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Global Strategic Analysis

INTERNATIONAL: 'New protectionism' will hit businesses OxResearch Daily Brief Service. (Dec 14, 2012).

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Abstract (summary)

The emergence of 'global protectionism'.

As political leaders struggle to deal with economic crises, the migration of jobs and workers and the rise of new global competitors, more sophisticated forms of protectionism are emerging. Such 'global protectionism' moves beyond traditional trade protection to encompass other forms of international business activity, such as foreign direct investment and offshore sourcing. Its geographical incidence is broader than that of trade protectionism, and its targets are increasingly businesses from large emerging markets. This new protectionism includes selective policy interventions targeted at international business activities designed to promote perceived national welfare, identity or competitiveness.

Full text

SUBJECT:The emergence of 'global protectionism'.

SIGNIFICANCE:As political leaders struggle to deal with economic crises, the migration of jobs and workers and the rise of new global competitors, more sophisticated forms of protectionism are emerging. Such 'global protectionism' moves beyond traditional trade protection to encompass other forms of international business activity, such as foreign direct investment and offshore sourcing. Its geographical incidence is broader than that of trade protectionism, and its targets are increasingly businesses from large emerging markets. This new protectionism includes selective policy interventions targeted at international business activities designed to promote perceived national welfare, identity or competitiveness.

ANALYSIS: Impacts.

Global protectionism is rarely based simply on objective economic calculation.

Rather, the rationale underpinning it is predominantly political and strategic.

This 'new' protectionism seeks to allow countries to benefit from globalisation while minimising exposure to its challenges.

The globalisation of business activity has brought both benefits and challenges. For a growing number of economies, these challenges include the need and/or desire to:

retain control over critical resources;

ensure national security;

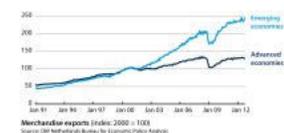
manage economic prosperity in an increasingly competitive environment; and even

maintain national identity seen as under threat amid globalisation.

Such urges are encouraging economic nationalism -- the use of economic policy instruments to increase national power and unity. Governments are increasingly developing new policy interventions to protect what they define as their national interests.

A broader phenomenon.

While protectionism has long been a feature of cross-border economic activities, historically it has focus was largely limited to trade. Yet protectionism is changing, increasingly impacting on a wider range of international business activities -- trade, foreign investment, capital movements and even labour migration. Scholars such as professor Peter Enderwick, an international business expert at Auckland University of Technology, have has termed interventionist policy in these areas 'global protectionism'.



Global protectionism differs from traditional trade protection in a number of ways;

Broader scope.

Global protectionism manifests itself in all areas of cross-border business activity, not only trade. For example, while the majority of national foreign direct investment policy changes have helped facilitate FDI, the percentage that are restrictive has increased steadily over the past five years. Calls to limit

labour migration, even of skilled labour (see INTERNATIONAL: Job insecurity fuels 'de-globalisation' - July 4, 2012), regulate the transactions of sovereign wealth funds and reverse offshore sourcing all impact well beyond trade relations (see INTERNATIONAL: Finance globalisation retrenches - May 30, 2012).

Diverse measures.

The range of protectionist measures being imposed is far more diverse. Trade protectionism utilises tariffs, quotas and a variety of non-tariff barriers. Global protectionism is manifested in much wider forms, including subsidies, sanitary and phytosanitary provisions, capital restrictions, concerns over state ownership and links as well as industrial policy. Particularly prevalent have been interventions to restrict foreign takeovers and investment policy amendments to provide new powers to investigate state-owned investors. The United States, Canada and Germany have introduced such amendments in recent years.

Objectives.

Traditionally, protectionist measures have been associated with economic or competitive weakness. Trade protectionism was designed to correct a balance of payments problem or to provide relief to an ailing sector. In contrast, global protectionism is used to facilitate not just economic adjustment and adaptation, but also to buttress economic patriotism, national security and state-led industrial policy. Global protectionism has attraction for both strong and weak economies -- in the past two years:

there have been calls at the EU level to evaluate foreign direct investment on strategic grounds;

Brazil has reviewed eligibility criteria for investment in agriculture;

China has developed rules covering foreign acquisitions from a national security perspective;

foreign investment review rules have been amended in countries including Russia, Canada, and Australia to embody national interest concerns.

Different stakeholders .

Pressure for traditional trade protectionism came from adversely affected firms and industries. The demand for global protection is articulated by a variety of sources, including national leaders, industry groups, employees and consumers. In many cases, the focus is a single firm or deal which in turn triggers broader demands for the definition of strategic assets or industries.

Selective globalisation.

A key characteristic of global protectionism is its selective view of globalisation and a tendency to accept globalisation's best features, while avoiding the worst. This selectivity can lead to incoherent policy positions lacking a clear rationale for intervention. For businesses, then, understanding and isolating the determinants of global protectionism is no easy matter. Difficulties arise, in part at least, because of ambiguity surrounding relationships between the key levels that stakeholders take into account:

the international economy;

the national economy; and

unique or historical considerations.

Global influences, such as increased competition, affect different countries to differing degrees -- depending on a country's competitive strength (or weakness), cost structure, degree of foreign engagement and political structure. Yet cultural and historical factors are also influence policy choices. Moreover, global protectionist measures cannot be considered in isolation. For example -- as with traditional trade protectionism -- once specific policies are put in place they are likely to trigger retaliation.

Impact on businesses.

Global protectionism has several consequences for international business, not least because it:

increases business uncertainty, particularly with regard to market entry -- indeed, a difficulty of global protectionism is anticipating its likely incidence, source or form; and

is characterised by its differential impact on different nationalities of firms, industry sectors, types of firm (private or state-owned) and entry mode (see *JAPAN/CHINA/ASEAN: ASEAN benefits as Japan diverts FDI - November 23, 2012*).

Host country governments are adopting selective approaches to international business as they seek to both benefit from foreign direct investment and impose often onerous conditions, while at the same time seeking to ensure compatibility with national economic and security goals. In this context, international businesses are less able to rely on bilateral or multilateral trade and investment agreements to protect their interests. The provisions of such agreements may allow for the provision of special measures or, in extreme cases, simply be ignored.

CONCLUSION: Over the coming years protectionism will broaden in scope and incidence. This will be an incremental process, not triggered by a single event. National governments will become increasingly assertive in their dealings with businesses. Meanwhile, business responses to global protectionism will be selective and idiosyncratic. Attempts to establish comprehensive binding remedies as embodied in trade agreements incorporating dispute resolutions will be strongly resisted by a cynical public.

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