PROTECTIONISM

Protectionism: Measures used by governments to protect domestic producers by giving them financial help and/or restricting imports.
Trade barriers: Measures designed to restrict imports.

Reason for protectionism	Description
1. To prevent the entry of harmful or unwanted goods	Governments can use protectionism if they feel goods are harmful or unwanted. Examples might include sub-standard medicine, unsafe crash helmets, toys with dangerous parts, food that might not be deemed safe for human consumption for various reasons, such as using growth hormones. Administrative barriers might be used to prevent this type of international trade.
2. Retaliation	This is when you take action against someone who has done something bad to you. If a government feels that another country has done something bad to them (e.g. dumping, trade barriers on exporters) they can impose heavy taxes on their goods when they come into the country. This can result in a trade war that will tend to reduce trade between two nations and have a negative impact on both nations.
3. To gain tariff revenue	Revenues earned from tariffs can be useful to those governments which are less able to raise other taxes, for example where incomes and spending are very low. High tariffs especially on imported luxuries can raise valuable sums. Tariff revenue can be spent on government services to improve living standards.
4. To prevent dumping	Dumping is when businesses sell significant quantities of products abroad at below production cost or significantly below selling prices in the domestic market. They might do this to get rid of their surpluses (mostly agricultural) or to deliberately destroy overseas competitors. Businesses that do this are often heavily subsidised by their government, so they have an unfair advantage over foreign rivals. This might be good news for consumers but is usually very damaging to domestic businesses. If very cheap imports are being sold below cost in a country, domestic producers will find it very difficult to survive in the long term.
5. To safeguard jobs	Jobs can be lost if industries die because of cheap imports. Domestic businesses can't match/beat the price of overseas competition so would have to close. The number of jobs involved, problems of immobility of labour and criticism from the public can persuade governments to protect their industries. Rich countries also value rural communities and their way of life, which can be another reason to protect jobs.
6. To protect infant industries	These are new industries that are yet to become established. They often need protection from strong overseas rivals because lack of experience and economies of scale can initially keep costs high. Protection can let them develop until they are strong enough to face competition and perhaps win export markets. However, for this to be a successful measure, governments need to identify the right infant industries that have potential.

7.	**To reduce current deficit**	A government might try to reduce imports and increase exports at the same time to reduce deficit. Protectionism can help it reduce its imports, for example, it might use tariffs to reduce the import bill.

Tariffs/customs duties: tax on imports to make them more expensive (this will reduce demand for imports and increase demand for goods produced at home)
Embargo: official order to stop trade with another country
Quota: a restriction on the number of goods & services that can be imported into a country
Subsidies: government providing tax break, cheap finance or other aid to make domestic firms more competitive
Regulations: tactics that make it difficult to export to a country (e.g. demanding a complex set of forms to be filled in)
Bi-lateral trade agreement: trade deal between only two countries

Protectionist policies	Advantages	Disadvantages
Tariffs	• Tariffs raise revenue for the government which can be spent on government services to improve living standards.	• If set too high, imports may cease and government revenue from tariffs would be zero. • Consumers will be disadvantaged from tariffs since they raise prices of imports.
Quotas	• Quotas physically limit the supply of imports. Foreign companies cannot easily get round quotas by adjusting prices. • In the short term, impact on prices might be limited (might take a while for shortages to force the prices up). In the meantime, domestic producers might be able to increase supply in the market.	• In the long run, quotas might push up the prices of imported goods, disadvantaging consumers. • Consumer choice is restricted.
Subsidies	• Lower costs of production for domestic firms lead to an increase in supply, which drives down prices. • Supporting exporting firms by giving them financial support can help them break into foreign markets, increase exports and improve the current account.	• Subsidies cost money to the government, which means the government will incur an opportunity cost, i.e. the money could be spent on more effective projects. • If subsidies result in excess supply and a big drop in market prices —> domestic producers could end up moving their resources out of that market and defeat the aim of the subsidy.

<u>All Trade Barriers:</u>

Advantages:

- All trade barriers help to decrease demand for imports, and increase demand for domestic goods, improving the current account.
- Reducing imports protect domestic industries and can increase employment in those industries.

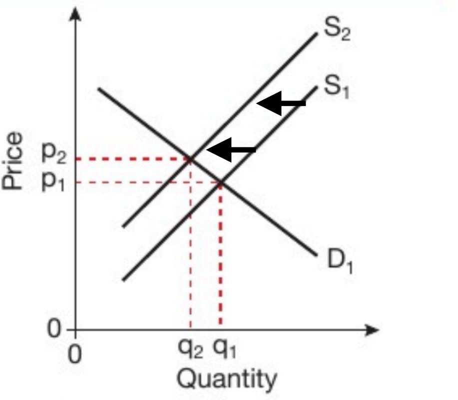
Disadvantages:

- Trade barriers lead to higher prices and limited choices for consumers.
- Trade barriers can encourage retaliation from other countries.
- They can also encourage smuggling and corruption.

• They can distort competition and provide overprotection to inefficient domestic producers with inferior quality goods, who might lack the incentive to improve efficiency. This is done at the expense of more efficient overseas producers.

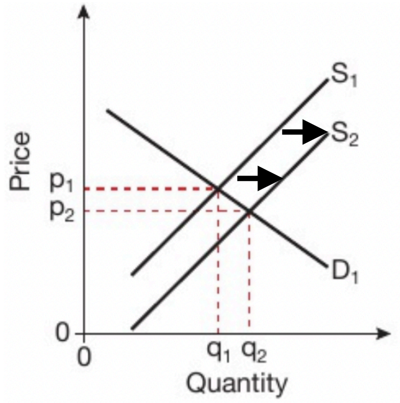
<u>Impact of Tariffs, Quotas & Subsidies on Markets</u>

Tariff



The tariff affects the supply curve because the cost of production goes up.

Subsidy



It affects the supply curve because the cost of production goes down.

Quota