

# CIE Economics AS-level

## Topic 4: The Macroeconomy

### **g) Protectionism**

#### Notes



## **The meaning of protectionism in the context of international trade**

Protectionism is the act of guarding a country's industries from foreign competition. It can take the form of tariffs, quotas, regulation or embargoes.

## **Methods of protectionism and their impact**

### ○ **Tariffs**

Tariffs are taxes on imports to a country. It could lead to retaliation, so exports might decrease. The impact of tariffs is that the quantity demanded of domestic goods increases, whilst the quantity demanded of imports decreases.

A tariff results in higher prices for consumers and a loss in consumer surplus.

### ○ **Import duties and quotas**

An import quota limits the quantity of a foreign produced good that is sold on the domestic market. It sets a physical limit on a specific good imported in a set amount of time. It leads to a rise in the price of the good for domestic consumers, so they become worse off.

An import duty is a tax on imports by the customs authority. It is usually on goods which exceed a specified quantity.

### ○ **Export subsidies**

This is a form of government intervention to encourage goods to be exported rather than sold on the domestic market. The government might use direct payments, tax relief, or provide cheap access to credit.

### ○ **Embargoes**

This is the complete ban on trade with a particular country. It is usually politically motivated.

### ○ **Voluntary export restraints (VERs)**



This is a government imposed restriction on how many goods can be exported during a certain time period. They are used when governments want to protect domestic industries from competing imports.

It is usually suggested by the exporting country, to avoid less flexible trade barriers being imposed.

- **Excessive administrative burdens ('red tape')**

Excessive administration increases the cost of trading, and hence discourages imports. It makes it difficult to trade with countries imposing red tape, and is particularly harmful for developing countries which are unable to access these markets.

It is harder to notice this type of protectionism, which is why it is favoured among some countries.

### Arguments in favour of protectionism

- If a country employed several protectionist measures, then a trade deficit would reduce. This is because they will be importing less due to tariffs and quotas on imports.
- Infant industries might need protecting. These are industries which are relatively new and receive support. Protectionism is usually short term until the industry develops, at which point the industry can trade freely.
- Protectionism could be used to correct market failure. It can deal with demerit goods and protect society from them.
- Governments might employ protectionist measures to improve the current account deficit.
- Governments might want to protect domestic jobs.

