Reasons for protectionism

These are some protectionism stories designed to bring out the reasons why countries decide to go against free trade. Divide the stories into pairs (there are 6 in total) divide students into pairs, give each student one story and then get them to explain it to the other. They then have to feed their stories back to the room.

If you want to explore the case against dumping, this is a good analysis of the impact of US subsidies on Mexico (his voice is a little monotonous, but the analysis is interesting);

https://www.youtube.com/watch?v=N4KRd7Qjyys

1) Jamaica: Life in Debt

Every country aims to be self-sufficient in milk production – it provides food security meaning that the country is not at risk of disruption of supply or adverse movements in the exchange rate. The milk farmers in the U.S., Australia, New Zealand, and the European Union all receive huge subsidies to keep their milk prices low. As a result when the milk solids from the U.S. or Europe are exported they are at an artificially low price due to support.

In the late 1980s, Jamaica's local production of milk was on a strong upward climb. In a 5 year period (1987-1992) the industry grew to 30 million litres, producing over 25% of the nations consumption, and was poised to rapidly increase production. In 1992, liberalization policies imposed by the IMF in return for loans demanded that the import taxes placed on imported milk solids from Western countries be eliminated and subsidies to the local industry removed. In 1993, one year after liberalization, millions of dollars of unpasteurized local milk had to be dumped, 700 cows were slaughtered pre-maturely and several dairy farmers closed down operations. At present, the industry has sized down nearly 60% and continues to decline. It is unlikely the dairy industry will ever revitalise its growth, and Jamaica is now dependent on imported powdered milk from the US, which sells only because of the huge subsidy that the US producers receive.

2) Zambia

Mtumbe’s farm and the floriculture industry in Zambia is a good example of an infant industry. Mtumbe is competing in a market where producers from Europe hold considerable economies of scale. His output is sent to the flower markets in the Netherlands where they are sold along side roses from many large-scale producers. He is a very high cost producer.

Rose growers in the Netherlands produce on a much larger scale and are able to enjoy a number of economies of scale thus producing at a very competitive cost. In addition they do not have to spend the large sums of money getting their output to the market place that he does. His roses must be sent by air to Amsterdam. His comparative advantage lies in the Zambian climate and in particular its sun and warmth. Dutch roses are grown in greenhouses and must be heated and lit. Nevertheless, it is a very competitive market as well as being one where there is also potential for growth.

Some economists would argue that in this case of infant industries there is a need for government subsidies whilst the firms in that industry are growing to a level where they are able to take advantage of economies of scale and compete on an even playing field with the larger producers. Once they have expanded and taken advantage of the possible internal economies of scale then the subsidies can be removed and are exposed to the full blast of competition.

3) France

L'exception culturelle was entrenched in the 1980s under President François Mitterrand, Mr Hollande's socialist predecessor and mentor. It has broad support across the French political spectrum. As Mr Lescure pointed out, France relies on the continuation of its ability to protect its culture on provisions in the World Trade Organisation and Unesco, the Paris-based UN cultural organisation – which France insists are also in the interests of other minority cultures.

It is based on a series of financial supports and regulations, including quotas. France's 200-movie per year film industry is subsidised to the tune of about €1bn a year by levies on television companies, telecom operators and cinemas. There are broadcasting quotas to protect French-language music.

The state is involved in a raft of other financing and funding schemes for a broad variety of the arts and, increasingly, seeks to support its vibrant gaming sector and other internet-based businesses. Earlier this month, Arnaud Montebourg, the industry minister, opposed the mooted sale to Yahoo of a majority stake in Dailymotion, a video-sharing website, which the state had helped finance through its Strategic Investment Fund.

On top of this, the French Senate approved a law obliging radio stations to play at least 40 percent French music and the Spanish Parliament imposed restrictions on the dubbing and projection of American movies.

4) Japan

Japan fights to protect rice farming

Rice was once so important to Japan's culture that it was worshipped as a god.

Yet the economic problems now facing Japan's rice farmers make it almost impossible for them to make money. As a result, the Japanese government subsidises the industry and tries to stop imports of foreign rice.

Firstly, it blocks nearly all imports of cheap foreign rice from countries like China and America.

Secondly, the government pays farmers four times the market value for their rice and then sells onto the shops at a loss.

This costs Japanese tax payers nearly $2bn a year.

Snowed under

Take the village of Matsunoyama, 300 kilometres north of Tokyo. Even in late March, while the cherry blossoms appear in the south of Japan, snow lies thick on the Matsunoyama's rice fields.

