

# Calls for protectionism

[Business](#)



## Calls for Protectionism

In the presence of economic down turns such as global financial crisis, 2008, the purchasing power of consumers sharply decreased. Consequently market demand for goods and services and their prices are also decreased. In this situation producer of cheap goods and services in the world market gains benefits from international trade while the income of local producers is affected. Thus local producer's welfare is worsened. Governments intervene in such markets by imposing import tariff barriers which induce price advantage to the local producers. Thus local producers can compete highly in the world market.

1. Despite the sharp economic contraction during 2008-2009, the increase in protectionist measures was fairly modest. Why do you think this was the case?

World Trade Organization (WTO) advocates eliminating tariff and non tariff barriers to international trade and 157 countries in the world are its members. These governments are committed to follow WTO tariff guidelines and formulate trade friendly policy environments in their countries. Tariffs constitute a substantial source of protectionism in the world. In 2008 imposing tariff barriers was constrained by WTO agreements.

2. During 2008-2009 many developed nations gave subsidies to their automobile producers. How might this have distorted international trade? Was this a reasonable thing to do given the circumstances?

Subsidies which reduce the cost of producing automobiles enable decreasing their market prices. Low price can gain competitive advantage in the world market while increasing the welfare of local producers. It also affects the welfare of producers and consumers in abroad. This is not a viable economic

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solution because subsidy incurs a cost to the government. Free markets which have no price distortions are preferred in economics theory because, resource allocation is optimum there. Producer subsidies which create price distortions in the market can also misallocate the resources in these countries and subsequently worsen their already contracted economy.

3. What might occur if a renewed economic slow-down triggered a wave of protectionism measures around the world? Would protectionism actually protect jobs or would it make things worse?

Protectionism compels local consumers and producers to depend on each other without facing influences from abroad. Thus protectionism avoids economic impacts of different natural resource endowments across countries. Countries can grow independently, self sufficiently and politically strong under protectionist policies. However, free trade enables efficiently using of limited, natural resources. Efficient allocation of depleting natural resources is a major challenge in front of world today. Therefore eliminating the barriers to free trade at present is more important than ever in the world history.

4. The volume of world trade rebounded sharply in 2012 on the back of a fairly modest growth rate in the world economy. What does this tell you about the nature of international production in today's global economy? What does this tells you about the vulnerability of the world economy to any future trade wars?

Currently, the international trade has started recovering from the sharp downfall despite slow growth of world production. In 2012, world production grew by only 3. 4 percentage while international trade grew by 14. 5 percentage. The figures suggest that international trade is growing

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unaffected from worse situation in world economy. Therefore, protectionism based trade wars can be the least expected in future.