

Opinion **Business School Insider**

The MBA view: is protectionism bad for the economy?

Business school students offer their views on globalisation versus trade wars

NASSIA MATSA



Christine Lagarde: 'In countries where public debt is already high, careful management of financing terms is critical' © Reuters

Nassia Matsa APRIL 17, 2018

Christine Lagarde has warned [protectionist](#) policies and trade wars could “tear apart” the global economy.

President Donald Trump has said trade tariffs will help protect the economic future of the US, but the IMF chief said the administration should look closer to home to reduce fiscal deficits, by curbing the dynamics of public spending and increasing revenue, instead of engaging in tit-for-tat penalties with China.

So will protectionist policies help countries increase their economic growth, or will they destroy the [global economy](#)?

We put the question to MBA students at some of the world’s top business schools.

Join in the discussion in the comments below.

Yoanna Zheng, CKGSB Beijing

The notion of trade protectionism often implies opportunities for local businesses to grow and foster competitive advantages, with less competition from overseas products. Such growth opportunity for domestic companies in China often exists, but it also brings global trade-offs and a failure to improve competitiveness.

Ideally businesses would use their additional revenue to invest in research and development to improve the competitive advantages of their products until they either match or surpass the technological strengths and quality of their overseas competitors.

However, consumers are still denied potentially cheaper and better options, while the main driver of companies’ investment is competition itself.

At a macro level, protectionism not only impedes the use of different countries' specialities and productivity advantages, it also slows down the sharing of technology. And trade protectionism will always face retaliatory measures, resulting in a vicious protectionist cycle and a tense political environment.

Christine Royer Heymes, Paris Dauphine University

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If a nation is too protectionist the negative impact of a closed market creates a lack of competition with side effects such as the cost increase for consumers and the decline of quality and innovation.

Protectionism should be a temporary solution for an emerging country to sustain its position, but it should then change tack to avoid the negative effects. Could this explain why the Chinese president recently announced a new phase in [opening up the country's economy?](#)

Ruth Lalor, UCD Smurfit School, Dublin

While trade tariffs may boost national economies and employment in the short term, the potential long-term effects outweigh these benefits for anyone other than a select few. The imposition of trade tariffs will interrupt existing supply chains as businesses seek to find alternative sources. As competition decreases and the cost to these businesses of exporting to existing markets increases, there are fewer incentives to improve efficiency across manufacturing operations.

Protectionism will increase cultural divides across nations as people receive the implicit message that interactions with other countries are less desirable than with their own. No winners will emerge from a global trade war.

Nathalie Savanier Roux, Paris Dauphine University

Protectionism turns bad as those nations directly affected by protectionist measures can rapidly retaliate, even before implementation. The US Great Depression, which started in 1929 and lasted 10 years, highlights the risks: impoverishing the weakest customers by increasing prices on unavoidable imports, workers losing jobs because of reduced exportation, companies losing available/cheaper foreign financing.

A trade war pushes companies to reduce short-term costs (usually in the form of job cuts) or reduce quality to remain competitive, rather than differentiate their products with R&D investments and to sustain more ethical/ecological trade.

Safa Ismael, ESMT Berlin

The sustainability of our global trade system is built on functional multilateral economic agreements. Protectionism will just increase the barriers on the universal economic growth and technology transfer as it will be expensive to adopt them.

These warnings from the IMF are a great opportunity to take a close look at the current agreements and regulations for better national and global welfare. It is very important to keep up an open discussion about the consequences of a potential US/China trade war because we do not want another failure of co-operation, such as that over climate change.

Rocio Pria Góméz, IPADE Mexico

The moment a country closes its borders, it is not just preventing its own access to other countries' resources, but it is denying access to opportunities and the ability to be part of global development.

It is impossible for a country to be self-sufficient in every product, industry or resource: it will need to join forces and exchange strengths to properly cover its needs. Opening and maintaining

strategic alliances will result in the strength and competitiveness necessary should a country wish to be a strong player.

Minjung Suh, CKGSB Beijing

Imposing tariffs is a strategy devised by the US to hamper China from dominating the high-tech industry in the future, targeting the [Made in China 2025](#) campaign in particular. Made in China 2025 is Beijing's plan to dominate high-tech industries, such as aerospace, robotics and electric cars. Washington recently released a list of Chinese products that are subject to punitive tariffs and it consisted of products that benefit from Chinese industrial policies.

Imposing tariffs may help the US decrease its deficit in the short term, but it needs to try to find a fundamental way to increase its competitiveness.

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