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Economic Protectionist State Policy: An Analysis of Its Enduring Practices in the Contemporary International Trade Relations

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Abstract

State protectionism in international trade relations has gained momentum and impacted global trade flows. The negative repercussion is inevitable as it contributes to the global economic downturn and slow global economic growth. The global economic rebound is expected to have occurred, still, it faces a magnificent impediment to being realized. Many major economies - including the US, China, Japan, and EU- which glorify the importance of free trade to raise global prosperity are even leading in exerting protectionist policy in their trade relations and thus influencing the increasing global trend of its practices. This article thus orients to investigate the root causes behind the increasing practices of state protectionism, which have negative consequences and endure slow global economic growth, by raising the issue of “why does protectionism still exist despite being criticized as suboptimal compared to free trade?”. In investigating this issue, this article employs the theoretical approach of state protectionism and instigate three main proposition based on it. This article argues that the enduring state protectionism is mainly caused by WTO's diminishing credibility in the world trade governance, the global financial crisis (GFC) 2008 occurrence, and the US rising anti-trade rhetoric that induced the domino effect of economic populism and protectionism. This article will proceed as follows. It will detail the background of contemporary state protectionism and briefly review the state protectionism theoretical approach. Eventually, it will analyze the fundamental causes behind the enduring state protectionist approach in contemporary international trade relations.

Keywords: State Protectionism, Free Trade, International Trade, Economic Growth, Developed and Developing Countries

1. Introduction

Many international political economy scholars and practitioners recognize that free trade is the primary source of economic growth and development since it can expand the market size, increase competition and efficiency and

diminish monopoly, which reduces production costs and product prices. Consequently, these will increase the industrial productivities and consumer's purchasing power, thus increasing aggregate industrial output and domestic consumption, which are substantial for economic growth. Besides that, freer trade would encourage more inbound foreign direct investment (FDI), which can become substantial sources of capital and technological innovation for national growth and development. These benefits are evident in China's unprecedented economic growth, making it the 2nd world's largest economy after free trade and economic opening in the 1980s. Nevertheless, despite such free trade's significance, no countries have eliminated their trade barriers, and they still adopt suboptimal trade policies of protectionism. Currently, state protectionism has been increasing. The EU, for instance, still subsidizes its farmers and bans the imports of cheap foreign agricultural products. China still maintains its undervalued currency to make its exports cheaper in the international market, and Japan still imposes substantial tariffs on imported goods. At these junctures, the WTO's recent report has even exposed that only G20 countries implement 1583 trade-restrictive measures from 2009 to 2016. Based on the background, this article thus raises a question regarding "why does protectionism still exist despite being criticized as suboptimal compared to free trade?" (WTO, 2016; Ferrini, 2012). In this respect, this article argues that there are three reasons behind the existence of protectionism till today, encompassing the failure of WTO in governing world trade, the occurrence of the global financial crisis (GFC) in 2008, and the rise of US anti-trade rhetoric under Trump administration. Thereby, this article will be then segmented into two major sections. First, it will explain the methodology used and further elaborates scopes, costs and reasons for state protectionism. Second, it will expose how those three reasons have caused protectionism to be still widely adopted (Jones, 2010, 1-3; Nanto, 2009, 18-19; Irwin, 2017, 45-56).

2. Method & Methodology

In this article, the research method employed was an argumentative qualitative research method. It reviewed the theory of state protectionism and analyzed state protectionist policies aiming to narrate and elaborates the root causes of continuity of protectionist approach imposition as trade policy despite its suboptimality as a trade policy in the contemporary international trade relations. With this aim, this article explores the analysis through literature reviews for data collection related to the issue raised. The data collected was mainly secondary by conducting library research on books, journals, reports, news, and other references related to the issue of the article. Intensive and extensive internet research was also employed to enrich data collection over the official website of the WTO, UNTAD, G20, World Bank, and other international and national institutions exposed to international trade relations. In giving a clear picture of the theorization of state protectionism, this segment explores it as below.

