



3055 BA SANGAM COLLEGE

PH: 6674003/9264117 E-mail: basangam@connect.com.fj



WORKSHEET 16 LESSON NOTES

School: Ba Sangam College

Year: 11

Name: _____

Subject: Economics

Strand 4	International Trade
Sub Strand 4.1	International Trade
Content Learning Outcome EC11.4.2.1	Discuss Free Trade and Protectionism with its implications.

PROTECTION ⇒ occurs when an artificial advantage is given to domestic firms facing competition from foreign producers.

REASONS FOR PROTECTION

- 1. Infant Industry Argument-** To protect infant industries from foreign competition.
- 2. Promoting Domestic Employment-** protection such as tariff gives consumers an incentive to substitute locally produced goods for imported goods. ↑ in demand for locally produced goods increases local employment opportunities.
- 3. Prevention of Dumping-** this occurs when foreign producers sell goods on domestic market at prices which are below their own production costs.
- 4. Cheap Foreign Labor Argument-** local producers require protection because they cannot compete with cheap foreign labour
- 5. Diversification-** the argument is that a diversified economy is one which is more flexible and more capable of adjusting the changes demanded by a competitive international environment.

EFFECTS OF PROTECTION

1. Misallocation of Resources

All forms of protection involve transfer of resources from efficient industries to inefficient ones. Industries that are productive and competitive levels are effectively disadvantaged to give assistance to less productive and uncompetitive industries. This misallocation of resources means that scarce resources are wasted and hence output in the economy is less than it could be. That means lower living standards and lower rates of economic growth.

2. Inflationary Effects

Protection especially in the form of tariffs raises the price of imports and allows domestic producers to maintain the high price of their goods and services.

3. Redistribution of Income

Protection increases the profitability of inefficient industries. Moreover the higher prices paid by consumers as a result of protection means a redistribution of income away from consumers and towards

producers in protected industries.

4. Reduced Incentive to Innovate

Protection shields domestic industries from competition.

5. Decreased Welfare

Protection result in higher cost, lower productivity, inefficient use of scarce resources, less consumer choice, lower consumer demand, decrease in demand for exports, redistribution of income and reduced international competitiveness. In the long run, therefore protection leads to a fall in living standards and lower rate of economic growth.

6. Retaliation Effect

Protection of import competing industries can adversely affect export industries by lowering demand from trading partners.

Activity

Use the excerpt given below on trade barriers and your knowledge to answer questions (i) to (iv).

The country built on trade barriers

President Trump's imposition of hefty tariffs on imports in a bid to protect American jobs, which has sparked a trade war with China, has put protectionism back on the global agenda this year.

That has prompted institutions that champion free trade to warn that higher duties and other barriers to free trade could have devastating consequences for the global economy. Roberto Azevedo, head of the WTO, says trade barriers that keep foreign rivals out will encourage less competitive industries to produce more.

Adapted from: <https://www.bbc.com>

(i) Define protectionism.

(1 mark)

(ii) What does the abbreviation WTO stands for?

(1 mark)

(iii) Why does President Trump impose tariffs on imports?

(1 mark)

(iv) Explain one consequence of a trade barrier on the global economy.

(2 marks)

(v) Explain the Infant Industry Argument.

(1 mark)