

Protectionism Vs. Free Trade

Arguments For Protectionism:

- 1. Protecting Domestic Employment:** Workers in a nation can lose their jobs if that nation is importing goods those workers produce.
- 2. Protecting New Industries:** When a nation has a new or "infant" industry, competition can crush it. Protectionism allows it to mature.
- 3. Protecting Workers:** Workers in developing nations (nations that are beginning to industrialize) often face horrible working conditions with no regulations. Importing from them can encourage these practices.
- 4. Protecting The Environment:** Many developing nations have poor environmental standards. Importing from them can encourage environmental damage.
- 5. Protecting National Security:** Nations try to protect essential industries from competition, and punish threatening acts from another nation with embargo.

Protectionism:

A policy of protecting a nation's economy through government regulation.

Trade Barriers:

Government restrictions on trade, including:

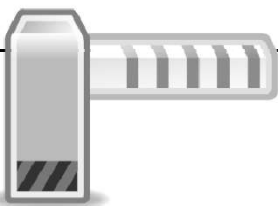
- **Tariffs:** A tax on imported goods
- **Quotas:** Limitations on the quantity of specific goods that may be imported from certain countries during a given time period
- **Embargoes:** An official ban on trade activity with a particular country for political reasons.
- **Standards:** Specific requirements products must meet before they can be imported into a country
- **Subsidies:** Government payments to assist an industry or business so that the price of a good may remain competitive.

Free Trade:

International trade without government interference.

Arguments For Free Trade:

- 1. Protecting Domestic Employment:** If a nation concentrates on producing goods for which it has a comparative advantage, new jobs will come as a result of that efficiency. Also, consumer goods will be less expensive.
- 2. Protecting New Industries:** A nation's "infant" industry may never mature. The trade barriers another nation may impose could be worse for other industries than crushing a new industry.
- 3. Protecting Workers:** Consumers will have to pay more for pricier domestic goods and foreign workers will be out of work.
- 4. Protecting The Environment:** Many developing nations have poor environmental standards, but research shows that their standards will likely rise as they become wealthier.
- 5. Protecting National Security:** Industries can claim that an international industry is a threat when it's not, using the claim as a way to eliminate competition.



World Trade Organization

Goal of The WTO:

“In brief, the World Trade Organization (WTO) is the only international organization dealing with the global rules of trade. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.” –WTO

It achieves this goal by:

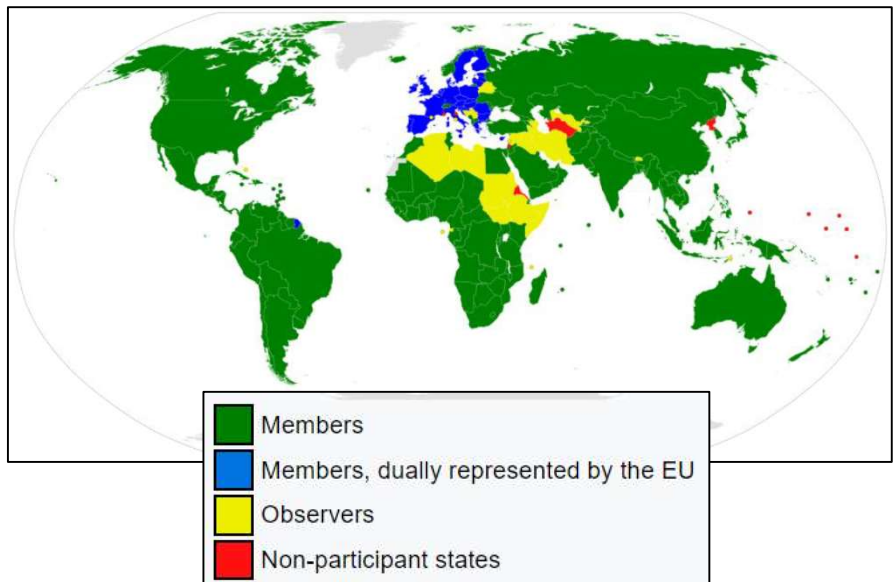
1. Establishing Global Trade Rules
2. Encouraging and Overseeing Trade Negotiations
3. Building Trade in Developing Economies
4. Settling Trade Disputes
5. Reviewing National Trade Policies
6. Cooperating with International Organizations

HISTORY OF THE WTO

In 1947, the General Agreement on Tariffs and Trade (GATT) was established with the mission of promoting free trade. Following two major world wars, it was thought that greater international economic cooperation would promote peace. In 1994, nations agreed to replace GATT with the WTO in January of 1995.

