TRADE LIBERALIZATION VS. PROTECTIONISM

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I. INTRODUCTION

Globalization has always instigated debate and disagreement. It’s blamed for the decay of state sovereignty, the rise of transnational organized crime and economic degradation. It’s constantly used as a scapegoat by politicians and world leaders who want to justify cases of economic and social race to the bottom phenomena in their respective nations, and it’s generally used as an easy excuse to defend failures and downsides. Regardless of these accusations, however, it’s important to note that the benefits of globalization and liberalization vastly overshadow their discontents, especially in the context of trade and economic growth.

On the other end of the economic policy spectrum lies trade protectionism; a controversial strategy that has been recently the focus of several economists and critics after the election of Donald J. Trump as President of the United States of America, leading many to question the economic literacy and capability of Mr. Trump in addressing trade issues on domestic and international levels. Akin to trade liberalization, protectionism has been both appraised and condemned by scholars, resulting in a colossal divide in ideas which is contributing to the disunity observed in the field of economic policy-making.

In this paper I attempt to define and analyse the contrasting economic policies of trade protectionism and liberalization in relation to the development of countries and the effectiveness of these policies in today’s business environment. Two U.S. administrations practicing polar trade policies will be compared to determine, with respect to other factors, their degree of efficiency. Additionally, the U.S.-China trade war will be examined to determine the impacts that it’s had and what policies could be adopted to avoid further conflict.

II. BRIEF HISTORY

James Madison, one of the Founding Fathers and the 11th President of the United States, predicted the divorce of nations through the division of interests. He explains in Federalist No. 10 (1787) “a landed interest, a manufacturing interest, a mercantile interest, a moneyed interest, with many lesser interests, grow up of necessity in civilized nations, and divide them into different classes, actuated by different sentiments and views”. This can be observed
today in all states; people involved in different sectors of the industry endorse different trade policies that they believe would directly increase their profit.

Typically, the debate revolves around the advocacy of trade protectionism versus trade liberalization. This segment addresses their definitions and provides a brief history on these concepts.

While there is no clear genesis for the term “trade liberalization”, the concept itself was practiced for a very long time, and scholars and historians have always had polar opinions regarding its inception. It refers to the integration of world economies. Some argue that it began with Christopher Columbus’ voyage to the Americas in 1492, some refute this claim and insist that its commencement was a product of the Honourable East India Company and its commercial competency and dominance in the South Asian region during the mid-1700s, and others assert that up until the early 19th century, the world was still un-globalized (Kevin O’Rourke and Jeffrey Williamson, 1999).

In Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy, Kevin O’Rourke and Jeffrey Williamson (1999) explain that with the newfound peace that followed the incessant wars between the French and the British (particularly the Anglo-French War and the French and Indian War), both North America and Europe were encouraged to participate in a more integrated global-market. This movement took place in the mid-1800s after the repeal of the mercantilist Corn Laws in 1847. Soon enough, the rest of the world followed suit.

On the other hand, trade isolationism had always been a prominent policy adopted by states; Paul Bairoch (1995) argued that, contrary to common belief, free trade had always been an exception, while protectionism was the rule. He described the early 1800s as “an ocean of protectionism surrounding a few liberal islands” and referred to the sixteenth and seventeenth centuries as the “golden age” of protectionism. Kings understood the correlation between wealth and power, and therefore sought to expand their wealth by means of mercantilism; a protectionist policy whereby a state’s imports were minimized while its exports were maximized. The result from this strategy was a “zero-sum war”; one nation’s gain was another’s losses. (William R. Nester, 2010).

The development of modern protectionist theory is usually ascribed to Alexander Hamilton, Founding Father and the first U.S. Secretary of the Treasury. Hamilton (1791) devised seven protectionist policies in Report on Manufactures and advocated for tariffs during the
The presidency of George Washington. He reasoned that successful and efficient industrialization was impossible without enforcing customs and tariffs. Coining the term “infant industries”, Alexander Hamilton attempted to strengthen the local U.S. economy from predatory competitors (Paul Bairoch, 1995).

Akin to Hamilton in the late 1700s, President Trump today is focused on the same goals; to utilize isolationist policies to strengthen and fix the economy of the United States from within before beginning to look outwards.

III. PROS OF THESE TRADE POLICIES IN ECONOMIC DEVELOPMENT

The economic development of a country is measured by both the Gross Domestic Product (GDP) and the jobs created in the state. Presidents usually look into the weaknesses of the economic system that they inherit from previous leaders to determine the necessary amendment of fiscal and trade policies. The Obama Administration’s liberal trade agenda focused on expanding the level playing field for U.S. producers, providing a negotiation platform for market-opening and free-trade strategies with other states, both regionally and internationally (USTR, 2011). On the other hand, the Trump Administration’s protectionist trade agenda focuses on protecting domestic sectors from aggressive and predatory offshore markets, safeguarding the profit and revenue of local producers (USTR, 2019).

