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## **THE EFFECTS OF PROTECTIONIST POLICIES ON INTERNATIONAL TRADE**

**Merve Ahsen Demir**

Blacksea Technical University, Trabzon, Turkey  
[ahsendemir61@gmail.com](mailto:ahsendemir61@gmail.com)

**Ayçe Sepli**

Blacksea Technical University, Trabzon, Turkey  
[aycesepli@hotmail.com](mailto:aycesepli@hotmail.com)

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### **Abstract**

*Globalisation, which is the most important feature of the new economic world order, reflects the elimination of all barriers to trade of goods and services among countries. Liberalisation of the international trade is the sine qua non condition of the new economic order. As the sources are limited and needs are limitless, no country can meet their needs with their own sources. Therefore, international economic relations are emerged as the most significant element of global foreign trade. Liberalisation movement has especially accelerated after the Second World War. Governments cannot implement any protectionist policy in terms of their interests as the practices that started with the General Agreement on Tariffs and Trade (GATT) and then continued with the World Trade Organisation (WTO) have restricted protectionist measures. Although free trade is robust in theory as a requirement of globalisation, in practice it is hard to see international trade of goods and services without any restriction. Thanks to international treaties, tariffs were reduced, however, invisible barriers to trade have emerged. Governments have usually applied protectionist policies, particularly following the global financial crises, though they engaged with the principles of globalisation. As long as protectionist policies have been implemented, neoliberal paradigm*

*has temporarily shifted. Moreover, developing countries have difficulties as protectionist measures bring several standards in practice. It is therefore argued in this study that protectionist measures create a paradox in terms of free trade.*

### **Keywords**

International Trade, Free Trade, Liberalisation, Protectionism

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## **1. Introduction**

Globalisation is a popular phrase that symbolises contemporary trends that emerged in political and economic relations. The world that we live in causes to intertwine our lives in unprecedented pace and intensity by exceeding national boundaries in terms of economy, technology, social structures, culture and governance. It is therefore evident that globalisation has reconstructed political communities in the context of overlapping fate of humanity as a multi-dimensional set of activities that have economic, political, social and cultural dimensions (Archibugi, 2008; Held, 1999). In that respect, liberalised economic relations have become to be the essential indigent of the globalised world economy.

Liberalisation movement have indeed gathered speed following the Second World War and embodied with the foundation of the General Agreement on Tariffs and Trade (GATT). The preliminary purpose of the GATT is to organise international trade relations and reduce tariffs and non-tariff barriers that obstruct the smooth process of international trading. The WTO, established in 1995, is the successor of the GATT and establishes the international trade regime. It can be contended that both the GATT and the WTO strive to encourage and strengthen liberal trade. Nevertheless, despite globalization and the efforts of both the GATT and the WTO, countries tend to restrict the world trade by taking some protectionist measures. With the relative decline in customs tariffs thanks to the international arrangements, invisible barriers to trade have augmented over time. Particularly, following the financial crisis, countries, even who dedicate themselves as liberalists, employ protectionist policies. Hence, it can be said that the international trade order that formed in the post-War period is indeed unsuccessful as liberalisation and protectionism have augmented simultaneously.

The primary aim of this study is the assessment of the effects of protectionist measures on the international trade. The first section of this study examines liberal trade and its development. Moreover, liberal trade is assessed and then and then protectionism in liberal trade is investigated in the first section. In the second section, protectionist measures in international trade are examined in detail. Then, reasons for protectionist policies in foreign trade are strived to investigate. The effects of protectionist policies are also scrutinised in

terms of the customs tariffs and non-tariff measures. Third section of this study is endeavoured to evaluate the effects of protectionist measures in terms of two aspects, which are world trade and the WTO. The following conclusion can be drawn from this study is that despite devoting themselves as liberalist even developed countries have implied protectionist policies for several reasons. As the WTO cannot manage to prohibit invisible barriers to trade, liberal trade is jeopardised in many ways. In that regard, this study contends that the world trade encounters with a serious paradox due to the protectionist policies.

## **2. Liberal Trade and Protectionism**

### **2.1. Liberal Trade**

No country can meet its needs with its own resources according to the theory that resources on the earth are scarce but needs are unlimited. Hence, the most important share in international economic relations belongs to the foreign trade. Foreign trade represents the total amount of exports and imports of a country and constitutes the most important component of the balance of payments.

Manufacturing power and capital accumulation that occurred with the Industrial Revolution have led to the sudden increase in international trade. The main purpose is to find markets for products that manufactured following the Industrial Revolution. However, it should be mentioned here that this would only be possible in an economy where there are no protectionist measures implemented. Nevertheless, the unrivalled economic power of the UK has induced the implementation of some constraints to international trade, particularly in Germany and the USA, to protect their infant industries (Alagöz & Yapar, 2007:3). Indeed, following to the 1929 Crash, international economic integrations almost come to the end and countries become to implement protectionist policies. Nevertheless, due to those policies, the number of stock has increased in those countries and liberal trade accelerated again in the 1940s. Indeed, with the globalisation, countries have gradually integrated into the foreign trade.