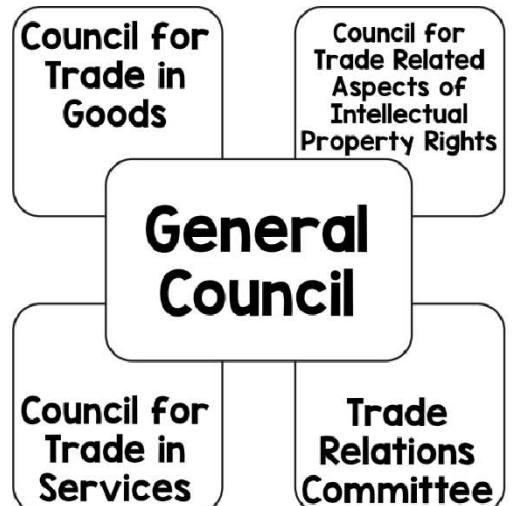
MEMBERS OF THE WTO

164 nations are members of the WTO and over 20 nations are in the process. Nations seeking membership are called observers. They can be observers for five years, but it takes some nations much longer than that to negotiate membership. 98% of global trade is conducted by member nations.



ORGANIZATION OF THE WTO

The secretariat (administrative office) of the WTO is located in Geneva, Switzerland. There is a Director-General, four Deputy Directors-General, and a staff of over 600. All member governments send representatives to serve on the General Council, which oversees committees in four different areas: Trade in Goods, Trade-Related Aspects of Intellectual Property Rights, Trade in Services, and Trade Negotiations. Members reach consensus (agreement) on issues, but there is a provision for voting if it ever becomes necessary—it never has. Some members complain that the U.S. and Europe are too dominant in decision-making.



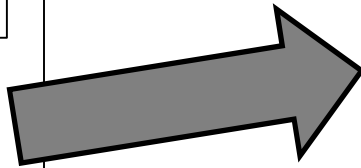
Trading Blocs

Types of Trading Blocs:

Purpose

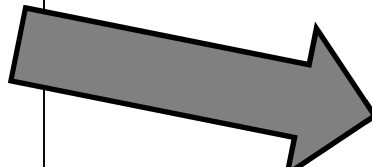
Trading blocs remove trade barriers from member nations but not from non-member nations.

- 1. Free Trade Areas:** Member nations don't place barriers on each other, but they do place barriers on non-member nations. Each nation in a Free Trade Area still controls its own trade policies (they have sovereignty).
- 2. Customs Unions:** Member nations have free trade among themselves, but they don't each control their own trade policies (there is standardization rather than sovereignty). They also agree on a common external tariff for non-member nations.
- 3. Common Markets:** It's a customs union, except factors of production (labor and capital) move freely between member nations.
- 4. Economic Unions:** It's a common market but members share common economic policies and currencies.
- 5. Monetary Unions:** Two or more nations share the same currency.