Both of these economic policies prove useful under different circumstances, however each also has its own downsides in terms of the economic development of the state if utilized at unsuitable times.

i. Pros of Trade Liberalization

Due to globalization, Massimiliano Calì (2015) reports that the world’s poverty rate has decreased substantially in the past three decades. With almost all state economies (except for those of “fragile countries”) having benefited from the successful complex networks of trade liberalization, success can be ascribed to free-trade.

Generally, the prevalent economic policy of democratic U.S. Presidents is trade liberalization. A 2016 Princeton forensic and econometric investigation study found out that the U.S. economy performs better under Democratic Presidents (Alan S. Blinder and Mark W. Watson). The figure below demonstrates the extent of this difference by the average annual GDP growth of 16 post-war presidential terms (red represents Republican while blue represents Democrat).
A gap of 1.8% can be observed. The average growth rates were 4.33% under Democrats and 2.54% under Republicans. This is mainly due to the several advantages that free-trade offers, which are explored here.

1. **Improved innovation and efficiency**: Donald J. Boudreaux and Nita Ghei (2017) explain that with open-markets, technological innovation and resources flow freely due to the exchange of creative ideas, allowing development to take place more efficiently in all involved countries.

2. **Stronger bilateral and multilateral ties**: The elimination or reduction of tariffs cuts the cost of purchasing services and goods from abroad, globalizing the trade and boosting a state’s GDP (*Donald J. Boudreaux*, 2008).

3. **Increased growth**: Through deregulation and subsidies, the business-production costs are reduced, encouraging corporates to become more focused on gains through trade than losses through tariffs, subsequently contributing to the GDP.

4. **Promotion of fairness**: In globalized trade, only the best and most efficient industries will survive, since they’re all granted an equal start at businesses and an opportunity to participate on an international level as they follow the same rules-based system (*Boudreaux* and *Ghei*, 2017) thus encouraging the start-up of businesses and their contribution in trade as they have
what Adad Smith called a “comparable advantage” by being exposed to the global market (Regine Fouda, 2012).

5. **Creation of jobs domestically and overseas**: The broadening of the sectors of involved countries allows for the exchange of labourers, granting people the opportunity to work both abroad and locally as more jobs are created.

**ii. Pros of Trade Protectionism**

On the other hand, protectionism is valuable in many cases and has been predominantly and historically sought out. The autarky of a state prevents it from becoming dependent on other states or losing its sovereignty. The contrasting policy, which is usually lobbied for by “well-organized special-interest groups” who seek defence against foreign competition (Donald J. Boudreaux, 2008), has been used as the main drive and topic for Donald Trump’s campaign.

During his inaugural address, Trump stated “We’ve made other countries rich while the wealth, strength, and confidence of our country has disappeared over the horizon”, emphasizing the importance of bringing back and implementing protectionist policies, such as “buy American and hire American” (Donald J. Trump, 2017).

Yusuf Abdulkareem (2017) explains that U.S. isolationism, according to Denman and Grant, is based on two main beliefs; the conviction that the foreign policy of the United States should never be tied to another state by any “political commitment” and that maintaining peace and avoiding conflict and war is the epitome of U.S. foreign policy.

He also adds that the Trump Administration views trade as a zero-sum game in the following manner: if the U.S. runs a deficit in any sector, it loses the trade game. Therefore Trump’s policies, he predicted, focus on decreasing the deficit as much as possible through minimizing imports and raising tariffs against goods from rivals like China, Mexico, and the European Union.

This segment addresses some of the benefits of trade protectionism.

1. **Reduction of deficit**: A state with an isolationist stance on economy would enjoy a reduced deficit since the exports are maximized as much as possible while the imports are minimized.

2. **Protection of smaller businesses**: Small and Medium Enterprises (SMEs) or infant industries can thrive locally when endorsed and promoted without the threat of foreign large
corporates if the bigger, well-established foreign corporates are taxed highly (Regine Fouda, 2012).

3. **Economic growth**: If the state has a monopoly over a certain product that it produces domestically, other states would be forced to pay high tariffs to receive that product, contributing to the GDP growth of the state (given that this doesn’t initially discourage others from trading with it).

4. **Creation of jobs**: Trade protectionism brings back jobs into a state as it makes the process of establishing a company offshore more complex, thus discouraging setting up businesses overseas. This results in businesses being established locally and the recruitment of the state’s citizens, maintaining the wealth of the country.

**IV. TODAY’S GLOBAL BUSINESS ENVIRONMENT**

The current economic model is highly globalized and full of free-trade agreements that promote economic integration and Foreign Direct Investments (FDIs) such as the TPP (*Trans-Pacific Partnership*), NAFTA (*North American Free Trade Agreement*), KORUS (*U.S. - Korea Free Trade Agreement*), COMESA (*Common Market for Eastern and Southern Africa*), and most recently USMCA (*United States–Mexico–Canada Agreement*) and TPP11 (*Comprehensive and Progressive Agreement for Trans-Pacific Partnership*).

Due to similar national and economic interests, member states of these treaties share a higher sense of responsibility and obligation towards one another. Peace, in other words, is indirectly maintained through these agreements.

