

## Protectionism in the Current International Context

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### Abstract

*The commercial policy that has decisively influenced international trade at different times has been outlined by both objective needs, such as the interest in global economic development, and subjective desires determined by the particular interests of different state groupings, primarily of developed countries.*

*The attempt to impose a set of international trade rules to be respected by world states represents progress in this area. Further issues are related to how the agreed rules apply so that the benefits of international trade are placed in an equitable area. The global financial crisis, the Brexit, Trump's attitude as candidate and especially as US President are disturbing factors in the trade relationships between states.*

**Key words:** protectionism, trade liberalization, commercial agreements, globalization, economic openness

**J.E.L. Classification:** F10

### 1. Introduction

The origins of protectionism can be established during the formation of the unitary national states, occurring in the mercantilist policies promoted at that time. Mercantilists considered that the nations, to be strong and prosperous, should export as much as possible in parallel with a severe limitation of imports. Thus, there were created the conditions for recording a trade surplus, namely for the accumulation of a large amount of gold and silver, which is a very important phenomenon if we consider the expensive wars that were carried at that time in Europe.

From a certain perspective, the protectionist policy can be considered rational in the sense that it is based on defending the internal market against external competition; the latter, due to its strong potential, could undermine the development of the country in question. It is noteworthy that if the immediate results triggered by the application of protectionism can be positive, the long-term results are generally unfavorable, generating economic isolation.

### 2. The role of the GATT, respectively the WTO in international trade architecture

The experience of the protectionist measures during the crisis of 1929-1933, the destruction of the Second World War made it necessary to impose an international trade regime leading to the liberalization of trade. In this context, the General Agreement on Trade and Tariffs (GATT) was set up in 1947.

Several negotiations had been conducted within the GATT, which led to significant customs disarmament. The Uruguay Round, carried out between 1986 and 1994, was the most important round of negotiations.

The fundamental objective pursued during the Uruguay Round was to eliminate, reduce and harmonize customs duties and to reduce non-tariff barriers.

By implementing the Uruguay Round Final Act, in the case of developed countries, the average rate of customs duty on processed products has fallen gradually over the past few decades, from 40% to around 3% in 2002. Due to the need to protect the internal market, the average duty rate of developing countries was around 30% (Goldstein; Pevehouse, 2008, p.428).

The need for a balance of concessions in various fields of international trade led to a series of measures aimed at the gradual reduction of subsidies in agriculture, the liberalization of textiles trade, the protection of intellectual property rights, etc.

It should be noted that the request of the developing countries from the "Group of 77" made in 1965 to benefit from a special and differentiated treatment from developed countries resulted in the establishment of the Generalized System of Preferences (SGPC). Through this system, implemented since 1971, developed countries granted reductions of the customs duties on manufactured products imported from developing countries in order to stimulate the exports of the poorer countries and, implicitly, to stimulate their economic development.

With a stable structure of almost 600 officials working in the GATT Secretariat in Geneva, the perception on this institution has evolved substantially. If, immediately after its establishment, it was seen as a club of the most powerful countries in the world, in the 1990s, the GATT had the valences of a global institution, with a major role in regulating the international trade on a multilateral basis. Thus, the preconditions for the transformation of the GATT into the World Trade Organization (WTO) were created, which happened in 1995.

The sense of the existence of asymmetric advantages resulted from signing the final document of the Uruguay Round, at Marrakesh, in April 1994, the failure to respect the promises made by some developed countries, etc. led to a reduction in the level of confidence in the conduct of fair international trade.

Under these circumstances, the negotiations that followed the Uruguay Round, held at Seattle, Doha, Cancun, etc. did not materialize in establishing rules that would have a significant impact on international trade.

### **3. Evolution of protectionist trade practices**

The beginnings of promoting various trade policies are closely connected to the beginnings of international trade. The period between the end of the eighteenth century and the early nineteenth century was marked by the imposition of protectionist measures in international trade. After this period, which marked the beginnings of modern trade, there was an alternation between liberal measures and protectionist measures promoted by different states, protectionist measures prevailing during economic crises. The great depression of 1929-1933 is an example in this regard.

