

Protectionism and the global trade stagnation

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Abstract

The protectionism of the last twelve years is forcing many countries to backtrack in the face of the devastating consequences of those policies on their economies and the world trade. The pandemic COVID-19 has highlighted even more how those policies may be destructive and produce impoverishment. The current global pandemic crisis is producing an abrupt and probably very long braking effect on international trade. However, it would be wrong to consider it as the exclusive or the most important cause of global trade stagnation. In fact, the ground had already been prepared by the economic-financial crisis of 2007–2008 and in particular by the choices of "economic nationalism" of neo-protectionist type, which made a precise political use of the modern linear border. Globalisation means mainly the overcoming of political barriers, borders, and the opening to the global free trade market. On the contrary, it is now still hindered by heavy political factors, among which protectionism has been the main one for many years. Those policies, implemented on the large areas by major world powers, have caused a long phase of "de-globalisation", characterised by the renewed use of the modern border to enclose economies, well before the pandemic crisis.

Keywords: protectionism, neo-protectionism, European Union, Eastern Europe, Global South, global trade, globalisation.

Protekcjonizm a stagnacja światowego handlu

Streszczenie

Protekcjonizm ostatnich dwunastu lat zmusza wiele krajów do wycofania się w obliczu niszczycielskich skutków tej polityki dla ich gospodarek i światowego handlu. Pandemia COVID-19 jeszcze bardziej uwydatniła, jak omawiana polityka może być destrukcyjna i prowadzić do zubożenia. Obecny globalny kryzys pandemiczny spowodował nagłe i prawdopodobnie długotrwałe hamowanie handlu międzynarodowego. Byłoby jednak błędem traktowanie go jako wyłącznej lub najważniejszej przyczyny stagnacji w światowym handlu. W rzeczywistości grunt został już przygotowany przez kryzys ekonomiczno-finansowy lat 2007–2008, a w szczególności przez wybory „nacionalizmu ekonomicznego” typu neo-protekcjonistycznego, który precyzyjnie wykorzystał politycznie nowoczesną granicę liniową. Globalizacja to przede wszystkim pokonywanie barier politycznych, granic i otwarcie na światowy rynek wolnego handlu. Jednak nadal utrudniają to czynniki polityczne, wśród

których protekcjonizm od wielu lat jest głównym. Polityka ta, realizowana na dużych obszarach przez główne mocarstwa światowe, spowodowała długą fazę „deglobalizacji”, charakteryzującą się ponownym wykorzystaniem nowoczesnej granicy do zamknięcia gospodarek na długo przed kryzysem pandemicznym.

Słowa kluczowe: protekcjonizm, neo-protekcjonizm, Unia Europejska, Europa Wschodnia, Globalne Południe, handel globalny, globalizacja.

In the contemporary world, there is an evident tendency – in many areas – of building new boundaries as fortified barriers. It represents a dramatic historical shift. The revival of borders and economic nationalism (Gilpin 1987; Newman 2003; Foucher 2016; Graziano 2017: p. 15) has led to increasing neo-protectionist restrictive policies (neo-mercantilist, or “neo-Colbertist”), adopted by large regions and major powers as “trade defense mechanisms” (Narlikar 2011: p. 724). After all, recessions lead to closures, a resurgence of bordering and always give rise to increased pressures for protection. This trend is leading the world toward a closed trading system, less multilateral and global than in the 1990s. The largest geographical areas and the major powers have used these tools, revitalising the border closures.

It is no coincidence that Brexit (and the reduction in the size of the internal market) has stimulated the adoption of measures capable of overcoming former protectionism. The UK–Japan *Comprehensive Economic Partnership Agreement* (CEPA), signed in Tokyo on October 23rd, 2020, is the first step in the opposite direction to the long protectionist wave of recent years. In January 2020 also China significantly reduced protectionism, tariff and non-tariff barriers.

In fact, small entities cannot introduce such measures, as the small internal market would exponentially increase the costs of autarchy, making them unsustainable.

The neo-protectionism of large areas has aimed at protecting “internal” economies from international competition, leading to “economic super-regions”, closed states and productive-commercial blocs and aiming to reconcile political and economic spaces, disconnected from the (very timid) globalisation phenomena of the 1990s, not even comparable to the historical globalisation in Europe. Also, supranational bodies are needed to regain political control over the economic sphere. These large areas, politically fenced in by increasingly rigid borders, have in fact only revitalised the old myth of the *geschlossene Handelsstaat* (*The closed trade state*), theorised by Johann G. Fichte (see more: Fichte 1800), based on the border used to enclose one’s own economy within economic and trade barriers and make the economic and political space coincide within a State or supranational macro-continental organisations. In fact, larger economies and markets, which are also within free trade areas, will lose much less from some protectionist practices against foreign imports than smaller economies and markets.