Farmer Keichi Obuchi, 72, complains that it is hard to earn a living in the snow and he is uncertain about its future. "I have been a rice farmer for 40 years," Obuchi says. "But I can't imagine rice farming surviving here for ever. It is increasingly harder to make money. The number of farms has declined a lot."

Foreign competition

The US claims the Japonica strain of rice it grows in California would be popular with the Japanese and cheaper than the home-grown variety.

"We are certainly sensitive to the Japanese view of the cultural and food-security importance of rice production in Japan," says Michael Rue from the California Rice Commission.

"But our total production of rice only represents a small percentage of what Japan consumes and produces, so California is not a threat to the existence of the Japanese rice industry." "However, we would like to have the freedom to market our product to their consumers - much as they do with many of the products that come from Japan to the US."

Australia and China would also like to get a larger share of Japan's rice market and want Japan to end its import restrictions and subsidies.

But the farmers of Japan realise they would probably lose their livelihoods if they had to compete with a flood of cheap imported rice.

Source: BBC News

http://news.bbc.co.uk/go/pr/fr/-/1/hi/business/4907742.stm

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5) USA

U.S. Steel CEO Says Tariffs Could Be Needed On Chinese Imports

NEW YORK— U.S. Steel Corp. and the ailing American steel industry might need tariffs on Chinese-made steel in order to survive, Chief Executive Mario Longhi said in an interview.

“Assume nothing happens, it could put at risk the existence of this industry” in the U.S., he said.

Mr. Longhi isn’t idling at the company he took over in 2013. Since Jan. 1, as steel prices have declined 25%, U.S. Steel has laid off 2,800 workers, issued layoff warnings to 6,200 others, and cut back operations at nine plants. The company says it generated $575 million in better productivity and cost cuts last year, thanks to changes made by Mr. Longhi.

More shake up is likely after the 114-year-old Pittsburgh-based firm negotiates a new three-year labor deal this summer with the United Steelworkers union, which represents most of its 35,000 workers. The company has $2.1 billion in pension liabilities. Mr. Longhi said he expects to have “a conversation” with the union about pensions and health care, including possibly moving workers to health exchanges.

U.S. Steel last year turned a profit after five straight years of losses. But last month it posted a first-quarter loss of $75 million, or 52 cents a share, compared with a profit of $52 million, or 34 cents a share. Overall, net sales fell 26.4% to $3.27 billion in the first quarter.

Mr. Longhi blames the bulk of his latest woes on imports, especially from China. The U.S. imported 615,171 tons of steel from China during that time, up 25% from the same period a year before. Mr. Longhi said a failure to impose more tariffs on Chinese imports was an American political “weakness.”

China holds roughly half the world’s 2.3 billion tons of annual steel capacity. With global consumption at 1.6 billion tons annually, China is “going to try to sell it everywhere,” Mr. Longhi said. “Most of it” is dumped, or sold at unfair prices, he said.

6) EU

EU Targets Chinese Solar Once Again

Intent on countering low-cost solar glass from China, the European Union again threatened increased tariffs on Chinese imports on December 19th, promising charges as high as 36.1 percent.

The announcement comes a year and a half after the EU first started flirting with the idea of punishing Chinese producers amid allegations of dumping low-cost product – selling at below cost – on the European market, undercutting local manufacturers.

The dumping, they said, was having a detrimental effect on the ability of EU manufacturers to stay above water. As previously reported on this blog, the dumping and ensuing oversupply helped drive down solar panel prices 24 percent over the last year. To get things moving in March, the EU leadership promised an investigation.

Launched by European Commission on behalf of EU Pro Sun, an industry association of solar producers from 20 EU countries, the investigation suggests that Chinese companies have been able to dump under market price solar panels and parts on European consumers at a loss thanks to significant financial support from the state.

According to a New York Times report, the European Union represented 80 percent of China's solar sales worldwide so the low prices undercut the local market to the tune of $26.5 billion last year, or 6.5 percent of all E.U. imports for that period.

The most recent announcement comes nearly five months after the EU imposed anti-dumping charges for a period of five years to help aid producers such as GMB Glasmanufaktur Brandenburg GmbH, according to a Bloomberg report. However, proponents of the levies now argue that the charges are not high enough.

Source: Forbes.com

http://www.forbes.com/sites/christophercoats/2014/12/30/eu-targets-chinese-solar-once-again/#b507990447d9