Mihai Manoilescu's contribution to the current economic thinking, which was propagated at that time, is remarkable. Concerned about finding solutions to Romania's economic backwardness in the interwar period, Manoilescu placed the idea of the need for protectionism at the center of his theoretical preoccupations. The motivation of this approach was to create the conditions for a country to develop its economic branches with a view to ensuring increased productivity that would allow it to participate with better results in international trade. Protectionism generates a number of negative effects, most important being the limitation of the possibility for consumers to buy cheap imported products.

During the interwar period, the protectionist policies imposed in Romania by the liberal government in the pre-crisis period of 1929-1933 were followed by policies for the liberalization of foreign exchanges, implemented by the peasant government. Both sets of trade policy measures were in full contradiction with the trends across the international market during their application period.

In the interwar period, the international trade agreements were mainly bilateral, and after World War II, the multilateral trade agreements were strongly asserted.

If, in the past it, was considered that it was beneficial for the state to intervene in order to correct certain market imbalances, at present the vast majority of specialists in the field consider that protectionist measures are inadequate.

After World War II, the only truly powerful state that really mattered in imposing a new international economic order was the United States. The American economic aid to western European countries sought, among other things, to create a large market outlet for American products. The commercial policy of capitalist countries was characterized during that period by certain measures meant to isolate the socialist system. The socialist system, which, as a whole, has

isolated itself to some extent from the world economy, contributed to this fact. Commercial policy measures promoted by most capitalist countries had predominantly a tariff nature.

20-30 years after the end of the war, the European project proved to be effective in ensuring the economic development of Western European countries and prosperity for the citizens of these countries. The regional integrated economic areas have become important actors in the conduct of international economic exchanges. To all these, there added the attempts of the countries belonging to the socialist camp to come out of their economic isolation. Under these circumstances, the almost exclusive role of the United States to impose rules in international trade has diminished considerably.

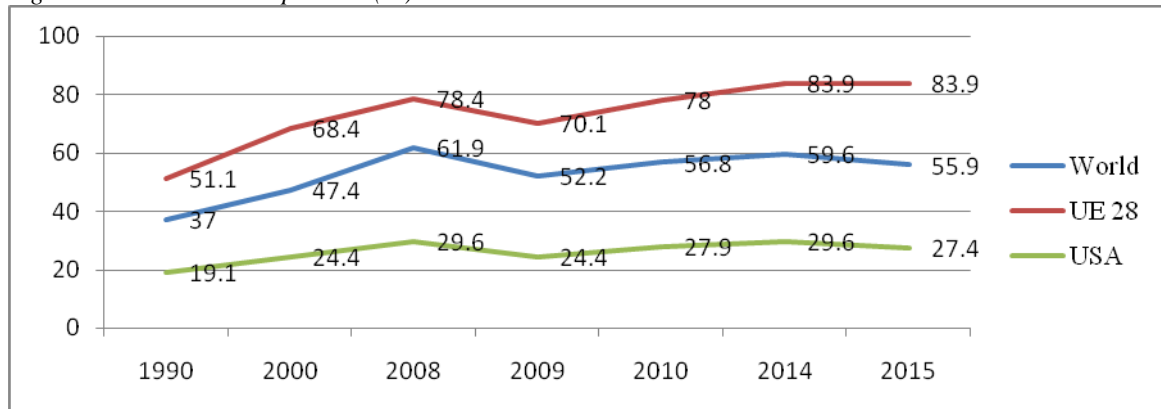
After a strong trade liberalization trend, in the 1980s, there followed a period characterized, in general, by protectionist measures. The option of imposing non-tariff barriers was predominant.