The most striking feature of the globalised world economy is the elimination of all barriers to free flow of goods and services among countries (Ertuna, n.d.:10). Liberalisation in foreign trade is the essential condition of new economic order. Liberalisation is indeed significant as it leads national economy to be opened to the foreign competition and to the divergence from traditional industrial strategy (Yenipazarlı & Erdal, 2010:17).

The factors that facilitated the liberalisation in trade are the elimination of barriers to trade and investment, the rapid growth of the developing countries' economies and its effects

on the production capacities of those countries and the improvements in technology following the Second World War (Baytar, 2011:270). The efforts to establish an international trade regime and liberalise trade arrangements following to the Second World War reflects the hegemonic leadership of the US. The US as a hegemon have play a significant role in the formation of liberal capitalist politic economy of the world based on the principle of multilateralism and cultural norms that indeed serves its own politic and economic interests (Keohane, 2005: 136-137).

The GATT, which is the fundamental institutions that regulates international trade following the Second World War, aimed to decrease tariffs that prohibit reaching markets in its very first 5 conferences. During the 6<sup>th</sup> and 7<sup>th</sup> ministerial conferences, non-tariff barriers and countries' national economy policies were the focal points. In that regard, it can be said that the GATT have practiced several multilateral negotiations and have considerably facilitate the decrease in tariffs in the post-war era (Çiftçi, 2001:16). It must be noted here that the endeavours to liberalise the international trade have indeed evolved in two directions. The first one is the reduction of customs tariffs via multilateral trade negotiations under the umbrella of the GATT, which comprehended as universal approach. The second one is the efforts to liberalise international trade through the integrations of a group of countries, which called as a regional approach (Çiftçi, 2011:18).

When we talk about the globalisation and the embracement of neoliberal trade policies, it is also required to mention the Washington Consensus (Ambrosio, 2012; Ferchen, 2013; Kennedy, 2010; Ortmann, 2012), which have coined by Williamson in 1989 and proposed ten traditional development prescriptions for developing countries, especially for Latin American counties. It is evident that the Washington Consensus proves the superiority of neoliberal economic policies that supported by the US. The original ten principles of the Washington Consensus include: the provision of fiscal discipline; the transfer of public expenditures to education, healthcare and infrastructure; tax reform; financial liberalisation; competitive exchange rate; decreasing the barriers to trade; free movement of foreign investment; privatisation; support to competition and the protection of the property rights (Williamson, 2004: 196). Another significant discourse that accompanied the Washington Consensus of Williamson is the 'the End of the History' thesis of Francis Fukuyama. According to Fukuyama (1989), the end of the Second World War does not only reflect the collapse of the Soviet Union but also mean the end of the ideological evolution of humankind. For 'the End of the History' thesis, liberal values of the west have universally acknowledged.

It is evident that the steps that have taken in the post-war era to liberalise global trade have underpinned by the Washington Consensus and ‘the End of the History’ thesis. Today, the attempts to enhance and augment the world trade have progressed in unprecedented pace. The establishment of the World Trade Organisation (WTO), which has an institutional structure, as the successor of the GATT in 1995 is the most important development in that regard. With the creation of international trade regime, the gradual decrease in tariffs to liberalise international trade and the realisation of protection by only customs duties have accepted as main principles. Nevertheless, decreased tariffs have led to the augmentation of invisible barriers to trade.

## **2.2. Protectionism in Liberal Trade**

Protectionism is a practice that allows countries to restrict imports to their own markets. Protectionism can be implied through tariffs and non-tariff barriers such as quotas and exchange controls. According to the supporters of protectionism, free trade has harmful effects for their domestic industries and effects the balance of payment negatively (Çiftçi, 2001:13). Meeting the domestic demands with imports leads to the decrease in production and increase in unemployment. However, it should be noted here that protectionism as an opposite metaphor to liberal trade can be both the destroyer and protector of liberal trade (Kalaycı, 2011:80). Reasons behind the protectionism, implementation process and the range of it determine whether is it destroyer or protector of international trade.

Free trade policies that proposed for developing countries are the liberalisation of imports, the elimination of restrictive measures to imports, the provision of smooth functioning, the deterioration of exchange rates by devolution and the privatisation of state-owned enterprises (Kocaman, 2007:107). However, claiming that these countries would be in an advanced position compared to before when the restrictions imposed on customs removed do not be a healthy approach (Kocaman, 2007:108).