Over the last twelve years, protectionism has seen an exponential increase worldwide, but this is not new in history. Indeed, it has been dominant in the history of international trade, although the economic theory has almost unanimously defined this phenomenon as “anti-economic” in the long run. However, in the last decade the revival of “economic

nationalism" and trade barriers has been macroscopic. State blocs and major powers have imposed barriers to trade, causing serious consequences especially for developing areas and "emerging countries": neo-protectionism is, in fact, a cause of their political and economic stagnation. Protectionism is a brake on their exports; it paralyzes the movement of capital, labour, and know-how, stimulates emigration, brain drain and prevents billions of people from transborder cooperation (frontier, filtering and polarising effects) (Ratti 1991) and the access to the international division of labour (Bhagwati 2002, 2004). As it is well known from economic theory, protectionism is the (anti)economic side of the use of the modern border and causes stagnation and underdevelopment. What is worse, history demonstrates that the forms of protectionism tend to change during crises and that it tends to prevail well after national economies have recovered (Irwin 2011).

The characteristics of contemporary protectionism

Neo-protectionism is characterised, much more than in the past, by non-trade interventions (subsidies to the domestic economy, restriction of access to natural resources, health measures, restrictions on capital movements, etc.) (Enderwick, 2011: p. 328). From 2008 to 2018, the US introduced 1066 "classical" tariff measures that coexist with the conventional tariff escalation and quota restrictions on imports. By the end of 2008, 52 countries had already introduced 87 trade discrimination measures, compared to three in favor of trade. As a result of the intercontinental expansion of the economic-financial crisis – carried by the currency – the same has been done by India, Russia, Argentina, Brazil, the G7 countries (with the recent introduction, by the stronger economies, of 350 new duties), Australia, the BRICS countries, Germany and Great Britain (Evenett, Fritz 2015: p. 22–23; Evenett, Fritz 2016; Graziano 2017: p. 18). France has adopted protections for the car; Great Britain – crying out: "British Workers for British Jobs!" – protections for employment and against foreign labour; the USA, after the prospect of the country's exit from the WTO and NAFTA, has forced companies (with increased costs and induced inflation) to buy US iron and steel and only local products for infrastructure works (Torsoli 2009). In 2016 they imposed a 265% duty on Chinese steel. The EU has high customs duties on Russian and Chinese steel of up to 35% (Evenett, Fritz 2015, 2016). In 2018, heavy EU duties on imports of steel from Turkey were added. Since 2008, Italy has adopted 267 protectionist measures against 68 partial liberalisation measures. In December 2015, the European Union, having taken note of the failure of the Doha Round (negotiations initiated since 2001 by the WTO on the general reduction of duties), moved to bilateral agreements with 31 countries. Between January and August 2016, the G20 countries adopted 340 discriminatory measures: more than four times as many as in 2009, when, in the autumn, 17 G20 countries imposed various restrictive measures on imports (Graziano 2017: p. 17). Since that year, some 4000 barriers to international trade, both tariff and non-tariff, have been introduced (e.g. financial incentives, which distort foreign direct investment). In 2016, the Transatlantic Trade and Investment Partnership (TTIP), promoted by the United States, was declared "finished" by German and French government officials,

supported by the public (Graziano 2017: p. 17). The same happened at CETA (EU–Canada agreement). In April of the same year, Eurosceptic movements led to the failure of the EU–Ukraine Association Agreement. Both the agreements with Canada and Ukraine came to a standstill because of the resistance of farmers, who had been able to form a compact pressure group with access to national and supranational powers since the Cold War in Western Europe. In this macro-area, the agricultural protectionism of the EEC then turned into the EU's Common Agricultural Policy (CAP). The protectionist measures adopted by states and large economic and trade areas in the two-year period 2018–2019 alone had already doubled compared to 2014. Moreover, while some trade liberalisation laws introduced since 2009 have been temporary, the protectionist ones have become permanent and cumulative. Increasingly consistent and widespread trade barriers have produced autarchic policies, up to the paralysis of world trade, with the greatest damage concentrated in developing countries and the formation of areas closed by precise modern linear political boundaries.