The fall of communism and the end of the Uruguay Round led to a strong opening of national economies to the global economic circuit, with positive effects for most of the world's countries, which had manifested itself until the latest global financial crisis. There were also some actions contrary to the general trend, such as those related to the economic isolation of North Korea or Cuba, for example. Although most states pronounced themselves and acted, at least declaratively, for the liberalization of international economic exchanges, a series of protectionist tendencies were manifested by:

- Increasing customs duties, sometimes unjustifiably. In principle, the WTO allows the use of customs duties for internal market protection, but only for the economic branches at the beginning of their development or for those areas in decline. This measure may be used only for a limited period, and its application must be non-discriminatory in relation to other countries.
- Imposing import quotas, agreed by the WTO, but under the conditions mentioned above.
- Imposing import surcharges to the foreign partners identified as having applied dumping prices or having benefited from subsidies on manufactured products. In principle, these measures are agreed by the WTO, but the substantiation of the action to apply them belongs to injured countries; this led to abusive practices especially from the countries with a great deal of negotiating powers, from developed countries respectively.
- Imposing rules of origin, detrimental to developing countries. In order to benefit from reduced customs duties from developed countries, in accordance with the provisions of the Generalized System of Preferences, exporting developing countries must demonstrate that these products meet a limit on added value to allow the inscription "Made in .....". As the level of this threshold is determined by each developed importing country, a number of abusive practices have been recorded by setting a threshold to an unjustifiably high level.

To all these, there is added a "gray" or "disguised" protectionism that consists in imposing technical, environmental or consumer protection rules on imports. (Cernea, 2016, p.7) In addition, there are included in this category the voluntary export restrictions, which have the advantage of increasing export prices for the country that has committed to such restrictions. The outcome per the entire global market is represented by the restriction of the international trade and the increase in the prices for consumer products.

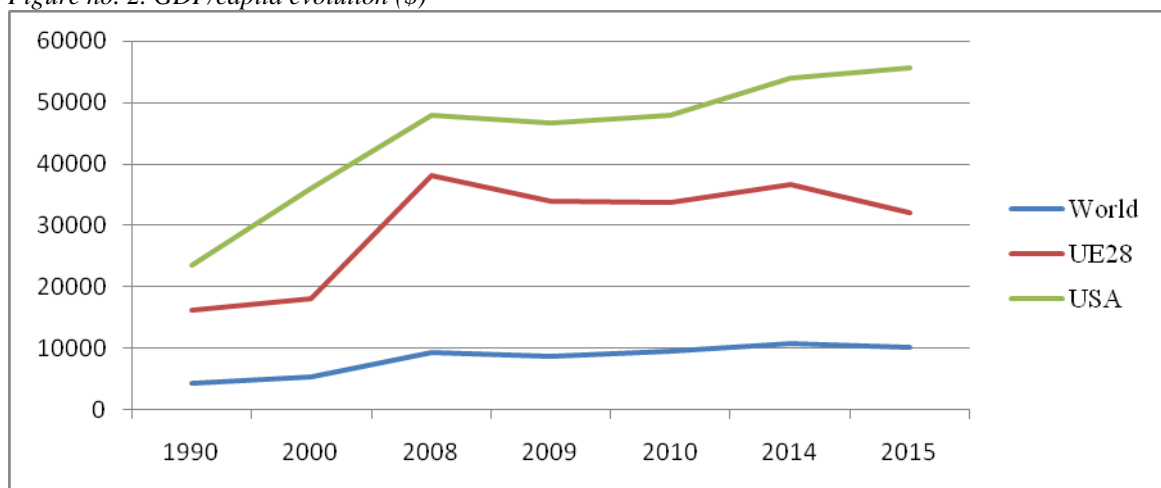
Figure no 1. Economic openness (%)



Source: processed from <http://unctad.org/en/Pages/statistics.aspx>

The fall of communism and the liberalization of international trade have led to an increase in economic globalization, illustrated by the increase in the opening (ventilation) of the world economy between 1980 and 2008, from 37.0% to 61.9%. Over the same period, the economic opening degree of the EU 28 increased from 51.1% to 78.4%; for the US, the increase was from 19.1% to 29.9%. We may notice the strong outward opening of the EU economy and the inward orientation of the US economy, the latter benefiting from the huge internal market potential.

