

Protectionism

4.1 Globalisation



WORLD TRADE
ORGANIZATION

China eliminates subsidies for its exporters
Prohibited subsidies are withdrawn after US complaint to
World Trade Organization



Higher prices for consumers

- Particularly arising from import tariffs or import quotas that restrict market supply

Retaliation from other countries

- Protectionist measures often result in retaliation - such as price wars

Extra costs for exporters

- Protectionism that becomes widespread in global industries increases the costs facing domestic firms trying to export

What you need to know

- a) Tariffs
- b) Import quotas
- c) Other trade barriers:
 - government legislation
 - domestic subsidies

Concept links



What is Free (Open) Trade?

Free (open) trade is an **economic policy** of not discriminating against imports from and exports to other countries. Buyers and sellers from separate economies may trade without the domestic government applying tariffs, quotas, subsidies or prohibitions on their goods and services.

Key Benefits of Free Trade (note: these also arguments against Protectionism)

- Countries can benefit from comparative advantage
- Businesses can better achieve economies of scale
- Encourages competition and economic efficiency
- Enables businesses to grow beyond their domestic borders

The World Trade Organisation (WTO)

The World Trade Organization (WTO) is the only international organisation dealing with the global rules of trade between nations. **Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.**



WORLD TRADE
ORGANIZATION

What is Protectionism?

Protectionism involves any attempt by a country to to **impose restrictions on trade in goods and services**. The main aim of protectionism is to cushion domestic businesses and industries from overseas competition and prevent the outcome resulting solely from the interplay of free market forces of supply and demand.

Three Main Kinds of Protectionism

Import Quotas

Tariffs

Domestic & Export Subsidies

Protectionism - Tariffs

A tariff is a tax or duty that **raises the price of imported products** and causes a reduction in domestic demand and an expansion in domestic supply. For example, until recently, Mexico imposed a 150% tariff on Brazilian chicken. The United States has an 11% import tariff on imports of bicycles from the UK!

Industry proposes tariffs be reduced because bikes are green

by BRAIN Staff

Published June 9, 2014

WASHINGTON (BRAIN) — Representatives from the bike industry and the advocacy group PeopleForBikes are proposing the U.S. tariffs on imported bikes be reduced or eliminated because bikes have a positive effect on the environment.

The Office of the U.S. Trade Representative held a hearing last week to hear from business groups prior to World Trade Organization talks about reducing tariffs for environmentally friendly products.

The WTO already agreed in 2012 to reduce tariffs to 5 percent or less by 2015 on 54 categories of green products. Those categories include solar panels, gas and wind turbines, soot removers and catalytic converters. The U.S. will soon join a new round of negotiations with the WTO members over adding product categories to the Environmental Goods Agreement (EGA).

Bob Margevicius, Specialized's executive vice president and a member of the Bicycle Product Suppliers Association board, testified at the hearing for the BPSA and PeopleForBikes.

Margevicius argued that, in addition to the bicycle's status as a green product, the current U.S. tariffs of up to 11 percent benefit no one since there is so little domestic bike manufacturing.

"The current high tariffs on bicycles and bicycle parts do not protect any significant domestic manufacturing. Rather they impose extra, unnecessary costs to anyone purchasing these products. It particularly impacts low-income individuals who are most likely to adopt bicycle transportation in lieu of more costly automobile transportation," Margevicius said.

Margevicius said bikes and bike products are appropriate for inclusion on the list of green products that will enjoy reduced tariffs under the 2012 agreement.

Protectionism – Import Quotas

Quotas are volume limits on the level of imports allowed or a limit to the value of imports permitted into a country in a given time period. For example, until 2011, South Korea maintained strict quotas on imported rice. It has now replaced a quota with import tariffs designed to protect South Korean rice farmers. Quotas do not normally bring in any immediate tax revenue for the government although if they cause domestic production and incomes to expand, there will be a beneficial impact on taxes paid.

Global Trade [+ Follow](#)

South Korea's rice farmers prepare for rough ride from free trade

Liberalisation drive has proved fiercely controversial



Protectionism – Subsidies

A subsidy is a **payment to encourage domestic production** by lowering their costs. Well known subsidies include Common Agricultural Policy in the EU, or cotton subsidies for US farmers and farm subsidies introduced by countries such as Russia. In 2012, the US government imposed tariffs on Chinese manufacturers of solar panel cells, judging that they benefited from unfair export subsidies after a review that split the US solar industry.