The roots of protectionism are based on mercantilist policies. There are many trends that support protectionism until now. Following the 1929 Crash, many countries increased tariffs and enrolled into competitive devaluation period (Çiftçi, 2001:15). This situation demonstrates that mercantilist policies turned back. The US, for example, after its survival from the 1929 Crisis, empowered its government to decrease tariffs through bilateral trade law. Even England, which has been known as the traditional advocator of liberal trade, increased its tariffs in 1932 by embracing preferential tariff system. However, following the second half of the 1930s, protectionism becomes to lose ground (Çiftçi, 2001:15).

Although import substituted industrialisation was embraced by developing countries in the 1960s and 1970s, financial crisis that occurred in the first half of the 1970s demonstrated that import substituted industrialisation model deadlocked and led to the severe losses in resources and wealth (Baytar, 2011:272). Hence, the sensitivity to the proposals related to the open economy policies has augmented (Kocaman, 2007:104). As tariffs have been under the control to liberalise international trade since the late 1930s, the stagflation that emerged subsequent to 1973 world energy crisis have led to the rise in new type of protectionist policies. The newly emerged protectionist policies that become to dominate since 1973 have named as 'new protectionism'. One of the most relevant troubles with the new protectionism is that it is not clear and comprehensible, and mostly arbitrary (Baytar, 2011:272). New protectionism includes voluntary export quotas and other invisible trade barriers rather than customs tariffs. The primary aim of those new policies is to protect infant industries against foreign competition. Other objectives of new protectionism include the protection of consumers, the provision of public health and environmental sustainability.

With the formation of the WTO, tariff reduction has been actualised in agricultural sectors as well. Nevertheless, as it mentioned in the previous paragraph, developed countries have become to imply new protectionist measures to compensate tariff reductions in agriculture and sectors that based on agriculture (Alagöz & Yapar, 2007:2). These new measures have generally accepted as "invisible barriers". The implementation of invisible barriers is indeed very diverse. Arrangements regarding packaging and labelling, quality standards and regulations regarding healthcare can be given as examples in that context. The main difference between traditionally implemented tariffs and invisible barriers to trade is indeed related to their implementation methods (Alagöz & Yapar, 2007:6). The new thing is therefore the changed shape of the implementation tools of protectionist measures.

Recently, especially following the 2008 Financial Crisis, the concerns regarding the social justice, equity, fairness, the equal distribution of jobs and income have exacerbated, and thereby, supports to free trade have considerably diminished (WTO, 2013: 9). Subsequent to 2008 Crisis, many governments have encountered with recovery packages for the sake of public interests (Naughton, 2010: 443). Moreover, critics against the neoliberal development model that the West supported have augmented. Neoliberal development model has criticised as it leads to financial crisis, increases the gap between rich and poor and enhances the external forces impacts in foreign policy making (Chang and Grabel, 2004: 277).

Countries, which ignore that protectionism and the increase in customs tariffs extend the duration of the 1929 Crash, have strived to eliminate the adverse effects of global crisis by

implementing protectionist measures (Öz, 2009:5). Nevertheless, it is decided in international platforms in the light of the lessons from history that following the 2008 Global Financial Crisis, protectionist policies should not be implemented (Buluş & Kabaklarlı, 2010:21). In that regard, protectionism is indeed the result of economic crisis rather than being the reason (Baytar, 2011:282). However, many countries have employed several measures that prohibit foreign trade at the expense of other countries (Öz, 2009:5). In that context, as global financial crises have demonstrated, liberal trade order that formed following the Second World War cannot be successful to enhance consistent political system in the long term. Hence, since the Second World War protectionism and liberalisation movement have increased simultaneously (Baytar, 2011:270). The implementation of liberal policies has particularly accelerated when the world economic order functioned properly while protectionist policies have generally been applied during crises (Öz, 2009:17).

The re-emergence of protectionism can be attributed to the decline in international efforts to expand free trade practices, the deterioration of income distribution in the US and many other countries because of the effects of globalisation and the enduring and deepening global financial crisis (Öz, 2009:34-35). Moreover, countries may tend to apply protectionist policies due to the odds of the loss of labour force in the domestic markets. Nevertheless, they cannot overlook that if other countries retaliate, they will lose much more of their workforce (Alagöz & Ceylan, 2015:83).

It is clear that although countries have embraced the principles of globalisation, following the financial crises they can decide to implement protectionist policies. Emerged global crises have engendered the rise in the consumption of domestic products and stimulated the level of export due to the exercise of protectionism. As global crises deactivate foreign capital for a while and empower governments to plan their employment policies and determine their development goals by national resources, they trigger protectionism (Ateş, 2010:927). It is evident that the increase in foreign trade can effectively stimulate global economy compared to protectionist practices, but during the crises neoliberal paradigm has temporarily shifted. As economic recession engenders the increase in protectionist policies, the WTO is insufficient to preclude clashes that emerged from macroeconomic problems. In that respect, the paradox has emerged for liberal trade.