NAFTA

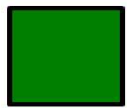
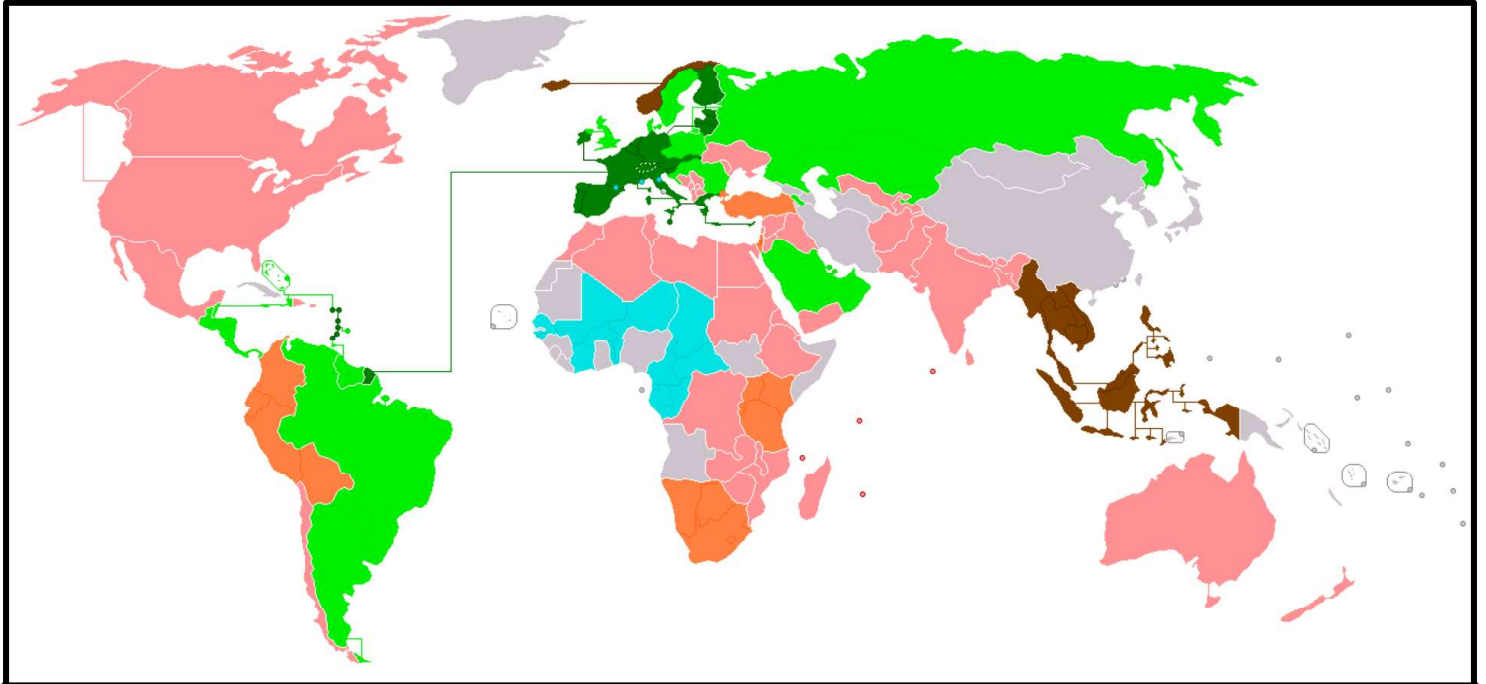
The North American Free Trade Agreement went into effect in 1994 and is an economic agreement. Canada, the U.S., and Mexico engage in free trade. In 2018, NAFTA was renegotiated with the United States—Mexico—Canada Agreement (**USMCA**).



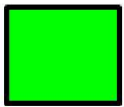
EU

The European Union is both a political and economic union. It currently has 28 member nations, though Britain is currently negotiating an exit. Not all member nations give the EU the same amount of power. Some use the common currency (the euro), while others do not. The EU is represented in the United Nations and is considered an emerging superpower.

Trading Blocs



Economic and Monetary Union: CSME, EU



Economic Union: CSME, EU, EAEU, MERCOSUR, GCC, SICA



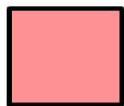
Customs and Monetary Union: CEMAC, UEMOA



Common Market: EEA, ASEAN



Customs Union: CAN, EAC, EUCU, SACU



Free Trade Area: CEFTA, CISFTA, COMESA, CPTPP, EFTA, GAFTA, NAFTA, SAFTA, AANZFTA, PAFTA, SADCFTA

CSME=Caribbean Single Market and Economy, **EU**=European Union, **EAEU**=Eurasian Economic Union, **MERCOSUR**=Southern Common Market, **GCC**=Cooperation Council for The Arab States of The Gulf, **SICA**=Central American Integration System, **CEMAC**=Economic Community of Central African States, **UEMOA**=Economic Community of West African States, **EEA**=European Economic Area, **ASEAN**=Association of Southeast Asian Nations, **CAN**=Andean Community, **EAC**=East African Community, **EUCU**=European Union Customs Union, **SACU**=Southern African Customs Union, **CEFTA**=Central European Free Trade Agreement, **CISFTA**=Commonwealth of Independent States Free Trade Area, **COMESA**=Common Market for Eastern and Southern Africa, **CPTPP**=Comprehensive and Progressive Agreement for Trans-Pacific Partnership, **EFTA**=European Free Trade Association, **GAFTA**=Council of Arab Economic Unity, **NAFTA**=North American Free Trade Agreement, **SAFTA**=South Asian Free Trade Area, **AANZFTA**=ASEAN Free Trade Area, **PAFTA**=Pacific Alliance, **SADCFTA**=South African Development Community