Polachek and Seiglie (2006) believe that economy and politics directly correlate to one another and define conflict as “trade gone awry”. Massimiliano Cali (2015) states that a 10% increase in the value of exports increases the threat of a conflict by 2.2% - 2.5% due to heightened competition. Cali used the example of the reduction of both the duration and the intensity of conflict in African regions when free-trade agreements took place between the states, as the incentives for violence went down when trade created more opportunities for people. The opportunity-cost of employability in this case is reduced crime and violence, which is a win-win situation for African citizens.
The aforementioned conflict phenomenon of is known as a “Thucydides Trap” (Graham T. Allison, 2017); a strategic dilemma in which a rising power threatens to displace a prominent, well-established power, resulting in the eruption of conflict or war due to the existence of competition and the fear of being overthrown or replaced. 12 out of the 16 Thucydides Trap instances that occurred ended in war, only 4 having the conflict averted. Allison quotes Thucydides in The History of the Peloponnesian War: “It was the rise of Athens and the fear that this instilled in Sparta that made war inevitable”. The trade that took place in the African regions mentioned above averted this game-theory conflict model.

Former Secretary of State Henry Kissinger (2017) addressed the economic Thucydides Trap, dubbing it “a cardinal challenge to world order”. Order and peace in this case would be the result of avoiding an economic Thucydides Trap between the United States, an established economic power, and China, an emerging one.

A century ago, the rise of Germany against the well-established and dominant power of Britain, along with the assassination of Austro-Hungarian Archduke Franz Ferdinand serving as a trigger, prompted the first World War. Today, the United States of America, which is very accustomed to being the ruling power, feels threatened by the rapid rising power of China. Allison (2017) explains that the current U.S. President feels threatened by China, he reasons that President Trump’s campaign slogan “Make America Great Again” is an allegation that America was once great, but no longer is, and infers the role that China plays in this implication because of the trade liberalization that has taken place. In this narrative, the inevitable rapid rise of China’s economic power brings about the possibility of war.

China’s President Xi Jinping stated that he doesn’t believe in the existence of a Thucydides Trap, but rather that it’s the mistake of recurring strategic miscalculation of nation-states. Allison (2017) states that by adopting the strategy that was adopted by 20th century America when they were a rising power threatening the United Kingdom; finding common grounds through mutual national interests, could avert war and conflict.

However, this doesn’t seem very likely due to President’s Trump incessant brinkmanship and harassment. The U.S.- China trade war has been escalating due to U.S. protectionist policies that don’t necessarily suit this timeline. In a globalized world, Trump cannot expect to economically isolate the United States and attack China with tariffs without receiving retaliation from the rest of the global community which accepts the rise of China’s economic influence that they achieved through trade globalization.
To secure its power in the integrated world economy, the United States should adopt liberal trade policies and practice appeasement towards other states, maintaining a pacifist stance on trade. It should be noted that appeasement should not out of fear. To quote Churchill on avoiding the Thucydides Trap; “Appeasement in itself may be good or bad according to the circumstances. Appeasement from weakness and fear is alike futile and fatal. Appeasement from strength is magnanimous and noble and might be the surest and perhaps the only path to world peace”.

V. SYNTHESIS

Trump’s dislike for free-trade agreements like NAFTA and the TPP isn’t unreasonable. The slogan “America First” is sensible and sound as every country seeks its own national interests and security above all other. According to the 2019 Trade Policy Agenda and 2018 Annual Report, USTR reports that NAFTA reduced work opportunities for Americans and decreased their wages. It cites a 2016 U.S. International Trade Commission report which states that blue-collar workers experienced a 16-percentage point drop in wage growth as a result of NAFTA tariff reductions whereas the wages of low-skilled workers without high-school degrees plummeted by 8%.

President Trump also doesn’t appreciate the lack of regulations regarding labour, currency, and intellectual property rights in TPP, which led to his eventual withdrawal from the partnership following his election in 2017.

However, it’s unreasonable to prevent the American public from participating in the world-trade in order to try to save a few sectors that are already being impacted by the Industrial Revolution and the rise and advancement of technology, such as the farming sector or factory fields. It would be wise to invest in the retraining of these individuals so that they can become incorporated in the globalized world instead of being disadvantaged and left out.

Free-trade agreements can always be revised to fit the economic standards of the 21st century with regards to Intellectual Property Rights (IPR), environmental degradation, forced and child labour, and minimum wage. TPP can be amended like NAFTA and re-joined, the outcome would be better-strengthened ties with other countries which would avert conflict and wars, something which isn’t unlikely due to the aforementioned brinkmanship foreign policy that Trump exhibits.
VII. CONCLUSION

As established, the most effective policy in today’s world is **Trade Liberalization**. While protectionism might be necessary at times, it’s probably most beneficial for developing countries with infant industries that would want to be protected from foreign monopoly until they’re more capable and established to participate in on a global level.

Otherwise, the orthodox protectionist ways of the past must be set aside to truly experience the perks and benefits of trade globalization, since it prevents game theory conflict-models like the Thucydides Trap and averts trade wars. Economic development is significantly amplified and refined with free-trade, and the only people disadvantaged and hurt by globalization are those who remain outside of it.