### **3. Protectionist Measures in International Trade**

The contributions that international trade have made to development, growth and the decrease in poverty cannot be denied. The augmentation of international trade agreements and

the increase in investment and growth simultaneously have remove millions of people out of poverty and had a positive effect on rising standards of living. Moreover, thanks to intensified trade ties, international relations have become stronger and world peace has move forwarded. Nevertheless, the story has not ended here (WTO, 2013). Though free trade is one of the requirements of globalisation, in practice there is a little amount of international goods and services that move without any limitations. In industrialised countries, there is a great sensitivity regarding the harmful effects of imports on national economies. Hence, public opinion makes pressure on governments. In that regard, governments have been obliged to employ protectionist measures due to the pressures of domestic manufacturers, who cannot compete with imported goods (Çiçek, 2009:1). Moreover, underdeveloped countries implement some measures to foreign trade to increase the speed of industrialisation. However, countries should take the adverse effects of protectionist measures into account before they decided to implement those measures (Selen & Gümüş, 2011:218). According to advocates of liberal trade, protectionism undermines competition, inhibits innovations and leads to stagnation and recession.

### **3.1. Reasons of Protectionism in International Trade**

There are several rationales why protectionist measures implemented in foreign trade. National defence, improvements in terms of trade, economic developments, the enhancement of external bargaining power, protection of specific professional groups or sectors, increase in employment, prevention of dumping are some of these reasons (Seyidoğlu, 1996:112-118). According to the national security and defence thesis, it is required to have defence industry and protect it to enable a country to preserve its economic and political sovereignty during possible crises and wars (Kalaycı, 2011:81). Hence, protectionist policies are indispensable to establish and develop domestic defence industries (Çiçek, 2009:3).

For the supporters of protectionism, liberal trade disrupts developing countries' terms of trade. As demands for exported agricultural goods are lower than industrial goods, the terms of trade show negative trends over time. If the quantity of imports exceeds the quantity of exports, foreign trade deficit will emerge. The balance of trade is a part of the current transaction balance, which is the part of the balance of payments. The deficits in the balance of payments lead to the dissolution in foreign exchange reserves of the Central Banks, and thereby, increase the external borrowing. In that regard, it is needed to restrict imports and limit capital outflows towards foreign countries (Çiçek, 2009:6). Thus, industrialisation through protectionism should be opted to prevent this kind of negative developments (Çiftçi, 2001:16).



According to the infant industry thesis, newly established industries, which have the potential to have comparative advantage in the future, should be protected until they reach an optimum scale (Kalaycı, 2011:81). Foreign companies that sell processed products to any country do not prefer that country to produce those products in terms of their interests (Çiçek, 2009:3). Regarding the infant industry thesis, the duration of protectionism is vital. In that respect, protectionist measures should be applied until the industry overcomes the infancy. In this kind of protectionism, customs tariffs may be decreased as there is a possibility that protected industry would be reluctant to apply distinct measures to improve productivity.

The most significant object in trade is doing it fairly rather than freely. Due to natural, societal and political factors, the production and expenditure conditions of internal and external industries are not equal. Internal industries whose conditions are worse than external industries should be cushioned by several tools and some privileges should be given to those industries (Kalaycı, 2011:81). The circumstances for production and expenditure should be balanced by tariffs, quotas, subventions and other protectionist measures, and thereby, competition area should be regulated (Çiçek, 2009:6).

An industrialised country can have a comparative advantage in pivotal sectors such as information and communication sectors by employing protective policies. In that regard, this country may temporarily adopt subventions and taxes (Kalaycı, 2011:81). As crucial sectors in the economy are encouraged, future growth possibilities for that country are increased (Çiçek, 2009:5).

For protectionists, the preservation of domestic industries against foreign competition also contributes to the prevention of unemployment. The restriction of imports revives demands for domestic products that substitute foreign ones. The resurgence in demands increases orders, and thereby, augments domestic production. As it is required to employ more labour to boost production, unemployment can be reduced thanks to protectionist measures (Çiçek, 2009:5).

Protectionists also contend that national economy should also be protected from dumping. Dumping means the sales under the cost price. Some companies sell their products under their value to reach markets and drive their competitors to the wall (Çiçek, 2009:6). As this situation leads to the unfair competition in terms of producers, it is needed to exercise anti-dumping tax between fair price and applied price.

Moreover, developing countries engender environmental pollution when they produce by using underdeveloped technologies (Çiçek, 2009:7). Hence, it is better not to trade freely with countries that employ underdeveloped production technologies so as to encourage them

to use clean technology. Furthermore, supporters of protectionism claim that according to some macro-economic rationales, it is needed to guard domestic industries against imported inflation, poverty and overvaluation in foreign currency (Kalaycı, 2011:81). Taken together, it can be argued that protectionism can be comprehended as a key in order to avoid a new and deeper financial crisis (Kalaycı, 2011:81).

