MANAGERIAL ECONOMICS: GROUP ASSIGNMENT

IMPACT OF PROTECTIONISM ON INTERNATIONAL TRADE FROM A SOUTH AFRICAN CONTEXT

SEDIBA MBA GROUP

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GROUP MEMBERS

Name and Surname	NWU Student Number
Bernard Makgaka	32918585
Beatah Sibanda	33473927
Nongaka Banda	33203148
Thandi Maxase	33461708
Takane Thobejane	26863197
Jacinto Fernando	33477469
Marylene Maanda	29686415
Ntavha Tshigabe	29151228
James	

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Protectionism is when a country seeks to protect its own industries from international competition. It is believed that a country should develop its own industries first before competing internationally. This also referred to as the infant industry argument. Growing of the country's industries will boost employment opportunities for that country.

Protectionism plays a big role in restricting practices that affect the South African labour markets adversely although it could also have positive results that could lead to creation of jobs. Imports may benefit a country but too much of them might harm a county's economy as it makes it difficult for the local players to compete, forcing them out of the industry resulting in job loses.

Dumping is the selling of excess goods in a foreign market at below cost (J. Janse van Rensburg ET. Al 2015). If a country can obtain goods in large quantities from foreign counties, it kills the domestic industry as it becomes more expensive to produce locally. This in turn affects employment as it results in loss of jobs in that particular industry. South Africa has been a victim of chicken dumping.

The SA Poultry Associated in 2017 reported 12 producers that were liquidated or closed down between 2011 and 2017 which resulted in an estimated 5 000 jobs that were lost. It was further reported that 110 000 jobs were at risk if the chicken industry collapsed. South Africa has a large population living in poverty and dependant on low skilled jobs, therefore a collapse of the chicken industry would leave a lot of people already living in poverty in dire circumstances. Protectionism will be important to guard against such dumping practices in order to protect jobs.

On the other hand, protectionism might restrict job opportunities. South Africa is the most significant trade partner to China and accounts for nearly 20% of China's trade (Mhaka S & Jeke L, 2018). The ability to import from Dubai and China has enabled lots of South Africans to import and sale goods for themselves in South Africa. This reduces unemployment as one does not have to wait for jobs to be created for them, but they can create jobs for themselves and others. Imposing barriers on imports would make such opportunities difficult resulting in increased unemployment levels. Although jobs are lost due to imports, other jobs are also created, for example imports created jobs for those unloading and packing imported stuff. Import restrictions alter the composition of employment but may have little or no effect on the volume of employment (J. Janse van Rensburg et. al. 2015).

Off shoring is another practice that is viewed as having a direct impact on the labour market off a country. It involves outsourcing of work that could be done domestically to foreign countries that have a comparative advantage in that kind of work. Although it might result in loss of jobs, J. Janse van Rensburg ET. Al (2015) argued that it also creates complementary jobs related to the work outsourced. Therefore, trade restrictions would reduce the creation of such jobs.

The World Trade Organization (WTO) does not have labour standards and disciplines. The International Labour Organization (ILO) is responsible for that purpose. Labour relations dynamics in a country can be a competitive advantage because it influences the cost of production. Labour instability can impact negatively on a country's ability to compete with other countries.

The skills and capacity of labour is also important, hence the countries with high literacy are more competitive than countries with low literacy. In 1998, the ILO adopted the ILO Declaration of Fundamental Principles and Rights at Work which endorsed fundamental workplace rights including freedom of association, recognition of the right to collective bargaining, elimination of all forms of forced labour, effective abolition of child labour etc

The biggest challenge in South Africa is availability of skills and this is impacting on the country's ability to grow. With free trade, the country's markets are exposed to foreign competition. This means if local factories cannot compete on the same level as international factories, they will lose the competitive edge.

The profitability of South African business could be affected by US-CHINA war. According to Rob Davis the South African trade and industry minister the first harm could come from Trump new import tariffs on steel and aluminium. The new tariffs could override the duties and quota free access the US market under African growth and opportunity Acts. There will be loss of sales because of the steep new import tariffs that could damage new companies and loss of jobs, this will course economic damage and higher inflation rate and geo political damage.