2.1. Framing State's Protectionism: The Scopes, Costs and Reasons of State's Protectionism

Before addressing the question of "why does protectionism still exist?", it is crucial to comprehend the scopes, costs, and reasons for state protectionism. Initially, protectionism is a foreign trade policy that deliberately limits imports and concurrently promotes exports through trade barriers imposition (Economics Online, 2017). It can also be defined as policies providing unfair advantages to domestic industries to resist international competition (Tziamalis, 2017). Accordingly, those policies can include any measures, including not just tariffs but also non-tariff barriers (NTBs) such as government regulations, countervailing and anti-dumping policies, import bans, exchange rate policies, government subsidies, fiscal stimulus packages, buying national campaigns/provisions, and et cetera (ECB, 2009, 16; Nanto, 2009, 18-20). Given these scopes of protectionism, its application then comes with many costs. For instance, it will cause low competition and monopoly, leading to industrial inefficiency. It will then increase the price of capital and consumption goods, diminishing the industrial productivity and society's purchasing powers. These will reduce the total output of industrial production and consumption within the society, thus further undermining economic growth. Besides that, limiting imports might also lessen export demand, thus decreasing the domestic revenue of protectionist countries. Lastly, protectionism could also undermine the innovation and progression of the domestic industries (Ferrini, 2012).

Despite the costs mentioned earlier of protectionism, it is still widely adopted by many states. Essentially, there are two main reasons behind state protectionism: mercantilism/economic nationalism and liberal perspectives. From mercantilist perspectives, states adopt protectionist measures to advance their national economic interests.

They are not only to increase gains from international trade but also to secure other interests such as protecting infant, sunset, and strategic industries from foreign competition, augmenting domestic production, deterring unfair trade competition, and saving jobs and the environment. Besides that, states also account for national security and sovereignty considerations (Economics Online, 2017). They also implement protectionist policies to address concerns on unequal playing fields related to wages and labour standards. Meanwhile, from the liberal perspective, state protectionism is viewed as the consequence of the interplay of actors in domestic political processes. Accordingly, the politician's interests and the lobbies of multiple domestic trading groups contribute to distorting the state's trade policies to opt for protectionism. Those two perspectives are not in conflict, but they are mutually reinforcing in analyzing the opportunities and constraints of the state's tendencies towards protectionism (Ferrini 2012).

3. Results & Discussion

Given the frames mentioned above of protectionism, the main question to address is, "why does protectionism still exist despite being criticized as suboptimal compared to free trade?" as argued in the introduction that three principal reasons have endured protectionism. They are 1) the failure of WTO in governing world trade; 2) the occurrence of GFC 2008; 3) the emergence of US anti-trade rhetoric under the Trump administration. Accordingly, they have encouraged the state's sentiment to maintain and even instigate new protectionist measures in international trade. Therefore, the analysis of this article will be mainly based on those three reasons.

3.1. *The failure of WTO in governing world trade*

The first reason behind the enduring existence of protectionism is the failure of WTO in governing world trade. It was created to govern world trade and extend trade liberalization multilaterally. These are to benefit its members from international trade activities. However, it has failed to realize those objectives since it has been surrounded by institutional impediments rooted in its trade negotiation process and dispute settlement mechanism. These have then led to the immense trade uncertainties among its members and thus caused them to maintain protectionist policies (Pakpahan, 2012; Hoekman, 2012, 4-13).

Specifically, the WTO has failed to generate an agreement that can entertain its member's interests toward a freer and open trade. It was proven through the impasse of the Doha Rounds. WTO failed to achieve substantial deals after 14 years of negotiations caused by the vast conflicts of interest between developed and developing countries where they halted each other from reaching a consensus about the liberalization of sensitive sectors such as agriculture, trade in services, and behind-the-border issues (Pakpahan, 2012). These dynamics have been actually preceded by the disappointment of developing countries towards GATT's Uruguay Round outcomes (the WTO's predecessor), where they did not meet their expectation to get huge benefits from clothing and textile trade liberalization in exchange for developed country's commitment of intellectual property (IP) and behind-the-border issues protections. Thereby, developing countries recognized that the benefits of the deals made in the Uruguay Round were always in favour towards developed countries. In it, the developed countries had more negotiation powers, and thus their interests were always dominantly represented by the deals. Consequently, these circumstances have induced distrust and trade uncertainties among WTO members, thus trapping it into stagnation and subsequently encouraging its members to use the Preferential Tariff Agreement (PTA)'s provision under WTO rules to advance their trade negotiations (Jones, 2010, 1-3).