### **3.2. Effects of Protectionist Measures**

Most of the policies of foreign trade can be used for protectionist purposes. Those policies can be examined in two parts; tariffs and non-tariff measures. Tariffs are the taxes that collected when commodities cross the country's border. Non-tariff barriers mean "all barriers to trade that are not tariffs" (OECD, 2014). Some of the examples of non-tariff barriers cover foreign currency controls, anti-dumping tax, import bans, export subsidies and voluntary export restrictions. Thanks to the negotiations under the GATT, tariffs gradually reduced but non-tariff measures have progressively disseminated. This situation engenders the disruption in transparency. Although non-tariff measures have augmented with the new protectionism wave since 1973, in the Uruguay Round in 1994 it is decided to reduce non-tariff measures.

#### **3.2.1. Customs Tariffs**

Customs tariffs, which imposed on imports, increase the national price of imported goods. Increase in their prices leads to the growth in the production of national producers and the decline in imports. When a country liberalises its economy and embraces the principles of free trade, its production and consumption actualise according to the world market price. The decline in the world market prices due to the free trade leads to national producers to produce less while national consumers consume more due to the imports. In that respect, when a government decides to impose tariffs on imports in order to decrease imports, protect domestic producers and reduce the foreign trade deficit domestic prices would boost. Increased domestic prices of imported goods therefore augment domestic production and diminish domestic demands. In that context, implementation of tariffs leads to the decline in consumers' wealth while advancing the income of producers. However, the total damage that occurred due to the implementation of tariffs cannot be compensated by that income. Overall, there would be a social loss.

According to general equilibrium analysis, the tariffs that imposed on imports decrease both imports and exports. Due to the implementation of tariffs, domestic price of imported commodities augments, and thereby, domestic products become to be more attractive. Hence,

as domestic producers start to produce imported goods instead of exported goods, export levels of the country will possibly deteriorate.

### **3.2.2. Non-Tariff Measures to Trade**

#### **3.2.2.1. Import Quotas**

Import quotas reflect the limitation of the amount of goods that can be imported to a country. The very first impacts of import quotas are to rise in the prices of imported goods by tightening their domestic supply. Increase in prices has analogous results with customs tariffs. In that respect, there is a definite customs tariffs rate equal to each import quotas, and thereby, quotas can be examined as the equivalent of tariff rates (Çiçek, 2009:13). However, it should be mentioned here that the GATT's preference is the usage of customs tariffs rather than import quotas. Under the umbrella of the GATT, the use of quotas is indeed allowed for underdeveloped countries so as to prevent massive capital outflow.

#### **3.2.2.2. Import Bans**

Import bans are the last option to restrict imports by quotas. By this measure, goods entrance to the country is completely forbidden. If an inaccurate industry is protected by import bans, there will be weighty resource waste as the government cannot get customs revenue.

#### **3.2.2.3. Foreign Currency Controls**

The practice of foreign currency controls is accompanied by import quotas. Import quotas restrict the flow of goods while foreign currency controls limit foreign exchange transactions (Çiçek, 2009:16).

#### **3.2.2.4. Multiple Currency System**

In some occasions, if the country has the monopoly on the exportation of particular goods or its comparative advantage for those goods is bigger than other countries, that country can put those goods into the low exchange rate list and increase those goods' prices in foreign currency. In that context, the main aim of this country is to take the advantage of the growing terms of trade.

Nevertheless, multiple currency system is not adopted by the IMF as it leads to the discrimination among goods in foreign trade and disrupts the competition power of goods. The only exception that the usage of the multiple currency system is allowed to obstruct the export of capital (Çiçek, 2009:17). In that context, multiple currency system is applied with other protectionist measures such as exchange control, quotas and import bans.

### **3.2.2.5. Variable Import Levy**

Governments determine high domestic prices for producers that produced in particular sectors, which governments want to protect. Determined price is the minimum import price and variable levies are implemented to validate those high prices in domestic market (Çiçek, 2009:18).

Variable import levies have similar outcomes with import quotas. Those levies are mostly used for agricultural products. Variable levies are collected according to the differences between the domestic support price and lower import prices. When exporting country diminishes the prices, imports are prohibited through variable import levies by importing country. Hence, it is evident that variable import levies lead to the decrease in imports.

### **3.2.2.6. Dumping**

In dumping practices, exporting industries determine much lower prices for foreign markets compared to the domestic price of exporting industries. Hence, governments can enforce higher level anti-dumping taxes or variable import levies against dumping practices. Anti-dumping taxes are included the GATT's practices in 1964.

### **3.2.2.7. Cartels**

The efficiency of a centralised cartel is based on its production and power to restrain imports. Each member of the cartel has the tendency of making sales below the price of the cartel (Çiçek, 2009:20). To establish a cartel, the manufacture of the basic goods must be small and the amount of substitute goods must be limited. If the supply of substitute goods is excessive, buyers will incline to those goods.

### **3.2.2.8. Subsidies for Domestic Market Industries**

The goods that protected through subsidies are sold at home with the world market price of them. If governments grant a certain number of subsidies to boost domestic production, it will increase. However, the amount that consumers paid for their consumption will remain the same.