The results of tariffs will be falling of goods and services and high rate of unemployment then South Africa will import material at high cost and export their produced goods at low cost. South African companies will loss profits and lay off workers, while consumer will be affected by high price on goods.

South African on global protectionism, trade wars will affect investors' confidence and economy will suffer. The tariffs will lead to higher import prices raising firm costs and reduce real wages.

Gross domestic products (GPD) will fall after tariffs rise because of increase in labor productivity. When companies in the import competing sectors receive protection resources are allocated within the economy to relative unproductive uses, this will lead to wasteful effect in reduction in efficiency lower productivity will lead to greater inequality.

Tariffs increases have negative impact of domestic micro economics and distribution consequences.

However the more government protected local business they are making the inputs material because countries do not have all the resources they need at their disposal (Phakisi, 2018). To produce goods and services the business or industries needs input materials from abroad. When it comes to protectionism policies we to consider the size of the government intervention. Too much government intervention with regards to protectionism policies might end up having a negative impact on business because the country doesn't have all the resources they need to support businesses and their production.

The more they increase the tariffs is the more they are hurting local industries or businesses because it will be very costly for them to acquire or buy input materials. When inputs are too expensive industries and businesses response to that by charging higher prices on their produced goods and services.

The people who always incur the burden are consumers in the form of higher prices. According to the law of demand there is an inverse relationship between price and quantity demanded. Regardless of the type of good whether normal or not, when the prices increases quantity demanded decreases. The more quantity demanded decreases is the more businesses and industries make lower profits. In so when it comes protectionism government needs to make policies that will support businesses and industries because too much government intervention can lead to market failure. Once the market fails there will be no ease of doing business in the country.

Trade can be effected by making use of floating or fixed interest rate. For a country to be able to buy goods in a foreign market it need to buy foreign currency in order to effect the purchase. According to Amadeo (2019) the value of a currency in another country is determine by the exchange rate. In other words, the exchange rate depicts the worth of a currency in another country. Some countries have non-convertible currencies policy. In recent years many countries have moved to flexible exchange rate. It is believed that fixed currencies interfere with trade amongst countries.

Countries that are trading with South Africa are facing trading barriers (Export.gov, 2018). Trade barriers are good because they are protecting operations from both big and infant industries in South Africa. The more the local industries stay in the business is the more they contribute to export sector , which it is having significant impact on the GDP growth in South Africa. Tariffs put a high price tag in goods and services from abroad and give a chance of survived on local produced goods and services.

The more government loosened up trade barriers is the more they allow international competition to exploit local industries and that undermine our gross domestic product. This signed job losses as a result of bad performance on our GDP. Positive contribution to export sector is sign that local industries are effective. The more the country is able to maintain a trade surplus is the more they are working on achieving millennium development goods.

If there are no laws to protect local industries from external stocks, it will be very difficult to achieve millennium development goods. Economic blocks like BRICS (Brazil, Russia, India, China and South Africa) can undermine the notion of protectionism because some of the trade barriers are abolished because they are trading partners since well they are in the same economic block. At some point it is good to learn from the best when the country is in the same economic block with developed countries. On the other hand it is very difficult to compete with them neither have strong trade barriers to them because the country is in the same economic block with them.

Protectionism also has an impact on foreign exchange rate (ROE) movements. When our currency appreciates in terms of another currency it simply means that people from abroad will demand less of our currency to purchase goods and services produced in our country. When the currency increases locally produced goods and services will become expensive abroad in so they will demand less of our goods and services. While else the opposite is true and the currency depreciates. Exchange rate is part of monetary policy, so when we talk about the exchange rate we are also touching inflation, money supply and interest rate.

When the government protect local industries they put upward pressure on the prices of inputs and produces respond to that by increasing prices of goods and services that are locally produced and that will trigger inflation of which at the end it will affect the whole monetary policy. An increase of inflation will lead to an increase in interest rate, and an increase in interest rate will course the money demand and supply to decrease which lead to a depreciation of the currency value, opposite is true when the interest rate decreases ceteris paribus foreign exchange rate will increase (appreciate).