Given the swiftness of PTA in generating and governing free trade deals that entertain WTO member's trade interests, its members have then actively negotiated PTA, thus causing a rapid increase in its use, achieving at least 300 PTAs since WTO's establishment (Bilaterals, 2017). Nevertheless, this has become a dilemma since PTA not only helps liberalize trade but also advances new distortions through trade preferences. Furthermore, it is inherently exclusive, discriminatory, and intertwined with protectionism. In its application, states will eliminate trade barriers toward their PTA members and sustain them against their non-PTA members. Such practices have so far created a discriminatory trade environment and induced retaliation of protectionist measures from the non-PTA members (McMahon, 2016). Accordingly, these practices have become a bedrock of widespread protectionism today. They have been proven that PTAs have contributed to a 10-30% increase in anti-dumping

practices against non-member countries. These have been reaffirmed by WTO data collection on anti-dumping practices since 1980, showing that there were 5,006 anti-dumping measures applied, and from them, only 201 were imposed by the countries which did not participate in any PTAs. Meanwhile, from the remaining 4,805 anti-dumping measures, only 745 were used against PTA members, and 4,060 were used against non-PTA members. These clearly show how the WTO's failures in governing world trade, followed by using its PTA provision as its alternative, have just maintained and even increased protectionism (Prusa & The, 2010).

Besides the problems mentioned above, the WTO also has a complicated dispute settlement mechanism that makes protectionism still exist. Correspondingly, it is about the rules allowing retaliation in settling member's trade disputes and violations of WTO trade rules should it fail to drive the members' trade practices into compliance with them. In detail, when a trade dispute between WTO members cannot be resolved through remedies, the offending countries can appeal for the rights of retaliation against the offender countries through WTO Dispute Settlement Body (DSB). Then, if authorized by DSB, the offending country's retaliation could include the imposition of countervailing duties against unjust subsidized imports and the application of anti-dumping policies against imports with predatory pricing (Nanto, 2009, 18). Accordingly, the fact shows that since the WTO's establishment in 1994 until 2013, there have been 36 appeals for retaliation against 28 disputes. Indeed, such retaliations are equal to the protectionist measures since they aim to protect their exports or domestic industries against unfair foreign competition. Hence, the more WTO members are authorized by DSB to retaliate, and the more protectionist measures will be in place. In this sense, the WTO has again contributed to the prevalence of protectionism (Bonomo, 2014).

3.2. The occurrence of GFC 2008

The second reason behind the remaining existence of protectionism is the occurrence of the GFC in 2008. The initial crisis was rooted in the US mortgage crisis in late 2007, which had fast-spreading effects across the border, hit the fundamental global market, and induced a sharp contraction in global trade. Consequently, the GFC was in place, causing global macroeconomic downturns and volatilities that led to the demolishing implications in many countries. These were particularly evident in the EU countries, which experienced a protracted crisis in their real economy, which had simultaneously generated bankruptcy on many banks and companies, massive public debts and unemployment, and extensive declines in their GDP. Besides that, the other countries were also impacted by the crisis to various degrees. At these points, they have adopted various protectionist measures to support their businesses and industries to resist the crisis's negative repercussions and save their national economies. In this regard, the WTO Director-General Pascal Lamy recognized those trends by reaffirming that WTO members were displaying an alarming propensity toward increased trade protectionism, resulting from the intensification of the global economic crisis. Accordingly, the WTO report exposed that of G20 countries, 17 of them introduced 67 protectionist measures in 2008 (ECB, 2009, 16-17). Furthermore, it had also identified the imposition of 85 protectionist policies by 23 WTO member countries from September 2008 to March 2009, directed to discrimination against foreign trade parties (Nanto, 2009, 18). As reported by the WTO, the countries that adopted those protectionist policies were India, China, Argentina, Indonesia, Russia, and the EU. Furthermore, even the US, the foremost proponent of free and open trade initiatives, extended the "Buy American" provision in its stimulus packages to help its domestic industries during the crisis (Nanto, 2009, 18-19; Durusoy, 2015, 57).

