Globalisation, Exchange Rates, Free Trade And Protectionism

What is Free trade?

Free trade is an agreement between nations to reduce/remove barriers such as tariffs affecting imports and exports. This “Free Trade Policy” allows for goods and services to be bought and sold within international borders with little or no tariffs, subsidies or quotas. Free trade is the complete opposite of protectionism and therefore is a policy free of governmental trade barriers, restricting importers and exporters.

What is Protection?

Protectionism (or protection) is the policy of guarding local industries against foreign competition throughout the means of tariffs; subsidies import quotas or other handicaps placed on imported goods from foreign competitor businesses. (Britannica, 2019) Protection policies are usually implemented with the goal to improve domestic economic activity, as well as for safety and quality concerns. These protections help reduce local firms from losing market shares and cause stable income and employment to foreigners.

Types of Protection

Tariffs are taxes on imported goods; they are usually stated as a percentage of the price. Tariffs raise the price of imported goods to lower their consumption and encourage consumers to purchase the local option (Intelligent, 2019). Subsidies are payments/benefits by the government to suppliers in a particular market. Subsidies are usually provided to remove some type of burden from a producer/business, such as a form of cash payment or tax reduction. Subsidies are most effective in assisting struggling businesses by lowering their debts/expenses or to encourage new developments that will help the business generate more income. Quotas are non-tariff barriers that are used to limit a country’s amount of goods that can be imported and exported within a set period of time. Quotas can help prevent dumping, which is when foreign producers export goods at prices lower than their production cost, or an embargo, in which the importation of a specific product is completely prohibited, such as The United States’ Iran sanction embargo (JCPOA), in which parties agreed to cease a range of products against Iran relating to it’s nuclear and military program. (Department of Foreign Affairs and Trade, 2019). Standardization is when the government of a country require all foreign products to follow certain guidelines, for example, the UK government demand that all imported shoes include a certain proportion of leather, this helps measure the trend of foreign productions in the market.

Advantages and Disadvantages of protection (Businesses, Individuals and Governments)

An advantage of Protectionism is that it improves trade balance and prevents dumping (Anti-

Dumping). Dumping is when large volumes of unfairly cheap goods are exported from one country to another, damaging the local industry. The World Trade Organization's (WTO) job is to enforce Anti-Dumping measures on how different governments regulate and react towards dumping activities in their territories (CFI,2019). For example, Anti-Dumping organizations have helped implement and prevent the dumping of flat panel Display screens (up to 64%) from Japan to Australia, as well as the Dumping of steel (up to 60%) by Chinese companies to America, as American steel producers were on the verge of being forced out of business as the dumping of steel from Chinese producers were sold at a lower price.

Another advantage is that protectionist policies benefit local industries, as tariffs will disadvantage foreign competitors when they sell their goods internationally. An example of domestic businesses gaining an advantage over foreign producers through tariffs would be evident during the US presidential campaign when Donald Trump threatened to impose higher tariffs (up to 45%) from Chinese imports. This would greatly advantage US industries, as there would be less Foreign Chinese imports available for US consumers to purchase, shifting their spending onto Domestic US producers. (Productivity Commission, 2017).

However, some disadvantages come with protectionist policies. The first disadvantage is that it leads to an increase in prices due to a lack of competition. For instance, the US had tried protectionism before via the implementation of heavy tariffs on its European trading partners. As a result, this arguably caused The Great Depression, sparking one of the most infamous cases of protectionism in history and made World Trade shrink, leaving many countries inept from paying their debts left over from World War One.

As noted, in 2017 Australia was affected positively from the US raising tariffs on imports from China and Mexico. This caused cheaper imports from China to Australia and created a new scope for Australian goods to replace Chinese goods within the US market. However, this will cause declining incomes for both the US and China, and will ultimately trigger downward pressure on demand for Australian exports (Productivity Commission, 2017)

Another disadvantage with protectionist policies is that it can cause trade wars, as there is the danger that one country implementing import regulations will lead to retaliatory action by those countries being affected, leading to a decrease in the volume of world trade. Some examples of this include the current trade relationship between China and the US, as well as Australia in the past being criticised by the Association of South-East Nations based off of its protection barriers and policies

Free Trade

Advantages and Benefits of Free Trade (Businesses, Individuals and Governments)

Free trade agreements (FTA's) advantage economies as they support higher quality, lower-priced goods, as well as cheaper imports. FTA's allow for the contribution of greater economic activity, increasing the number of jobs and employment within Australia and the rest of the world, as well as increasing the number of opportunities for big and small Australian businesses, as they will benefit from greater trade and investment. For instance, during 2017-2018, the business "AGRIFresh" increased its export sales by 80%. This mainly due to Australia's FTA

agreements as it allowed the business to export its products into overseas markets. In addition, FTA’s give local Australian businesses and consumers a wider range and improved access to competitively priced goods, as such; FTA’s are proven to be advantageous for consumers as they eliminate tariffs, further increasing competition, which will ultimately improve the quality of the good.

FTA’s help decreases the total amount of government spending, as many governments subsidize local industries, and after the FTA that removes subsidies, that funding can be put to better use, such as public goods and services.

Conclusion – (Evaluation of whether removal of protectionist policies has been beneficial with a brief discussion of winners and losers)

Both forms of trade do have their advantages just as well as disadvantages. In free trade, a country has a better standard of living, more efficient production, greater economic activity and international relations. However protectionist policies have helped prevent dumping, local industries as well as the specialisation of a country’s resources to give it a comparative advantage within the international market. However, it's clear that the removal of protectionist policies benefits the government and consumers more than local businesses within a country, as individuals have more consumer choice and variety of prices. And if protection policies were removed, governments can stop subsidizing local industries and could fund more important public services, however, local businesses, unfortunately, do not receive as many benefits, as they are affected by dumping from international firms, are no longer supported by subsidies and are less likely to be able to compete against international businesses.

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