The exchange rate is conducted under the following **conditions**: depreciation, devaluation, appreciation and revaluation.
In terms of restriction, exchange rate movement with the emphasis on control is done to make a country's product cheaper in foreign country by lowering the value of its currency in the foreign exchange markets. For example, China for the past decades have taken advantage of devaluating its currency to get the competitive advantage on its exports to foreign markets.

Interest rates, inflation and exchange rates are all highly correlated. By manipulating interest rates, central banks exert influence over both inflation and exchange rates, and changing interest rates impact inflation and currency values. Higher interest rates offer lenders in an economy a higher return relative to other countries. Therefore, higher interest rates attract foreign capital and cause the exchange rate to rise.

The impact of higher interest rates is mitigated, however, if inflation in the country is much higher than in others, or if additional factors serve to drive the currency down. The opposite relationship exists for decreasing interest rates – that is, lower interest rates tend to decrease exchange rates.

The current account is the balance of trade between a country and its trading partners, reflecting all payments between countries for goods, services, interest and dividends. A deficit in the current account shows the country is spending more on foreign trade than it is earning, and that it is borrowing capital from foreign sources to make up the deficit. In other words, the country requires more foreign currency than it receives through sales of exports, and it supplies more of its own currency than foreigners demand for its products. The excess demand for foreign currency lowers the country's exchange rate until domestic goods and services are cheap enough for foreigners, and foreign assets are too expensive to generate sales for domestic interests.

Foreign investors inevitably seek out stable countries with strong economic performance in which to invest their capital. A country with such positive attributes will draw investment funds away from other countries perceived to have more political and economic risk. Political turmoil, for example, can cause a loss of confidence in a currency and a movement of capital to the currencies of more stable countries.

The exchange rate of the currency in which a portfolio holds the bulk of its investments determines that portfolio's real return. A declining exchange rate obviously decreases the purchasing power of income and capital gains derived from any returns. Moreover, the exchange rate influences other income factors such as interest rates, inflation and even capital gains from domestic securities. While exchange rates are determined by numerous complex factors that often leave even the most experienced economists flummoxed, investors should still have some understanding of how currency values and exchange rates play an important role in the rate of return on their investments.

The Brexit will have implications on South Africa import and an export. Brexit is the withdrawal of the United Kingdom from the European Union, which is partly a rejection of economic globalization by more negligible members of UK society and a strong aspiration to return authority, particularly trade policy, back to the UK from the EU headquarters in Brussels. (Helen Suzman Foundation | Issue 79 | December 2016)

International trade or global trade represents the sale and trade of services, goods across international borders. (J.Janse van Rensburg et al 2nd edition (2015:467). South Africa and the UK have always had international trade amongst them, which began on 31 May 1910 when the Union of South Africa was founded as a colony of the British Empire. The links between South Africa and UK include a share in language and similar systems in law and finance, there is also a large number of South Africans living in Britain. It is estimated that in 2010, around 227000 South Africans resided in the UK. (Political web 14 August 2012).

South Africa is Britain's largest trade partner in Africa and an important partner for the UK in a number of areas, it is then is inevitable that the latest developments on the Brexit will have a direct impact on the trade relations between the two states. The major issues that needs to be looked into that will have the impact is whether Brexit will be a constructive or chaotic exit, secondly will Scotland remain part of the UK. If Brexit is amicable, this will then mean that Scotland is likely to remain in the EU and that 'Great Britain' will remain relatively great in terms of economic size and influence, and will still have a significant role on the EU even after UK had exited.

Subject to the Brexit outcome these companies may be forced relocate to be able to continue doing business in Europe. This could create the risk of significant additional cost to companies resulting from a move of this sort. A potentially greater impact for South Africa and its economy could come from changes on international trade agreements. The UK is a large importer of South African goods, such as wine, fruits and precious metals and if UK were to leave the EU, trade agreements would have to be renegotiated with no guarantee of favourable outcome. On the other hand, should the growth on the UK were to remain slow after Brexit, demand for imported goods would likely be hit, with a negative impact for the

South African economy, as exporters would find their markets dropping. (Mica Townsend 10X Investments)

However according to Mica Townsend, South African savers and investors would be misguided to change their long-term plans to react to short-term events.

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