The occurrence of the GFC in 2008 provoked huge rises in protectionism during the period of the crisis. Still, instead of stopping in that period, those trends of protectionism have continued to rise till today since the global economy is still volatile after the crisis, indicated by a sluggish global economic recovery and growth and increasing unemployment in many countries. These have encouraged them to maintain and even continuously introduce new protectionist policies. A recent WTO report has identified those trends, that 145 new protectionist measures were applied by G20 countries from October 2015 to May 2016, implying that around 21 new measures were applied per month. It has demonstrated a substantial increase in contrast to the previous report, which accounted for 17 new monthly measures. Furthermore, this has become the highest monthly average record of new protectionist measures and thus has accounted for a 10% increase from their overall implementation since the WTO monitoring started in 2009. The WTO report has recorded that G20 countries have introduced 1583 protectionist measures since 2008, and only 387 have been eliminated by May 2016, thus leaving 1196 of them

still being implemented (WTO, 2016). Such resurgence of protectionism has been very massive and endured. It will indeed become a daunting challenge for many countries since it could result in a vicious cycle of protectionist measure retaliations, disrupting global trade flows, and further undermining the growth of the global economy in the long run. Overall, the GFC 2008 has primarily contributed to perpetuating protectionism worldwide (ECB, 2009, 17).

3.3. The emergence of US anti-trade rhetoric under the Trump administration

The last reason that has perpetuated protectionism is the emergence of US anti-trade rhetoric under the Trump administration. Being inaugurated as the new US President in 2016, Trump had pledged to emphasize economic nationalism as the backbone of his administration's trade policy. In this regard, he asserted an aggressive "America First" rhetoric, extending that the US government must get 'a better deal' from international trade, create more new jobs for Americans, and resolve trade deficit problems. For these sakes, he promoted the rules of buying American and hiring American, promised to impose considerable unilateral tariffs against countries practicing unfair trade with the US, and intimidated to apply a substantial tax towards US companies moving their production offshores. Furthermore, he had also planned to shift the focus of US trade negotiations away from the WTO toward bilateral trade negotiations. As initial manoeuvres, President Trump had disengaged the US from the Trans-Pacific Partnership (TPP), exposed his promise to renegotiate the North American Free Trade Agreement (NAFTA), and vowed to put forward US laws rather than the trade rules of WTO in doing trade. Moreover, He planned to even withdraw the US from it if it no longer gave benefits to the US (Irwin, 2017, 45).

Indeed, such US moves towards more protectionist trade policies just perpetuate protectionism worldwide since they undermine the WTO as an institution it has patronized since World War II to constrain protectionist behaviours of 163 countries. Furthermore, by disregarding the WTO trade rules and abandoning its leadership, those countries have more liberty to extend trade discrimination against the US. In other words, such US protectionism provokes protectionism abroad and thus could induce a greater spiral of protectionism globally. It is probable given the rise of nationalist sentiment worldwide, displayed by the above facts about the increasing G20 country's protectionism after the GFC 2008, where the number of new protectionist measures imposition surpassed the old protectionist measures removal. This scenario, however, has past precedence when the US Congress authorized the Smoot-Hawley Tariff Act in 1930, imposing US tariff rise towards 20,000 imported goods, and other countries subsequently extended retaliatory tariffs against it, leading to the great depression in 1930. Therefore, if the US government continues to realize its protectionist trade policies, this will result in unwavering trade barriers accumulation in the US and other countries. These will then threaten many countries' political-economic interests, undermine free and open trade systems, and thus eventually impair not just the US but also the global economy (Irwin, 2017, 45-56; Patrick, 2017, 55-56).

4. Conclusion

In conclusion, in today's contemporary international trade relations, protectionism still exists and even gains momentum for years ahead. Three fundamental reasons have caused this: 1) the WTO has lost its credibility to govern world trade. It has shifted its member's trade negotiation focuses toward PTAs that are innately exclusive, discriminatory, and intertwined with protectionism. Moreover, its dispute settlement mechanism, which permits states to use protectionist retaliatory measures against other state's protectionism, has just promoted the spiral and steady accumulation of protectionist practices; 2) the incident of GFC in 2008 has caused global economic downturns and volatilities, thus inducing crisis and economic hardship in many countries. These have resulted in increasing protectionism worldwide during times of crisis. Nevertheless, it has been steadily continued, given the slow global economic recovery and growth; and 3) the rise of US anti-trade rhetoric has magnified protectionism worldwide since it undermines the open and free trade systems promoted by the WTO and further provokes the other countries to disregard the WTO trade rules concurrently. These will consequently lead to the increasing accumulation of protectionist practices worldwide. For all these reasons, the existence and resurrection of protectionism are apparent.

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