

Q 28

Globalization, which is the increased integration of domestic economies into a one world economy, cannot be utilised if protectionist policies exist. Protectionist policies have a negative impact on both the domestic economies of the world & also the world economy as globalization is not initiated. Comparative advantage is not utilised, cheaper prices are not developed for consumers & inefficient & uncompetitive industries are allowed to function. The protectionist policies of increased tariffs, subsidies, quotas or even embargoes impact negatively on both the domestic & global economy.

With domestic economies implementing tariffs on imported and giving subsidies to their own domestic producers inefficient industries exist. The resources of the domestic economy are not being utilised as the

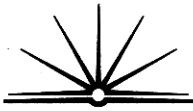
resources in the inefficient industries could be better utilised in efficient competitive industries which then can export products overseas increasing GDP & domestic employment.

Singapore for example has implemented an economic of very low tariffs which has led to the island nation forming internationally competitive industries in refining & finance.

The nation has increased its GDP by 23% through 1992 to 2002. Unemployment has dropped from a high of 13% in 1991 to as low as 4% in 1999.

~~2002~~ By abandoning protectionist policies the nation has developed into a Newly Industrialized nation increasing the living standards of Singaporeans.

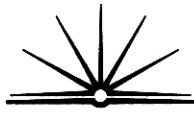
Furthermore protectionist policies lead to decreased employment opportunities in the long term as the economy is not



able to expand or grow quickly through the use of globalisation. With no real increased job prospects in inefficient domestic industries ~~to~~ in the long-term the unemployment rate will rise.

Inflation will be another effect on domestic economies due to protectionist policies. With dearer imports the factors of production will be more expensive leading to increases in prices and so increase in inflation. This occurred in Australia during the early 1980s with still relatively high tariffs. <sup>For example</sup> Economically efficient Australian farmers were forced to buy at inflated increased prices <sup>imported</sup> capital, that led to their own prices on food stuffs to increase.

As stated protectionist policies have a



negative effect on consumers that must pay a higher price for imports, leading to an overall decrease in the amount of material ~~possibles~~ ~~possessor~~ consumers can acquire.

This leads again, to an overall decrease in standards of living.

Protectionist policies also protect domestic economies from foreign investment which can be highly beneficial. Foreign Direct investment can lead to increases of levels of production, increased employment opportunities & increased technological gain for the domestic economy. Protectionist policies can severely hinder economic growth prospects by not allowing any foreign investment. In Australia, for example the level of domestic savings is very low which makes it difficult for businesses to borrow funds to expand

operators. Within a free domestic market they would be able to acquire foreign loans or merge with a foreign company to expand.

As stated before, protectionist policies whether they be tariffs, subsidies or, quotas or for investment restrictions they restrict the level of economic growth as domestic businesses are not able to become internationally competitive through increased competition. This shall lead to either a decrease or very low increase in real wages & incomes for domestic workers. Once again this leads to an overall decrease in living standards for the domestic economy's citizens.

Protectionist policies, as can be expected directly impact the global economy. With domestic economies protecting their local

industries free trade of goods & services are restricted. With exports not being able to penetrate other markets because of artificial barriers consumers do not get the variety of foreign products. In essence a Global Economy is not allowed to form because of protectionist policies preventing the free movement of finance, goods, services, capital & labour. Globalisation is not formed & its various benefits are not utilised. These benefits include the efficient allocation of resources leading to increased exports through the nation's comparative advantage. Furthermore cheaper products for consumers & businesses, better movement of finance around the world leading to increased investment opportunities & so increased levels of economic growth & unemployment.

However it can be <sup>argued</sup> stated that protection

may in fact have several positive impacts. This may include the protection of ~~domestic~~ infant industries which have not been able to achieve adequate levels of economies of scale to sufficiently compete with foreign, more mature economies. This is an invalid argument ~~to~~ however, as increased protection will lead to the economy as stated before not experiencing a <sup>high</sup> <sup>level</sup> of economic growth to 'mature' so will stay in an infant stage indefinitely forever.

As stated before the point to protect domestic employment is incorrect. Although the impact of protectionist policies does protect employees in inefficient industries, with structural change forced by decreases in protection increased employment opportunities will arise in efficient & competitive industries in the long-term.

Protectionist policies may improve a nation's current account deficit as was believed to be true in Australia. By artificially increasing prices imports are more expensive which decreases imports taken into the economy. However, by having protectionist policies comparative advantage of the nation is not utilised and so the true export intake of the economy is not implemented.

Protectionist policies can be said to only have ~~three~~ <sup>two</sup> true ~~understandable~~ reasons to be implemented. One is to prevent dumping which is the selling off of surplus values of goods by a foreign company or a domestic economy at a below cost price. This is harmful to domestic producers without being beneficial to consumers in the long term. Second reason for protection is so the nation has



industries which can be put into action into in times of war, such as to make weaponry or to be self sufficient in food production. These two impacts are the only two positive impacts of protectionist policies.

Thus it can be stated without doubt that the overall majority of the impacts of protectionist policies are negative for consumers, businesses, citizens & the domestic & global economies themselves. As stated the economic growth rate is restricted, high inflation can occur; long & unemployment rises in the long run. The economic objectives & <sup>adequate</sup> standards of living are not achieved through protectionist policies. The policies discourage the process of globalisation which with fair zero protection of all nations

will lead to developing a developed nation  
achieve their economic objectives more  
effectively & having the citizens of these  
nations live better standards of living