Subsidies engender beneficial outcomes regarding economic development provided that they conduct investments towards sectors and regions that have priority in development, increase productivity by creating external economies and advance the operation of market mechanism by disabling monopolies (Çiçek, 2009:21). Subsidies can be granted to all domestic producers without looking where they are producing or they can only be given for exported goods.

### **3.2.2.9. Export Subsidies**

With the implementation of export subsidies, exporters get much more money in its national currency in exchange for exported goods or the production cost per unit decreases. In that regard, the profitability of exports will augment (Çiçek, 2009:22). Hence, the application of export subsidies engenders the increased production of exported goods.

Though export subsidies utilise exporters, they have adverse effects on domestic consumers. Domestic consumers usually pay higher amounts for substituted goods compared to foreign consumers. Moreover, the costs of these subsidies are compensated from domestic consumers by increasing the tax rates. Indeed, export subsidies have a dumping effect on importing countries.

The implementation of export subsidies is prohibited by the GATT. Importing countries are so sensitive regarding export subsidies that applied by their trade partners. In that regard, based on national and international bans, importing countries collect taxes when they import these goods to protect their market from the detrimental effects of foreign subsidies. Those taxes are called as variable import levies and it is aimed to regulate the price of subsidised imported goods to the pre-subsidisation level (Çiçek, 2009:23).

### **3.2.2.10. Export Taxes**

Export taxes are the practice of taxation on exported goods to limit export. The preliminary aims of collecting taxes from exports are to provide income to government treasury, encourage the processing of raw materials at the country, protect the supply of natural raw materials and influence the terms of trade in favour of the country. (Çiçek, 2009:22). Nevertheless, the collected export taxes engender scarcity in the world markets, and thereby, increase the world market prices. It is therefore required to be careful that the elasticity of substitution for agricultural products is fairly high.

Another practice that causes the limitation of export is the export embargo. Embargo reflects the foreign trade bans against a particular country. In that way, it is intended to make a political pressure on the disputed country.

### **3.2.2.11. Voluntary Export Restrictions (Export Quotas)**

Due to the implemented export quotas, commodities are sold for higher prices that reflect importer/developed countries' production costs. In that context, consumers in importing countries pay higher prices for those goods or there is a proper income transfer from consumers to producers (Çiçek, 2009:24).

Export quotas have adverse effects on the world trade as they disturb the transparency in the world trade, and thereby, increase uncertainties. Moreover, they disrupt the competition

equality among countries as they are not implemented in each country in the same way. Hence, exporting countries prefer goods that are not subjected to any restrictions, establish production facilities in countries where there no constraints, buy quotas that other countries do not use and promote the quality of goods to enter the target markets.

#### **3.2.2.12. Domestic Contribution Obligation**

Domestic contribution obligation is indeed contrary to international work-sharing. Each piece of a distinctive good is provided from a country in which the cheapest and the most qualified pieces of goods are produced. By combining those pieces, the production cost is decreased. The obstruction of this opportunity contradicts the aim of increasing the world resource efficiency (Çiçek, 2009:25).

#### **3.2.2.13. Public Institutions' Purchasing Policy**

Almost in every country there are several rules and arrangements that order or suggest providing goods and services from domestic resources. However, the GATT embraced a purchase code in 1979 that aims to prevent governments to show discrimination in favour of domestic resources in the purchasing process. Following the negotiations of the Uruguay Round, the treaty, which has the advanced provisions, is signed and the principle of ensuring cross-border competition in public procurement is approved (Çiçek, 2009:26). Hence, all corporations in member countries have the right to participate to public procurements in any country under equal conditions.

#### **3.2.2.14. Standards of Health, Security and Environment**

There are several regulations and instructions of governments related to the production and distribution of distinctive goods that intend to protect human health and security and the environment. These regulations and instructions are indeed comprehended as invisible trade barriers to international trade. Thus, domestic producers are protected against foreign competition.

Although there has been respectable decline in customs tariffs and import quotas following the Second World War, the number and extent of invisible barriers have greatly augmented. Indeed, today the primary obstacle to the world trade is invisible barriers rather than tariffs.

#### **3.2.2.15. Protection of Industrial, Commercial and Intellectual Property Rights**

Innovations, inventions or other productions of artists, writers or creative people are commonly accepted as the subject of intellectual property. The owners of those innovations, inventions or other products are granted with patterns and copy rights by trade laws.

Thus, if it is preferred to compete in the international markets production and marketing of imitation goods must be avoided, novel and original ways of production and marketing must be sought and found and industrial rights must be obtained for both nationally and internationally (Çiçek, 2009:28).

