

Protectionism is short-sighted and narrow-minded. As such, free trade is often advocated to grow an economy.

(a) Explain how protectionism can be regarded as 'short-sighted and narrow-minded'. [10]

(b) Discuss the extent to which free trade should be advocated over protectionism to grow the economy. [15]

(a)

Protectionist measures are policies which distort market forces in order to give a competitive advantage to the domestic industries of an economy. Protectionism can be regarded as short-sighted as it focuses on the immediate benefits that can be reaped and disregards the potential disadvantages it may bring about in the long term or does not solve the root cause of the problem and hence the problem will continue to persist in the future once protectionist measures are removed.

The protection of declining industries against foreign competition can be regarded as short-sighted. For declining industries, they are producing products which are out-dated or adopting technology that have lagged behind foreign competitors, thereby making their products less competitive in terms of price or quality. This could cause some domestic industries to lose their comparative advantage and face the danger of closing down. While protectionism reduces the job losses in declining industries, such protection will perpetuate domestic inefficiency. Should government remove the protection, domestic industries may face the danger of collapse and unemployment may result.

Protectionist measures can be regarded as narrow-minded as it focuses on helping certain industries at the expense of other industries in the economy. Government imposing protectionism for certain industries in the economy could invite retaliation from their trading partners, resulting in an overall decreased in international trade. Thus, any gain in employment for some industries in the domestic country may be offset by a loss of employment in other industries. This reduces domestic exports and may hurt export-related industries in the country.

Furthermore, protectionist measures in the form of subsidies can also be short-sighted. While such subsidies enables the goods to be more price competitive in the market and hence increasing country's export to the world, large amount of government funds are being channelled into the industry. This puts a drain on the government budget and trade-off between spending money to protect the industries vs spending on other developmental needs of country e.g. healthcare, national defence and education.

In conclusion, protectionism can be regarded as 'short-sighted and narrow-minded' since it focus more on the immediate benefits to the industry where protectionism is imposed and neglected the future cost as well as detrimental impacts on unprotected industries in the country.

Knowledge, Understanding, Application & Analysis		
L3	Developed explanation on how protectionism can be both short-sighted and narrow-minded, highlighting the immediate benefits, future cost and impact on unprotected industries.	8-10
L2	Undeveloped explanation on how protectionism can be both short-sighted and narrow-minded, highlighting the immediate benefits, future cost and impact on unprotected industries. OR Developed explanation on how protectionism can be either short-sighted <u>OR</u> narrow-minded, highlighting the immediate benefits and future cost <u>OR</u> impact on unprotected industries.	4-7
L1	Smattering of valid points	1-3

(b) Discuss the extent to which free trade should be advocated over protectionism to grow the economy. [15]

Growth of an economy is usually indicated by the increase in real GDP of the country. With the growth of the economy, the country will be experiencing increasing income levels which can lead to higher standard of living for the citizens

With free trade, domestic producers are able to exploit economies of scale by selling in more markets. The production of certain goods such as cars and aircraft are usually subjected to decreasing average costs as output increases. However the domestic market in some countries may be too small for domestic producers/industries to fully exploit the economies of scale. Through free trade, domestic producers will have access to the world markets. The increase in export revenue will lead to an increase in AD and a multiple increase in NY via the multiplier process. Domestic country can achieve actual economic growth.

Also with free trade, domestic producers will be exposed to greater competition from foreign producers. In order for domestic producers to maintain their competitive advantage, producers may look to improve their product to reduce the degree of substitutability by increasing investment into technology or more sophisticated machinery. The increase in investment will lead to an increase in AD in the short run and hence a multiple increase in NY. Over time, this is also likely to contribute to the potential growth in the economy since there is advancement of level of technology in the economy due to the increase in productive capacity.

Hence free trade can help an economy to achieve both actual and potential growth. If the country were to be very protectionist, such benefits may not be enjoyed.

However, it is important to note that investment in technology or more sophisticated machinery requires funding and there could be a time lag before the positive impact can be observed in the economy.

However, protectionism can sometimes also be adopted by a country to achieve growth.

In some countries, the government might choose to protect infant industries in their country. Through protectionism, the industry is able to exploit economies of scale over time. The lowering of their long run average cost enables their products to be more price competitive in

the world market. If this translates to more exports, this will generate increased export revenue for the domestic country. The increase in X will lead to an increase in AD and hence a multiple increase in NY via the multiplier process. As a result, the domestic country can achieve actual economic growth.

Also protectionism can also help the country to achieve growth especially if foreign countries are 'dumping' in the domestic country. Dumping occurs when goods are sold in overseas markets at a price below marginal cost. The aim is to drive domestic competitors out of the market with the aim of establishing monopoly power in the future. Hence with government protection against dumping, domestic producers will be protected against 'low-cost dumpers'. The domestic production can continue to contribute to the exports of the country, contributing to the increase in AD and hence a multiple increase in NY via the multiplier process. However, dumping is also very difficult to be proven as foreign countries may truly have a comparative advantage in producing certain goods.

Hence protectionism can help an economy to achieve actual growth.

In conclusion, while free trade should be advocated over protectionism to grow the economy, it is important to also assess the current situation and stage of development of industries as government protectionism might be required for short-term.

Knowledge, Understanding, Application & Analysis		
L3	Developed discussion on how free trade and protectionism can help an economy to achieve growth	9-11
L2	Undeveloped discussion on how free trade and protectionism can help an economy to achieve growth Developed explanation on how free trade <u>OR</u> protectionism can help an economy to achieve growth	5-8
L1	Undeveloped explanation on how free trade <u>OR</u> protectionism can help an economy to achieve growth	1-4

Evaluation		
E2	Able to form a judgment on the issue after looking at both sides. For e.g., students are able to take into consideration the fact protectionism can be damaging to an economy in the long run and should only be adopted under certain circumstances	3-4
E1	Able to make some comments on which policy is preferred for growth, but statements tend to be generic and superficial	1-2