

PROTECTION IN AUSTRALIA



Multiple choice

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|------|-------|-------|
| 1. B | 6. A | 11. C |
| 2. A | 7. C | 12. A |
| 3. B | 8. B | 13. D |
| 4. D | 9. A | 14. A |
| 5. C | 10. C | 15. C |

Short answer questions

Question 1

- (a) Trade agreements exist in a number of forms – global, regional or bilateral – and they have different impacts on free trade. Global agreements, such as the WTO's Doha Round on reducing tariffs, hold the most potential for promoting free trade in the global economy as they include the greatest number of countries. However, as is being seen with the current Doha Round, negotiations are difficult and can take many years. The growth of regional agreements is reflected in the creation the European Union and NAFTA and ASEAN. These agreements are often successful in promoting free trade within the particular region, but can erect high tariff walls to exclude non-members and stifle global free trade. Finally, bilateral trade agreements achieve free trade between just two countries – such as the Singapore-Australia Free Trade Agreement (SAFTA). Even if the agreements are comprehensive (and do not include the usual long list of exceptions), they only benefit the countries involved.

(b) i) Individuals

Individuals as consumers will benefit from reduced protection levels because of reduced import prices and the greater variety of goods and services. Individuals as employees may become unemployed if they work in import-competing industries, which will face greater competitive pressures if protection levels are reduced.

ii) Firms

Exporting firms will benefit from lower prices of imports that they use as inputs to production, increasing their international competitiveness. Import-competing firms are likely to face increased competitive pressures, and may be forced to reduce the size of their operations or go out of business.

iii) Government

In the short term, the government will face a deterioration of their budget balance as tariff revenue falls (because of protection cuts) and expenditure (on unemployment benefits and industry payments) rises. In the long term, however, the government should see an increase in its revenue and reduction in expenditure as the economy experiences a higher level of economic growth, owing to the improved allocation of resources.

Question 2

- (a) **Social:** Reduced protection can lead to an increase in structural unemployment, which can increase depression, domestic violence, social unrest and poverty in the community.

Economic: Less tariff revenue and higher expenditure on unemployment benefits leads to a deterioration of the budget balance.

- (b) Reduced protection levels will lead to an expansion of existing efficient export industries, as well as the growth of new industries in the Australian economy, which can lead to new exporting opportunities such as the recent growth of Australia's wine industry. This will occur because reduced protection levels will force structural change in insufficient import-competing industries, which will often require employment cuts and a shrinkage of these industries. As a result, resources previously used in those inefficient industries will become available for existing efficient industries to use for expansion. Australia's export base will grow and diversify, as seen in the growth of manufacturing exports since the early 1990s in Australia.
- (c) In the short term, reducing protection is likely to have a negative impact on the economy. Lower protection will lead to greater dependence on imports, worsening the CAD, and result in a decrease in economic growth and higher unemployment as inefficient industries shrink. The positive short term impact is lower prices, more range and better quality of goods for consumers. However, in the long-term, reducing protection should have a positive impact on the economy. Structural change in the inefficient industries will result in improved resource allocation, allowing for growth in the efficient industries. This should lead to higher economic growth, more employment and higher investment. In the long-term we should also see an improvement in the CAD, as our export industries grow, and we see an improvement in the competitiveness of the import-competing industries.
- (d) Over the past decade, Australia has implemented a sweeping range of protection cuts. The 1991 Industry Statement cut the average general rate of tariffs to 5 per cent by 1996, while maintaining higher protection for the car industry (PMV) and the textiles, clothing and footwear (TCF) sector, with tariffs cut to 15 per cent and 25 per cent by 2000 respectively. While pursuing the goal of 0 per cent tariffs by 2010, the government froze tariffs for the PMV and TCF industries in 1997. Tariffs for these industries are expected to fall to the general level by 2010, but protection for the car industry has been extended to 2015, through a \$4.2bn subsidy package, and a similar plan for the TCF sector is expected in the next 2 years.