Rise of Protectionism

Description

Theme:

- The International Monetary Fund (IMF) has warned that protectionist measures by advanced economies, like imposing tariffs or export restrictions on green technologies, could harm the global transition to a low-carbon economy. The IMF noted that many developing countries rely on imports of green technologies to reduce their greenhouse gas emissions and that protectionist measures could limit their access to these technologies and impede their progress towards reducing emissions. It has called for a level playing field for green technologies, including removing subsidies and barriers that favour fossil fuels over renewables.

What is protectionism?

- Protectionism refers to an economic policy that limits the free trade of goods and services between countries with the aim of protecting domestic industries from foreign competition. It is designed to promote local businesses by creating obstacles to entry for foreign competitors through various measures such as tariffs, import quotas, and other restrictions placed on the imports of foreign competitors.

Recent trends:

In recent years, there has been a significant rise in protectionist policies globally.

- Nationalistic policies are becoming more popular in many countries, with governments favouring domestic industries over foreign competitors. This has led to an increase in protectionist policies such as tariffs and quotas.
- Many countries, including the European Union (EU), the United States, and China, have increased tariffs on goods imported from other countries. This has led to a decrease in trade between countries and a rise in protectionism in other countries as well.

- The US-China trade war, Brexit, and the ongoing conflict between Russia and Ukraine have created an atmosphere of uncertainty and mistrust, leading countries to implement protectionist policies.
- Governments around the world are trying to create more jobs for their citizens, which is why they are turning to implementing protectionist policies against imports and immigration.
- Some countries have implemented protectionist policies to protect the environment. For example, the EU has introduced a carbon border tax, which places tariffs on goods imported from countries with lower environmental standards, even though the EU argues that it is not a protectionist policy but rather a tool to combat climate change.

Reasons:

- The COVID pandemic has led to disruptions in the global supply chain. This has made countries focus on becoming more self-sufficient.
- Massive job losses during and after the pandemic have put pressure on the government to create more jobs.
- Political tensions between the US and China have led to both countries imposing many trade restrictions and sanctions on each other, resulting in disruptions in the supply chain and manufacturing of many commodities.
- The Russia-Ukraine war has resulted in many countries imposing harsh sanctions on trade with Russia. This has especially led to high crude oil and food prices worldwide, and many companies have exited Russia altogether.
- Europe is currently facing fierce competition from countries like India and China, which are emerging as major economic powers. This has put pressure on European businesses and industries to compete with these foreign competitors. In order to safeguard their own industries, European governments have resorted to subsidies and other forms of protectionist policies, which have the effect of creating barriers to entry for foreign competitors.
- In recent years, there has been a rise in far-right political parties in many countries. These parties are known for their anti-immigration and anti-globalization stances, which have resulted in a shift towards protectionist policies.
- Countries are cautious about relying too much on international trade due to the politicization of the dollar by the US and the hike in interest rates by the Federal Reserve.

Effects:

- Protectionism is currently hampering globalization by reducing the level of trade between countries through policies like tariffs and quotas. This reduction in trade is leading to a decrease in economic growth and prosperity for all countries involved. Additionally, protectionist policies are disrupting the existing supply chain processes that involve getting raw materials, manpower, and manufacturing products from different countries. This is leading to inefficiencies, higher costs, and potential job losses in the affected industries.
- Emerging market economies often rely on exports to fuel their economic growth. However, protectionist policies are limiting their access to export markets and impeding their economic development.

- With the increase in tariffs and other trade restrictions, the volume of international trade has decreased. The IMF has forecast that global growth will be at 2.8% in 2023, which is lower than the 3.4% in 2022.
- The IMF predicts that in 2023, Japan will be the only advanced economy to achieve a growth rate of over 1%, with a projected growth rate of 1.3%. The rest of the advanced economies are expected to grow at a rate below 1%.
- Protectionist policies can lead to higher prices for consumers and reduced access to foreign goods, particularly for low-income households. This can exacerbate income inequality within a country.
- Increasing protectionist policies can make the existing high inflation in many countries even worse by reducing competition, leading to higher prices for domestic goods and services.

Conclusion:

The implementation of protectionist policies during times of conflict, high inflation, a high cost of living, and low GDP growth in developed countries is not the right approach. These policies reduce international trade and can lead to a decrease in economic growth and prosperity for all countries involved. Additionally, protectionist policies can exacerbate existing economic challenges by limiting access to export markets, leading to higher prices for consumers, and reducing competition. It is essential to promote free trade and open markets to increase economic growth and prosperity for all nations. Instead of closing off economies, countries should focus on finding diplomatic solutions to conflicts and work together to address economic challenges.

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