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IMPROVING THE EFFECTIVENESS OF DOMESTIC MARKET PROTECTION MECHANISMS IN PROTECTIONIST TRADE POLICY

***Annotation:** Protectionism is government policies that restrict international trade to help domestic industries. It means government defend domestic market. Protectionist policies are usually implemented with the goal to improve economic activity within a domestic economy but can also be implemented for safety or quality concerns.*

***Keywords:** protectionism, domestic industries, protectionist policies, tariffs, import quotas, inflation, free trade, gross domestic product(GDP)*

Protectionist policy is a policy of protecting the domestic market from external markets through various economic restrictions. When protectionist policies are pursued, there are many barriers to free trade. The main ones are:

- Customs duties. Customs duties are excise taxes on imported goods, which can be introduced for profit or protection;
- Import quotas. Import quotas set the maximum amount of goods that can be imported over a period of time;
- Non-tariff barriers. Undefined barriers include licensing systems, product quality standards, or simple administrative restrictions;
- Voluntary export restrictions. Voluntary export restrictions are a relatively new form of trade barrier. In this case, foreign firms voluntarily restrict their exports to a particular country.

The process of trade integration started after the Second World War. It gained new impetus in the 1980s and had a golden age in the period 1990-2008, when total trade in goods and services increased from 39% to 61% of world GDP. Since then, trade has slowed (to its current 58% of world GDP), while protectionism has been on the rise, driven by an increase in non-tariff and, more recently, tariff barriers. At the same time, public support for globalisation has declined on both sides of the Atlantic.¹ Trade protectionism is a stance that some countries adopt to protect their domestic industries from foreign competition. It may work in the short run to bolster domestic production and business, but in the long run, trade protectionism can make a country and its industries less competitive in international trade. Protectionist policies are typically focused on imports but may also involve other aspects of international trade such as product standards and government subsidies. The merits of protectionism are the subject of fierce debate.

Trade protectionism is a measured and purposeful move by a country to control imports while promoting exports. It is done in an effort to promote the economy of the country above all other economies. Even if it is used for government domestic economy growth, it has some advantages and disadvantages for economy. While trade protectionism is used to promote a domestic economy, in a global economy, it is damaging to everyone.

Rising protectionism could harm trade and activity. There is widespread consensus among economists on both the overall net benefits of trade openness and the need to cushion the negative impact it has had on certain groups in society. However, raising trade barriers is not the solution to the latter. Reversing trade integration may put at risk the net economic gains that it generated. By unravelling the long-term benefits of closer trade and investment links, retreating into protectionism also has the potential to unsettle global financial markets. When seeking to boost a country's balance of trade, a country might also choose to offer subsidies to businesses for exports. Export subsidies provide an incentive for

¹ https://www.ecb.europa.eu/pub/economic-bulletin/articles/2019/html/ecb.ebart201903_01~e589a502e5.en.html

domestic businesses to expand globally by increasing their exports internationally. While countries may experience a temporary period of economic stability as a result of protectionism by getting rid of outside competition, they will end up suffering from their isolation. Protectionist countries eventually see drops in innovation, jobs and economic growth.

Advantages of Trade Protectionism:

1. Protects a country`s new industries from foreign competition.
2. Temporarily creates jobs for domestic workers.

Disadvantages of Trade Protectionism:

1. Companies Without competiton decline in quality.
2. Leads to outsourcing of jobs.²
3. Slows economic growth: Protectionism causes more layoffs, not fewer.