China eliminates subsidies for its exporters

Prohibited grants and services withdrawn after US complaint to World Trade Organisation



Other More Specialised Methods of Protectionism

Import licensing: in this case, governments grant importers the license to import goods – these can be restricted

Exchange controls: This form of protectionism involves limiting currencies that can move between countries (also known as capital controls)

Intellectual property laws e.g. patents and copyright protection protecting domestic ideas and products

Technical barriers to trade: these include product labeling rules and stringent sanitary standards. Technical barriers to trade increase product compliance costs and impose monitoring costs on export agencies.

Key Arguments in Favour of Protectionism

Infant Industry Protection

- Help infant or fledgling industries establish themselves, including achieving economies of scale

Protection of Strategic Industries

- Protect jobs, skills and capabilities in key (strategic) industries to a country

Protection Against Import Dumping

- Dumping is a form of predatory pricing which can seriously damage domestic industries

Key Arguments Against Protectionism

Higher prices for consumers

- Particularly arising from import tariffs or import quotas that restrict market supply

Retaliation from other countries

- Protectionist measures often result in retaliation - such as price wars

Extra costs for exporters

- Protectionism that becomes widespread in global industries increases the costs facing domestic firms trying to export

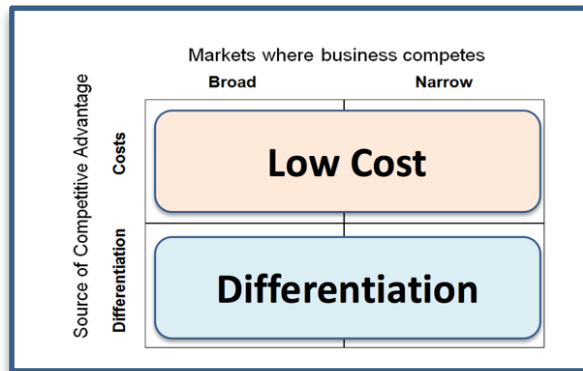
SAMPLE

tutor2u



Porter's Strategy Matrix

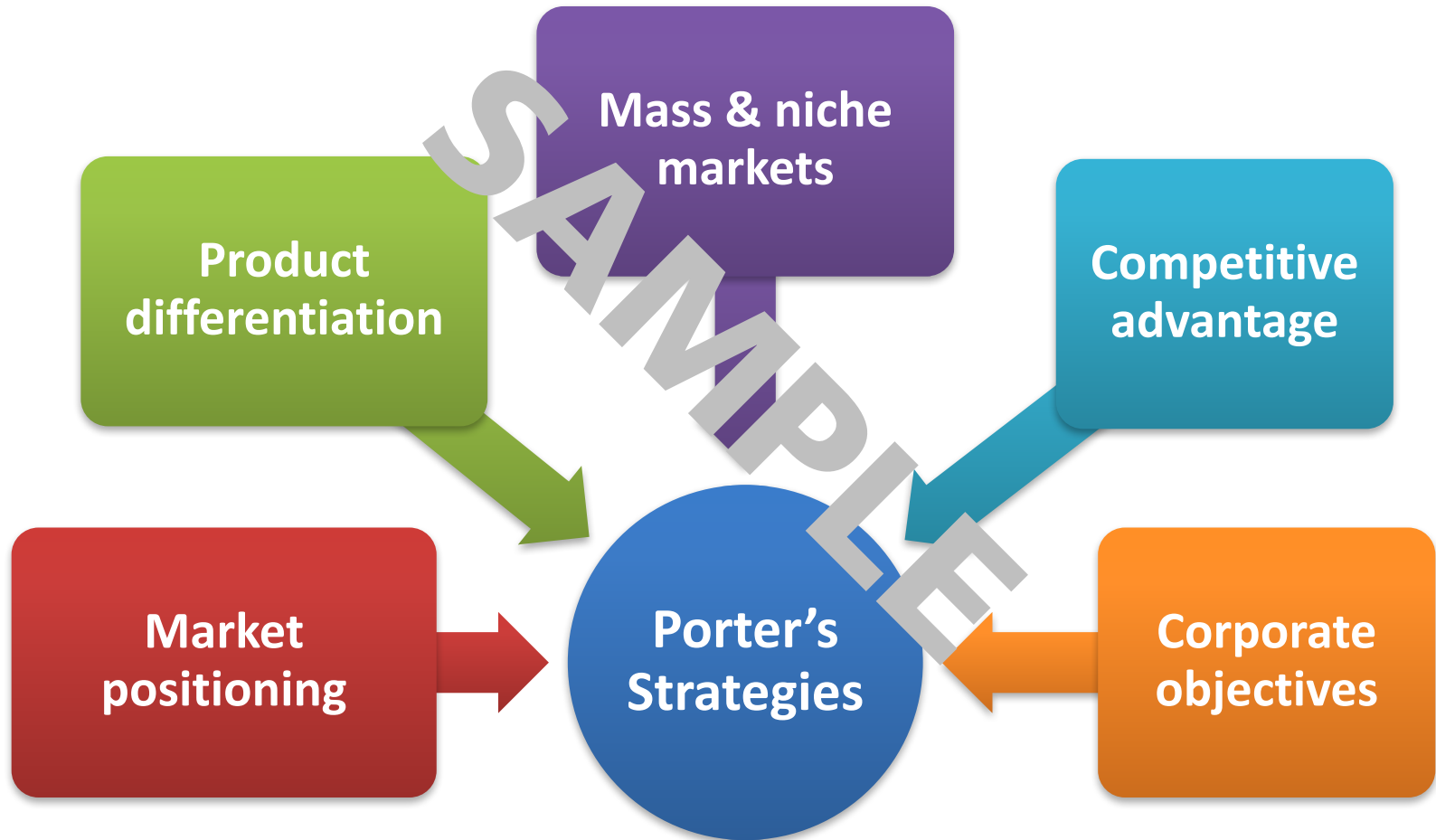
3.1 Business objectives and strategy



What you need to know

- Theories of corporate strategy
- a) Development of corporate strategy:
- Porter's Strategic Matrix

Concept links



The Challenge Facing Business Strategy

To find a way of achieving a
**sustainable competitive
advantage** over the other
competing products and
firms in a market

