Who really pays for protectionism?

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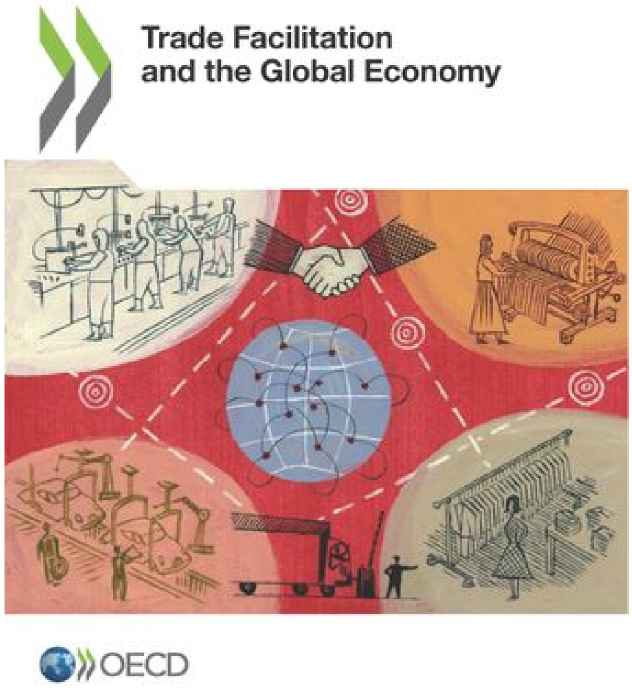

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"Trade which, without force or constraint, is naturally and regularly carried on between any two places is always advantageous," wrote Adam Smith in The Wealth of Nations.

Smith's statement is more relevant than ever in the 21st-century debate over economic protectionism. But who really wins and loses when protectionist measures are put in place?

In partnerships like those between Switzerland and the EU, and Singapore and the Association of Southeast Asian Nations (ASEAN), agreements that facilitate cross-border co-operation have reduced consumer wait times, simplified company procedures, and standardised trade documentation. In fact, the OECD's report

Trade Facilitation and the Global Economy finds that trade barriers such as tariffs signficantly reduce international co-operation and hurt developing countries, small businesses, and everyday consumers. Critically, the real cost of tariffs isn't limited to their prima facie percentage. First, the real cost of tariffs is multiplied many times when goods have to cross several borders to reach their final destination, the report finds.

This means more inefficient supply chains for companies and more expensive delivery times for consumers accustomed to free two-day shipping. Second, higher tariffs bite against future welfare and income increases in developing countries. Freer trade boosts welfare by making it cheaper and faster to buy things. Low-income households in countries that adopt trade facilitation measures consume high-quality goods more frequently and at lower prices, increasing the quality of life of the world's poorest individuals.

Developed countries benefit too. According to the report, open trade pushes developed countries to capitalise on their comparative advantages. By ramping up production in their stronger industries, developed countries experience lower input costs and optimal resource allocation. This allows them to compete more successfully with other countries without needing to artificially subsidise certain businesses. In North America and Europe, focusing on comparative advantages is projected to increase production in previously overlooked service industries.

So who wins when protectionist policies are put in place? Almost no one. In fact, stakeholders at every level–from exporters and importers, to rich nations and poor ones, to consumers on the ground–stand to gain from trade facilitation in both the short and long-term.

References

OECD (2018), Trade Facilitation and the Global Economy, OECD Publishing, Paris, http://dx.doi.org/https://doi.org/10.1787/9789264277571-en