



Mains Practice Question

Q. Protectionism may be beneficial in the short term, but in the long term, it hurts the economy.” Comment.

25 Jan, 2022 GS Paper 3 Economy

Approach

- Start with briefly defining the concept of protectionism.
- Discuss its merits and why we need it in the short term.
- Give arguments against protectionism as it may hurt the economy.
- Conclude suitably.

Introduction

Protectionism, policy of protecting domestic industries against foreign competition by means of tariffs, subsidies, import quotas, or other restrictions or handicaps placed on the imports of foreign competitors. Protectionist policies have been implemented by many countries despite the fact that virtually all mainstream economists agree that the world economy generally benefits from free trade.

Body

Arguments for Protectionism

- **National security:** The argument pertains to the risk of dependency upon other nations for economic sustainability. It is argued that in case of war, economic dependency can restrict one's options. Also, the other country can affect other country's economy in a negative way.
- **Infant industry:** It is argued that protectionist policies are required to protect industries in their initial stages. As if the market is kept open, global established companies can capture the market. This can lead to the end of domestic players in the new industry.
- **Saving jobs:** It is argued that buying more domestically will drive up national production, and that this increased production will in turn result in a healthier domestic job market.
- **Outsourcing:** It is common practice for companies to identify countries having cheaper labor and easier systems of governance and outsource their job work. This leads to loss of jobs in domestic industries.
- **Intellectual Property Protection:** Patents, in a domestic system, protect the innovators. On a global scale, however, it is quite common for developing nations to copy new technologies via reverse engineering.

Arguments against Protectionism

- **Trade Agreements:** India has benefited immensely from international trade agreements. As per the Commerce Ministry data, India has entered into Free Trade Agreements (FTA) with about 54 individual countries.
 - They provide tariff concessions thereby giving opportunities for exports of products including those related to small and medium enterprises (SMEs).

- **Inflationary in Nature:** Protectionist policies by restricting imports, can lead to rising prices in the domestic market. Thus, hurting the interest of the consumers directly.
- **Uncompetitive Domestic Industries:** By protecting the local industries, they have no incentive to innovate or spend resources on research and development (R&D) of new products.

Way Forward

- **Improving Ease of Doing Business:** Though progress has been made, India still lags behind many larger nations in critical metrics such as starting a business, enforcing contracts and registering property.
 - Improving on these metrics can help Indian firms to compete globally and get a bigger market.
- **Make In India:** The focus should be on encouraging innovation, research and development and entrepreneurship in the country. This will prepare Indian companies to compete in the sectors of the future.
- **Predictable and transparent Trade Policy:** It will allow Indian firms to plan their capacity and finances in advance. They will be able to allocate their resources for expansion and R&D. This will allow them to be competitive in the international market
- **Free Trade Agreements (FTAs):** India needs to effectively utilise FTAs, especially with East Asian nations (ASEAN), Japan, South Korea to its advantage to boost investments, exports and technology transfers to and from these nations.

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