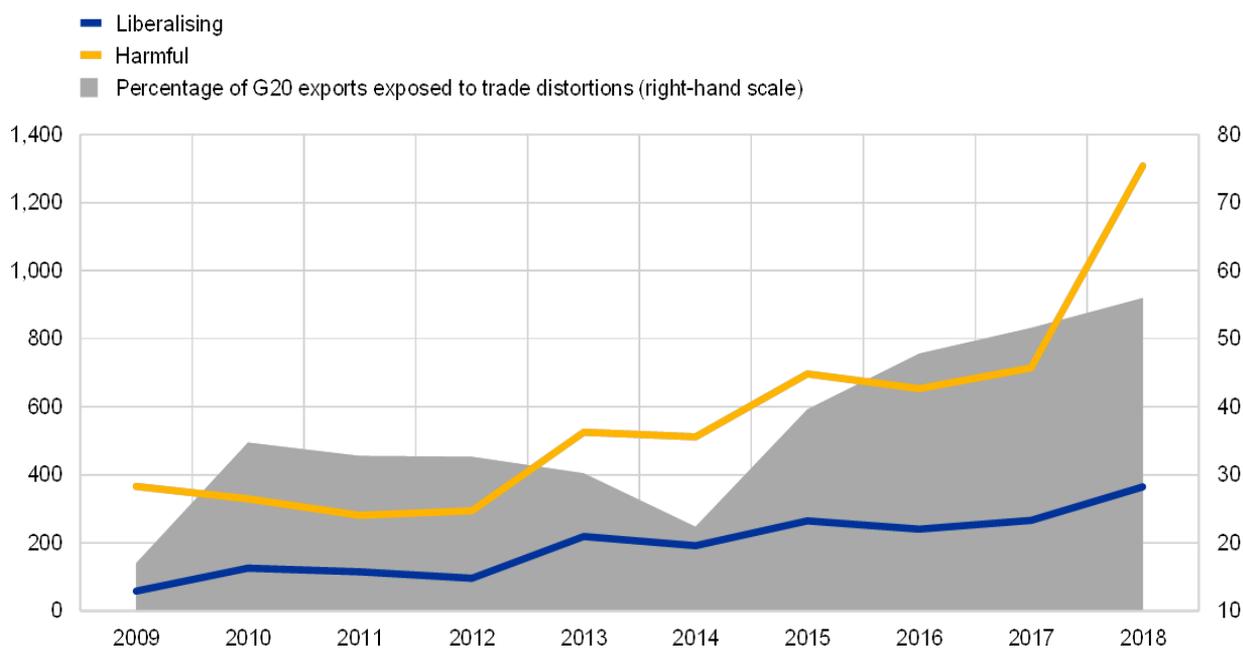


Chart 1. New trade measures announced³

Steadily rising protectionism may well be an additional factor driving the decline in trade activity. From the end of the Second World War, tariffs followed a downward trend that levelled off in both advanced and emerging market economies during the first part of the 21st century, before starting on an upward

² Peterson Institute for International Economics. "The Payoff from Globalization" Accessed June 30, 2021.

³ Global Trade Alert database.

trajectory in recent months. At the same time, the use of regulatory measures and non-tariff barriers such as export subsidies, restrictions on licensing or foreign direct investment, and domestic clauses in public procurement, has increased, leading to an overall surge in trade distortions. According to data from the Global Trade Alert database encompassing traditional and non-traditional trade measures, the number of new discriminatory actions announced by G20 economies has risen steadily since 2012 and surged further in 2018 (see Chart 1). Anti-dumping measures⁴ and import tariffs were the two most widely used instruments, together accounting for around 30% of all of measures imposed. The use of indirect measures, such as state loans to exporting companies, has also increased gradually.

The rise in protectionism implies that a progressively larger share of global trade has been affected by trade distortions. Data from the Global Trade Alert database show that by 2017 more than 50% of exports from G20 countries was subject to harmful trade measures, up from 20% in 2009 (see Chart 1). Accordingly, trade growth has decelerated more sharply in those sectors in which extensive discriminatory measures have been adopted than in sectors that have benefited from trade liberalisation.⁵

Critics argue that over the long term, protectionism often hurts the people and entities it is intended to protect by slowing economic growth and increasing price inflation, making free trade a better alternative. Proponents of protectionism argue that the policies can help to create domestic jobs, increase gross domestic product (GDP), and make a domestic economy more competitive globally.

Preliminary evidence indicates that, in order to circumvent the effects of rising tariffs, firms operating in the targeted sectors may have been frontloading their import orders. While trade flows in the affected sectors may have started to decelerate after the tariffs came into effect, the impact of implemented tariffs and tariff announcements owing to uncertainty effects appears to have remained confined to the targeted sectors for the time being.

⁴ Further information on the use of anti-dumping measures according to WTO rules is available on the WTO's website.

⁵ https://www.ecb.europa.eu/pub/economic-bulletin/articles/2019/html/ecb.ebart201903_01~e589a502e5.en.html

A survey of trade actions by the major industrial countries shows that so far they have tended to be concentrated in certain industrial sectors—i.e., textiles and clothing, footwear, steel, shipbuilding, and a variety of other manufactures, especially consumer electrical goods—although several other products, beef in particular, have also been affected. While these measures, particularly in respect to steel, have had an effect on trade among the industrial countries of North America and Western Europe, the main impact has been on exports originating in Japan and some developing countries. More generally, the measures adopted have affected sectors in which many developing and primary producing countries have an actual or potential comparative advantage and where the proliferation of restrictions can seriously jeopardize their scope for export expansion and economic growth. Many of the factors that underlie the rise in protectionism are likely to persist in the years ahead. If, as may well be the case, unemployment in the industrial countries remains high, the difficulties of effecting structural adjustments in these countries may remain serious. The problem of import competition in industrial products is expected to grow. In the developing countries, diversification of the export base is likely to continue, enabling them to compete in new lines of manufacturing, particularly where low labor costs are a major determinant of the pattern of comparative advantage. In such sectors as steel and shipbuilding, large excess capacities are expected to remain for a number of years. Thus, even with a revival of aggregate demand, some sectors in the industrial countries will continue to experience difficulties.

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