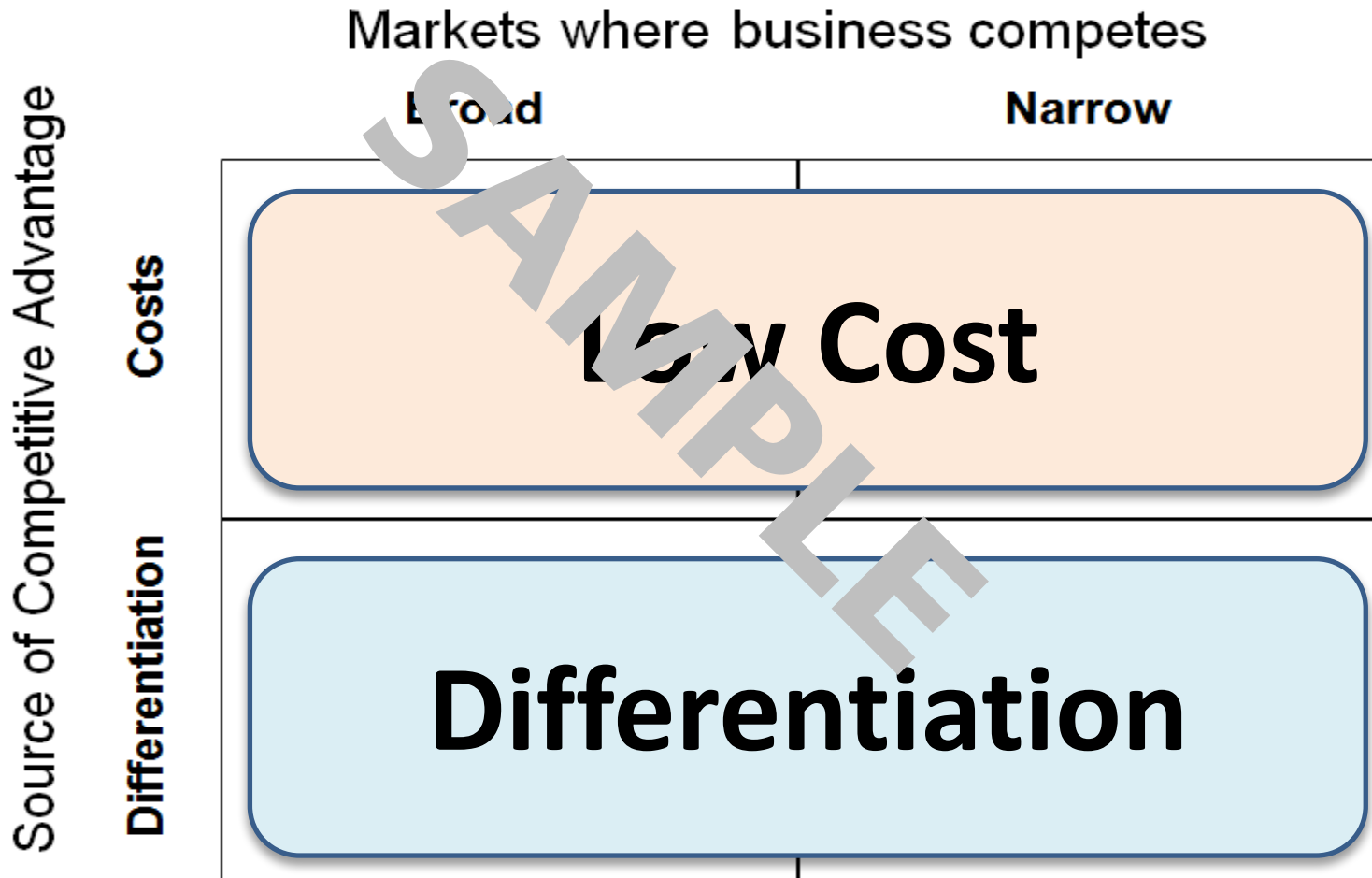
Porter's Suggested Approach to Strategic Positioning

- Porter suggested two overall **business strategies** that could be followed in order to gain competitive advantage
- Porter argued that **differentiation** and **low cost** are effective strategies for firms to gain **competitive advantage**

What is a Competitive Advantage?

An advantage over competitors gained by offering consumers **greater value**, either by means of lower prices or by providing greater benefits and service that justifies higher prices

Porter's Generic Strategies



Low Cost Strategy

With this strategy, the objective is to become the **lowest-cost operator**. This typically involves production on a large scale which enables the business to exploit **economies of scale**.

Why Low Cost is a Source of Competitive Advantage

- Why is cost leadership important?
 - If selling prices are broadly similar, the lowest-cost operator will enjoy the highest profits
 - Lowest-cost operator can also offer the lowest prices (gain market share)
- Suitable markets for this strategy?
 - Standard product
 - Little product differentiation
 - Branding relatively unimportant

Likely Features of a Low Cost Operators

- High levels of productivity & efficiency
- High capacity utilization
- Large scale = economies of scale
- Use bargaining power to negotiate lowest prices from suppliers
- Lean production methods and culture
- Access to the widest and most important distribution channels

Examples of Low Cost Strategies in Action



Strategy of Focus & Differentiation

With a differentiation strategy, aims to offer a product that is distinctively **different** from the competition, with the **customer valuing** that differentiation

Ways to for a Business to Achieve Differentiation

- **Superior product quality** (features, benefits, durability, reliability)
- **Branding** (strong customer recognition & desire; brand loyalty)
- **Wide distribution** across all major channels (i.e. the product or brand is an essential item to be stocked by retailers)
- **Sustained promotion** – often dominated by advertising, sponsorship etc

