A period of increasing globalisation

Why may protectionist policies increase rather than decrease during a period of increasing globalisation? Some countries may decide to protect their domestic market during a period of increasing globalisation, especially if economy is in a fragile state at that moment. One way they could protect themselves from cheaper imported goods and services import restrictions. These can be tariffs, for example a tax, or quotas, which limit the goods and services produces abroad and sold domestically.

Governments may decide to restrict imports for different reasons. For many countries, tariffs provide a significant source for government revenues andmoneyfrom taxes could be used to develop the economy, to make the domestic market more competitive and also to protect industries at moments of decline or the infant industries which are not enough mature nor large to be able to compete with international businesses.

Governments may use import restrictions to protect population'shealthand safety, or they may even ban all imports of a particular good if it is seen as a threat for the consumers, for example Red Bull was banned in France due to its high caffeine content and some experts thought that it may be deadly in some situations. Import restrictions protect domestic industries, having a positive effect on employment, as decreasing imports and increasing domestic production also increases domestic employment.

Fewer unemployed people would decreasepovertyrates and would increase wealth of those who are in work. Lower unemployment would decrease the amount of money spent on benefits and government could use the money to spend elsewhere, for example on health, education, public goods which would therefore increase welfare ever more. Quotas would protect local industries from foreign imports that may be sold at a lower price in the domestic industry, as the foreign producers may engage in unfair trade practises, such as dumping imports at prices lower that the costs of production.

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These protectionist policies are usually good for the domestic economy, however for the consumers they are definitely not. Consumers have to pay higher prices for the imported goods. These restrictions reduce competition and local businesses may increase their prices, while firms will benefit from higher profits, consumers will suffer from loss of welfare, due to higher prices and restricted consumer choice.

Firms will no longer have incentives to become more productively efficient or to engage in research and development, it may encourage inefficient allocation of resources. In reality is much more complicated, because if one country will start to use protectionist policies, other countries are likely to respond and start using them too. This would reduce international trade, having a negative effect on economy, employment and wages.