Figure no. 2. GDP/capita evolution (\$)



Source: processed from <http://unctad.org/en/Pages/statistics.aspx>

The enhancement of globalization between 1990 and 2008 meant to the EU and the US citizens a significant economic development and prosperity, the GDP per capita rising to \$ 21,866 and \$ 24,608 respectively. Globally, the GDP growth per capita in that range was of only \$ 5,075. These figures clearly demonstrate that the international trade governed by limited protectionism was beneficial to the US, but especially to the EU, deepening the inequalities between developed and developing countries. Serious problems began with the onset of the global financial crisis, the EU economy largely dependent on foreign markets being affected more than the US economy.

Regarding the current period, we can appreciate that two major events will influence the development of international trade exchanges, i.e. the Brexit and Trump's election as the President of the United States.

Britain's exit from the EU is, in fact, a reduction in the size and in the expression possibility of the world's most important economic integrationist group. Through this act, we can talk about a restriction of the globalization phenomenon at European level, namely a limitation of the free movement of goods, capital and labor. From the GDP perspective, the EU loses its first position in

world rankings, being overtaken by the US, but enriches its performance on trade surplus. It should be noted that among the Western European countries, the United Kingdom recorded the lowest value in terms of the GDP share, as far as its own contribution to the functioning of the EU is concerned.

Some US protectionist tendencies have consistently manifested over time. In the globalization era, the US has practiced an extremely visible protectionism by maintaining the Buy American Act, adopted in 1933. Indigenous goods, services and materials were (and are) preferred for domestic consumption. Products originating from other countries are subject to surcharge and are thus excluded from competition. (Ștefan, 2012) In this way, US companies are protected to the detriment of foreign ones. Over the last year, the EU has taken into consideration, rather timidly, the adoption of such protectionist measures as a response to the US trade policy.

One of President Trump's campaign themes paradoxically addressed the negative impact that free trade would have on the US, relying on the major trade deficit that the US recorded in its relationship with China. After its installment at the White House, one of the first steps taken by the Trump administration was to denunciate the Transpacific Exchange Agreement, which was signed a year ago by 12 states including Canada, Australia, Japan, etc., i.e. traditional US partners. China, not part of this treaty, makes President Trump's initiative even more incomprehensible. The decrease in the American influence in the area will inevitably lead to a good opportunity for China to amplify its commercial influence. (Naumescu, 2017)

The taxes to be paid for the imports of Mexican products are another aberrant protectionist measure that contradicts the NAFTA principles and even the WTO principles.

The protectionist measures to be applied by the US have also caused concern among Mercosur member countries (Argentina, Brazil, Paraguay, Uruguay, Venezuela) that are preparing counterbalancing measures.

The desire to equilibrate the external trade balance and to protect the internal market through tough protectionist measures may have a boomerang effect, leading to a significant reduction in population consumption and productive consumption, with particularly severe consequences on the living standard and on the prospects of the US economy.

#### 4. Conclusion

International trade liberalization has largely characterized the trade relationships between the world states over the last decades. The return of protectionist tendencies will cause inconvenience to many countries that are significantly involved in international trade. Praised by some and criticized by others, globalization has created a number of benefits, primarily for developed countries, including the US. The fact that globalization has led to the emergence of new major players in the world economy cannot be a pretext for initiating protectionist measures.

We can anticipate the deterioration of the trade relationships between the EU and the United States, which will ultimately lead to the US isolation, contrary to the principles cultivated by the Americans over the last 30 years. Slightly predictable a few years ago, a perspective in international trade relationships could be represented by the proximity of China to Mexico or even to the EU.

In a logical approach, the development of the EU depends on the cooperation and trade relationships with the US and vice versa. Given that the US persists in promoting protectionist measures, the EU will have to manifest its own initiatives as a world-class player in international trade. Thus, from practical needs and in response to the protectionist tendencies of the Trump administration, the EU has initiated the Comprehensive Economic and Trade Agreement with Canada.

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