



## Lecture 26-27

- Arguments for Trade Protection
  - ◆ Traditional arguments
  - ◆ Strategic trade policy arguments
  - ◆ Political economy arguments
- Unilateralism vs. multilateralism  
(Trading Blocks and the WTO)



## Traditional Arguments for Protection

- Infant industry argument
  - ◆ Case Study 1 on p.301
- Terms of trade argument
- Employment arguments:
  - ◆ Reduce unemployment
  - ◆ Increase employment in a particular industry
    - ✦ Case Study 3 on p. 308
- Anti-Dumping arguments:
  - ◆ Offset foreign dumping
    - ✦ Case Study 4 on p. 310
  - ◆ Offset foreign subsidy
- National defense argument
- Improvement in balance of payments



## Strategic Trade Policy Arguments

- Extraction of foreign monopoly profits
  - ◆ Brander and Spencer (Figure 1 on p. 316)
- Economies of scale
  - ◆ Krugman (Figures 2 & 3 on p. 318 - 319)
- Export subsidy in a duopoly market
  - ◆ Brander & Spencer, Grossman & Richardson
- Examples:
  - ◆ “Targeting” of industries in Japan (Case Study 1 on p. 323)
  - ◆ Airbus vs. boeing (Case Study 2 on p. 327)



## Political Economy Arguments

- Self-Interest approach
  - ◆ Case Study 1 on p. 334
- Social objectives approach
- Review of US trade policy
  - ◆ Different General Agreement on Tariffs and Trade (GATT) rounds (p. 336 - 348)



## Unilateralism vs. Multilateralism

- Types of economic integration:
  - ◆ Free Trade Areas, Customs Union, Common Market, Economic Union
- Static effects:
  - ◆ Trade creation
  - ◆ Trade diversion
  - ◆ Case Study 2 on p.360 - 361
- Dynamic effects:
  - ◆ APEC, NAFTA, EFTA
- Developing countries