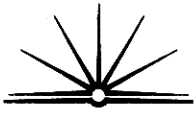




Q28

World trade has seen exponential growth in recent decades, growing at roughly twice the rate of World GDP in the 1990's. It is generally acknowledged that trade is beneficial, however most countries seek to foster & protect their own domestic industries from outside competition. There are various reasons for this, and various protectionist policies by which to do so. However, there are important effects of protection on domestic & global economies, which account for the movement towards, and increasing acknowledgement of the benefits of free trade in recent decades.

Economies ~~seek to~~ employ protectionist policies in order to protect new



and emerging industries, that have not the opportunity to sufficiently develop productivity, efficiency & market share in order to operate successfully & profitably, <sup>and so</sup> Many gov'ts offer <sup>them</sup> short-term support in the form of protection.



Protectionist policies can take the form of a subsidy (cash payment to the producer to minimise production costs), tariffs (taxes placed on imported goods), quotas (quantitative restrictions on imports), embargoes (bans on certain imports), as well as Voluntary Export Restrictions, Local Content Rules & Export Incentives. All these methods of protection benefit domestic producers at the expense of importers.

$\downarrow$   $\downarrow$

Importers <sup>of goods in protected industries</sup> are often more productive, efficient and cheaper than domestic producers, but once protection is imposed, their prices become higher, and/or they cannot access as big a market as possible.

~~Prot~~ Therefore, because of this

distortion created by Protectionist policies, there are various effects on the domestic economy. Protection causes a misallocation of resources, because resources are ~~not~~ being directed to less efficient producers. Resources are not employed in an optimum manner, and therefore the economy is not working to its full capacity. Output is therefore minimised, and economic growth is hampered, which can cause other difficulties such as unemployment.

As producers are not performing ~~to~~ ~~the~~ productively or efficiently, and are not seeking to innovate or advance processes, or use new technologies, the goods & services produced may not be up to standard. International competitiveness

therefore is reduced, which has serious implications for the economy.

In a free trade or a free trade environment (i.e. without any protection in place), the economy can seek to benefit from the advantages of specialisation, based on the concept of comparative advantage, ~~Producers~~ are therefore ~~not a~~ and the achievement of economies of scale. Therefore, ~~by~~ protectionist policies limit and ignore opportunities for economic growth, efficiency & employment.

By pursuing protectionist policies, governments are limiting ~~re~~ ~~restricting~~ consumer power, and restricting choice. ~~The~~ Tariffs push prices up, which are passed on

to the consumer. Protectionist policies therefore may decrease living standard through lack of choice & variety and ~~in~~ the provision of ~~goods~~ goods & services of inferior quality.

Overall, the effect of protectionist policies on the domestic economy is negative as it causes a misallocation of resources, inefficient production processes, slow technological advances & innovations, and limits the choices of consumers. There are also, however, implications for the global economy, as protectionist policies in one country will affect <sup>all of</sup> its trading partners. If one country implements protectionist policies, others will suffer from diminished trade, less exports, and therefore lower incomes.



For example, protectionist policies in the ~~EU and~~ USA, especially in ~~the~~ its agricultural sectors, which involved large subsidies, tariffs and VERs ~~from~~ under the 'Export Enhancement Program' (EEP) had adverse effects on Australians ~~in~~ agricultural export quantities. Eg: the VERs for Australian wheat and beef have ~~been~~ caused Australian farmers the loss of millions of dollars. America's EEP also prompted the establishment of the EU's CAP (Common Agricultural Policy) which has high non-member barriers. CAP provides huge subsidies to the powerful farming communities of Europe and ensures their self-sufficiency. It is estimated that EU's CAP costs Australia \$200 billion in exports

each year.

Various trade agreements such as the EU & NAFTA, <sup>(North American Free Trade Agreement)</sup> ~~CERFTA~~ have increased ~~the~~ internal trade flows, but have erected high protection walls which discriminate against non-member countries.

Such protectionist policies restrict economic growth worldwide.

Australia is a member of the bilateral trade agreement CERFTA with New Zealand, and has recently established SAFTA - a free trade agreement with Singapore, thus recognising the benefits of free trade, and seeking to minimise the negative impacts of protectionist policies. Singapore is ranked No 1 in the world for trade dependency - almost 99% of ~~the~~ its imports are



tariff-free, illustrating the very small levels of protection. The country has benefitted from such reductions in protection - experiencing around 8% growth ~~for~~ during the 1990's. This exemplifies the restrictions to growth incurred through protectionist policies.

~~Overall, through the examination of protection~~

The World Trade Organisation, which replaced the General Agreement on Tariffs & Trade, was formed in order to promote worldwide reductions in protection in response to the inequalities of restrictions to growth & development resulting from protectionist policies. The Uruguay round achieved a



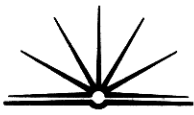
36% reduction on protection worldwide, but the large, powerful & unequipped USA & EU have avoided ~~full~~ <sup>full</sup> compliance, and continue to pursue protectionist policies, namely in agricultural sectors. Further attempts have been largely unsuccessful, but ~~will~~ will be addressed in the current Doha round.

Overall, it can be seen that despite the perceived domestic benefits of protectionist policies, their impacts are largely negative. ~~On~~ In the domestic economy, they ~~contribute~~ cause vast misallocation of resources, price distortion, promote inefficiency & ~~the~~ low productivity levels, result in the production of poorer quality

goods & services, decrease international competitiveness, are stagnating in terms of innovation & technological advances, and limit the choice, ~~the~~ variety and quality of good available to consumers. On a global scale, protectionist policies hamper growth in trade & output, discriminate against certain economies (namely developing nations) and slow economic growth ~~in general~~ <sup>and development</sup> worldwide.

Australia has recognised the benefits of reducing protection, and has done so since the Whitlam gov'ts across the board tariff cuts.

Currently, protection levels are low - the textiles, clothing & footwear, and passenger motor vehicle industries are the only industries receiving substantial protection. As a signatory of



The BOGAR agreement of the APEC forum, Australia has agreed to gradually phase out protection by 2010.