to the country's scientific and technological advancements are expected to arise.

Although the exchange of wheat for cars would undoubtedly be feasible in a completely free market, facilitated by globalization and the international division of labor, developing countries face limitations as they primarily possess wheat as a trade commodity. Trade protectionism tends to favor domestic producers, who reap the benefits, while domestic consumers bear the corresponding negative consequences [16]. In the best interest of the country, governments often impose high tariffs on foreign products to safeguard domestic industries. However, within the context of full globalization, the attainment of this ideal scenario becomes unattainable. Many developed countries incorporate numerous tariff clauses into their support for developing nations, thereby providing an avenue to reduce tariff barriers [17].

Obviously, within the context of today's highly globalized world, the significance of tariffs and trade barriers cannot be overstated. Economic globalization has led to the formation of distinct industrial chains in each country, driven by variations in resource endowments. As these industrial chains operate, they generate differentiation which can presents an opportunity for countries to complement each other, thereby maintaining a state of balanced international trade. However, according to the theory of balance of international trade, a country's net balance of payments, which refers to the disparity between net exports and net capital outflows, is expected to be zero. The net balance of payments is calculated as net export minus net capital outflow, expressed as BP = NX - F. It serves as a measure of a country's transactions with all other nations over a specified time period. If the inflow of a country's currency exceeds the outflow, the balance of payments is positive. Such transactions can arise from the current account, financial account, or capital account. The balance of payments is regarded as an economic indicator encompassing a country's trade balance and foreign investment. In line with the theory of balance of payments, disparities in payments between countries influence the composition of their respective industrial chains. This aspect also constitutes one of the significant factors contributing to the establishment of tariffs and trade barriers.

Within the current paradigm of globalization, developed countries with advanced technological capabilities often leverage their scientific and technological superiority to maximize their gains by taking advantage of cheap labor in developing nations. In response, developing countries implement tariffs and trade barriers as a means to safeguard their workforce and protect domestic products. In recent years, countries such as Britain and France have encountered frequent obstacles impeding their economic progress. Britain, for instance, grapples with the dilemma of inflation, while France faces challenges associated with pension issues. These situations arise due to the diminishing capacity to achieve maximal profits as in previous times. The analysis showing that to some extent the tariff barriers have assumed a pivotal role.

Tariffs, at any given time, can be viewed as a double-edged sword. Controlling tariffs within a reasonable range proves to be an elusive task. As per international tax theory, the influence of tariffs steadily expands, making negotiations within the World Trade Organization (WTO) and the various provisions set by developed countries increasingly ineffective. The phenomenon of economic globalization, which gained popularity in the 1990s, is gradually waning. Nevertheless, the prevailing circumstances do not align with what should be expected in the present era. The years marked by rapid economic globalization also represent the peak period of global economic development. Factors such as the geopolitical landscape, divergent national interests, and technological disparities among countries contribute to this state of affairs. Hence, the prevalence of trade protectionism in contemporary society holds its own inevitable significance.

Footnotes

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