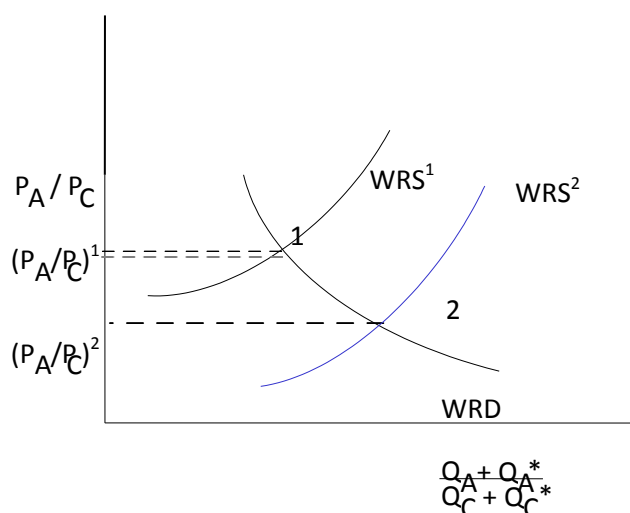
#### **4. An Analysis of the Effects of Protectionism**

The effects of protectionism on countries differ regarding their size and development levels. Increase in protectionist measures in one country may lead other countries to embrace protectionism. Therefore, economic situation in those countries may get worse due to the decreasing global wealth (Baytar, 2011:276). If a country is developed and its trade is restricted, this situation will influence the world's supply-demand balance. When a developed country applies import restrictive protectionist measures, demand in the world market will decrease and the prices of commodities will reduce as well. Reduced prices will return the producers of those commodities as damage. In that regard, countries whose contribution to the world supply is great should implement protectionist policies cautiously compared to other trading countries. Developed countries, different from developing countries, have indeed applied protectionist policies in the form of business protection, investment and financial aid (Baytar, 2011:282).

On the other hand, in a situation that a country reduces its imports do not genuinely influence the world supply when that country, which implements protectionist measures, is underdeveloped. Indeed, in that context, decreasing import levels will encourage domestic producers to produce more. Moreover, as developing countries have a considerable effect on the world market, their decisions to implement policies to backing their exports or substitute imports will have an impact on all over the world. In that context, in that section of this article the effects of protectionism are analysed in two sub-sections that are the effects of protectionism on the world trade and the WTO.

##### **4.1. Effects of Protectionism on the World Trade**

It is preferable to assess the effects of protectionism on the world trade through examples. In that respect, we can examine China's automobile industry. If China increases subsidies to enhance domestic markets, production will augment. This will lead the shift in the world supply curve towards right side in parallel. Nevertheless, the increase only in production does not engender any changes in demand, and thereby, the world's market price for automobile will undoubtedly decrease.



**Figure 1:** *The Effects of China's Protectionist Measures on the World Trade*

As it can be seen, China leads to boost in domestic production by giving subsidies. In that respect, the world supply shifted from  $WRS^1$  to  $WRS^2$ . Moreover, unchanging demand decreases the world's automobile prices from the level 1 to level 2.

The subsidies that China gives to domestic automobile producers probably lead to change in relative prices in China. Increase in one commodity's production causes to the decrease in another good's production. The decreased production in other sector reduces the world's supply and shifts the world's supply curve towards left side. This circumstance that China led in production, namely rise in one sector's supply and fall in other sector's supply, cause to the diminution in foreign trade. As the manufacture of automotives raised in China, the quantity of imported automotives diminished. Moreover, as the production in other sectors diminished, the quantity of export also decreased. Therefore, a general decline in international trade occurs.

It is evident in the example that protectionist policies that implemented in domestic economies to reduce imports have an impact on both country's own export and foreign countries terms of trade. It should also be mentioned here that it is required to pay attention to the alterations in the relative prices in goods that are effective in foreign trade.

Due to the protectionist policies that China implements, China's automobile production increases, and thereby, the world supply augments too. However, as there is no change in demand, the price of automobiles decreases. With the decrease in China's import in automotive sector and the reduction in exports in other sectors, the situation of the trading partners of China have worsened. As China implements protectionist measures, automobile prices fall while the prices in other sectors continue to rise. This situation creates serious



impediment for countries that export automobile and import other goods. Furthermore, for other countries there would possibly be welfare losses.

On the other hand, the decreasing demand during the crisis seriously affects China that builds its economic development upon production and export (Çakıcı, n.d.:26). Despite the sharp fall in China's export, as the prices of global energy and commodities decline, China's domestic demands also narrowed. Hence, the level of imports degrades much faster compared to its exports, and thereby, foreign trade surplus increases (Çakıcı, n.d.:27). To increase its exports China's government aimed to change the foreign trade balance in favour of itself by a new exchange rate policy when the foreign demands decrease and trade barriers increase (Çakıcı, n.d.:29).