History and economic theory have shown that only countries that are open to international trade and the international flow of goods and services can trigger more or less prolonged growth processes (Sumner 1888: chapter IV). These results are derived both from the reduction in prices due to higher productivity and from the trend towards lowering tariff barriers. In fact, in conditions of free trade, the countries have the advantage of specialising in productions in which they enjoy a comparative advantage (and greater productivity of the work, with lower costs) with respect to the other goods, imported, with savings that can be dedicated to other sectors. The result is an international division of labour from which everyone benefits. This also appears very clearly from Douglas Irwin's discoveries (Irwin 2002, 2011).

Protectionism hampers growth rates, reduces the flexibility of economies and the productivity of capital and labour, neutralizes the advantages of lowering transport costs (in time and space: a consequence of globalisation), but above all prevents developing countries and areas from exporting their products. Neo-protectionism and economic nationalism inherited from the long slowdown in globalisation over the last decade tend to form closed regional blocks. The trade blocks in large areas also have destructive effects on the world trade system. If they adopt free trade internally, they arrest it at the borders of their closed areas, defended by a bellicose language that stimulates a constant danger of retaliation. It is certainly no coincidence that the protectionist phase peaks of the last hundred years have coincided with the darkest periods in world history. The first consequences in the international arena are those on the development of Eastern Europe (Lepesant, 2005: p. 140; Vitale 2011, 2016) and the global South. That brake on trade causes in those countries and geographic areas the hindrance to the production of agricultural surplus, as well as to the formation and circulation of capital (paralyzing productivity), inducing a chronic shortage of consumer goods, particularly serious especially for the urban population and becoming a cause of underdevelopment. Countries expelled from international trade, which could become efficient producers in sectors with comparative advantage (for instance, Egyptian, Middle Eastern

or Ukrainian agriculture) are instead forced to import food, worsening their balance of payments. The reduction of international competition causes an inefficient allocation of resources (protectionism, in fact, alters the productive structure and reduces the internal productivity of both the countries that adopt it and those that suffer from it and that previously traded in it) since the virtues of competition (reducing prices, increasing production and producing the most requested goods) are de-potentiated. Unable to increase and export their production, those countries will thus end up in the poverty trap, which foreign aid is unable to buffer. Stopping exports means halting the development of economies, potential growth in employment and wages, and condemning people, families, and peoples to poverty. The neo-protectionist non-tariff barriers have led to a mixture of price controls, duties and cross-subsidies which have led to higher prices for EU-community consumers for agricultural products than they would have been under a free trade regime (i.e. they bear higher prices than they would pay without protection) and concentrated benefits in the hands of a few, with widespread expenditure and costs, shared between millions of consumers and taxpayers (Srinivasan 2003: p. 9-15). US and EU subsidies to cotton production mean billions of dollars in losses for developing countries and costs to West and Central Africa for more than 20 million people who depend on cotton production and are on the verge of malnutrition, forcing them to switch from traditional cotton to cereals production. The trade policies of "high income" countries subsidize their farmers annually with about 360 billion Euros. These subsidies are devastating for producers in "low-income" countries (Oxfam 1993; Greenlaw, Taylor 2016: p. 782). Their abolition would benefit African producers by up to 5.7% (Greenlaw, Taylor 2016: p. 328). Neo-protectionism is destructive because it imposes coercive constraints on trade, holding it back and preventing growth in developing countries, which need access to the markets of the developed world (Todaro, Smith 2012: p. 566; Potter et al. 2018: p. 395).

Some final remarks

It's painful to admit, but the damage caused by protectionism to the countries of Eastern Europe outside the EU and the Global South – especially those less developed, smaller, open or specialised in sectors that face high international competition – is devastating, due to the combination of agricultural subsidies granted by large areas and stronger countries, duties, non-tariff barriers, quotas and limits on the import of goods. In fact, protectionism lowers the price received by developed countries for their exports; it reduces the quantities exported and their foreign trade. Protectionism condemns them to poverty (but also, in some cases in the global South, to death by starvation) and instability typical of political and economic stagnation, because preventing them from selling what they could produce makes it impossible for them to produce it, with consequent underdevelopment, unemployment, and migration. It should be noted that, on the contrary, the few free trade treaties signed by some South American countries in the last ten years with the large areas of the planet, have increased foreign trade and

investment, agricultural productivity, technological progress, productive differentiation, reducing transaction costs and increasing trade in that continent.

The stagnation of international trade, which preceded the contemporary pandemic crisis, has at its roots the global ballast of neo-protectionism and economic nationalism. The benefits of international trade that have enabled developing countries to emerge partly from the spiral of underdevelopment, reducing extreme poverty, are in danger of being nullified.

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