

CHAPTER 25 : Protectionism

1. What is protectionism

: it is the barrier to protect domestic firm and individual in the country.

2. Reasons why protectionism

2.1 Prevent dumping

: Dumping means where foreign producers sell goods below cost in domestic market.

: The main objective is to be monopoly in the market and raise selling price after that

2.2 Prevent employment

: Trade barriers may used if domestic industries need protection from overseas competitors to save jobs.

2.3 Protect infant industries

: Since infant industries still cannot grow and compete with others, so need to protect them first

2.4. To gain tariff revenue

: Government can increase tax from imported tariff

2.5 Preventing the entry of harmful or undesirable foods

2.6 Reduce current account deficit

2.7 Retaliation

2.8 National security

: Some nation become s over-dependent on trade with other countries for its economic sustainability. Eg. If USA import oil supply, it might suffer considerably if that supply was restricted or broken.

3. Type of protectionism

3.1 Tariffs

: tax which imposed on import goods and services. This makes import product more expensive, reduce demand for import and switch to consume domestic product instead. Protect domestic revenue and save domestic job. Also, reduce current account deficit.

Limitation : Demand inelastic cannot reduce quantity of import goods

3.2 Import quota

: By restrict the quantity of imports in the country. Domestic producers face less of a threat. They will have more of the market for themselves. However, quotas will raise price because fewer of cheaper import are available.

Limitation : Government cannot receive revenue

3.3 Embargo

: Where imports are completely banned from a country.

3.4 Government registration

: Some countries avoid the use of tariffs and quotas, but still manage to reduce the amount of imports coming in. They do this by insisting that imported goods meet strict regulations and specifications. Eg. Many of these controls are to protect environment, wildlife, domestic animals from infection.

3.5 Domestic subsidies

: Government provides subsidy to domestic in order to reduce cost of production. Hence, domestic goods will be more competitiveness and increase revenue. Job can be saved.

Limitation : There will be high opportunity cost

4. Impact of protectionism on business

Advantages	Disadvantages
1. It can reduce competition from the overseas which can save domestic business and job	1. Domestic can less motivate to improve efficiency 2. Free trade also leads to increased specialisation 3. Firms cannot import raw material from overseas, which brings to higher cost of production