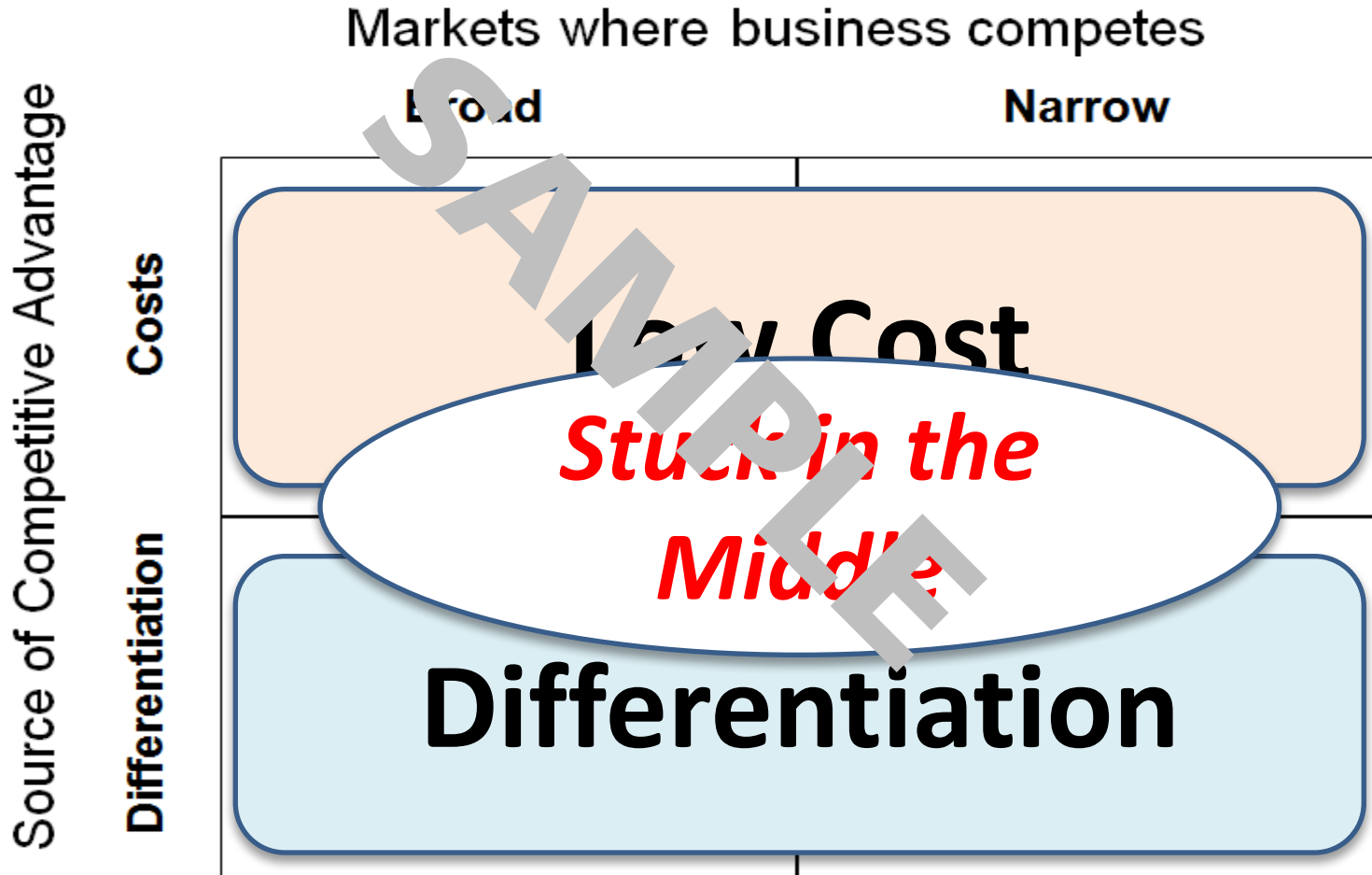
Examples of Successful Differentiation Strategies?



dyson

B&O
BANG & OLUFSEN

“Stuck in the Middle”



Examples of Stuck in the Middle?



Hybrid Strategies: Differentiation **AND** Low Cost



Value proposition = stylish furniture; good quality; low prices

Achieves its low prices via cost leadership:

- Furniture is flat packed to reduce storage space
- Large out of town retail units spread fixed costs
- Products are made in China and Malaysia reducing unit costs
- Low margins/ high volume allows economies of scale

Differentiates using:

- Unique / unusual design
- Localisation of product range
- Targeting (mainly) the young global middle class

SAMPLE

tutor2u