Each country's economy policies against the crises differ. For instance, East Asia countries imply policies to encourage exports by several measures while Latin American countries strive to restrict imports (Çakıcı, n.d.:71). However, Latin America countries relinquish protectionist policies as they do not reach the best economic performance, and then, liberalise their economies. Thus, they improved their economic development (Çakıcı, n.d.:73). In that respect, it is evident that export-oriented, extrovert, economy policies are much better than economy policies that opt to limit imports (Çakıcı, n.d.:73).

Thanks to liberal economy, each country's economy is connected to each other. Any country's effort to regulate its national economy has an influence on other countries welfare and prosperity. Indeed, in practice free trade is not a smooth process as almost every country has its own protectionist policies. However, those policies are restricted by international institutions such as the GATT and then the WTO and the IMF. Protectionist measures can only be applied in specific circumstances. In that respect, protectionist policies are the inseparable part of the liberal trade that managed in accordance with the globalisation's requirements.

#### **4.2. Effects of Protectionism on the WTO**

When we investigate globalisation in terms of economy, it is clear that globalisation augments international trade and investment. Indeed, with the economic globalisation, international trade, production and financial activities have concentrated, developed and reached unbelievable levels today. Improvements in transportation technologies have facilitated the trade of goods and services and reduced the transportation fees. The GATT is based on the idea that there is sufficient supply of goods but there is a need for the new markets to create the adequate demand. In that respect, it is clear that the GATT indicates the deficiency of aggregate demand (Deardoff, 2008:23). Such an environment, the number of

countries that involved in global trade negotiations has gradually risen and it is expected to increase further (Held, 1999: 20). In that context, the WTO, which is the most significant and efficient actor in conducting and manipulating the international trade, have reached 162-member states with the inclusion of Kazakhstan on 30<sup>th</sup> November 2015 (WTO, 2016). As David Held claims, the developments in international trade cover not only ‘intra-country’ trade but also ‘inter-country’ trade (Held, 1997: 252-253).

Member countries of the WTO can use trade policy defence tools that ensure two types of protections for domestic industries to eliminate market failures. The first one is the protectionist measures that located in the GATT Treaty of 1994. These measures endeavour to increase domestic industries’ competitiveness against imports and restructure to domestic industries (Selen & Gümüş, 2011:217). The second type of protectionism includes is the measures that developed against the practices that engender unfair competition (Selen & Gümüş, 2011:217).

The fundamental aim of the WTO is to form a more predictable and compatible trade trend to utilise all of its members (Schwab, 2011). In that respect, the first multilateral trade round that occurred under the umbrella of WTO, namely the Doha Development Agenda (DDA) or Doha Development Round, held in 2001 in Doha, Qatar. The planned end date for the DDA is 2005 (Narlikar & Priyadarshi, 2014: 1052). The DDA embraces ‘development’ as the substance of multilateral trade negotiations. Moreover, the DDA strives to reform current trade regime by eliminating barriers to liberal trade (WTO, 2015a). The primary objectives of the DDA are the formation of well-functioning trade order, the reduction of export subsidies and domestic support for agricultural products, and the enhancement market access for agricultural and non-agricultural products such as industrial products and services (Gomes Pereira, Teixeira & Raszap-Skorbiansky, 2010: 256). As agriculture is the most protected sector in the worldwide (Economic and Political Weekly, 2003: 3528), it has been the most significant matter on the negotiation agenda that shapes the future of the DDA (Hay, 2007: 28).

During the Doha Negotiations, developed countries, particularly the EU and the US, have showed a protectionist stance regarding agriculture. Moreover, they have not supported liberalisation enough in their domestic markets as they support their domestic agricultural sector (Young, 2010: 131). Nonetheless, developing countries have defended the elimination of barriers especially in agriculture sector as they have enormous resources in agriculture. They would possibly be in an advantaged position in the long term if agricultural sector liberalised (Gomes Pereira, Teixeira & Raszap-Skorbiansky, 2010: 257). In that respect,

developing countries voice their dissatisfaction with existing trading system. Indeed, they have strived to construct and balance current trade order in terms of their interests (Cling, 2014: 113-123). As a result, the DDA has been in stalemate more than ten years. As the DDA is ineffective to produce an internationally inclusive agreement, its reliability and legitimacy have damaged. In that respect, the crisis of the global trade governance has been revealed. Furthermore, as the impasse of multilateral trade talks has led to the increase in protectionism, it also has threatened the liberal trade (Narlikar, 2010: 721).

However, it should be noted here at the end of the Bali Ministerial of the DDA, which is the Ninth Ministerial Conference of the WTO conducted in Bali, Indonesia (WTO, 2015b), the ‘small package of measures’ that contains trade facilitation, agriculture and Special and Differential Treatment (SDT) for the Least-developed countries (LDC) has been agreed upon on 7 December 2013 (Wilkinson, 2014: 42). Though the Bali Ministerial witnessed an impassioned negotiation process, the deal on ‘Bali Package’ has a crucial importance since it would benefit all participants in the DDA. Furthermore, it is evident that agreeing on the ‘Bali Package’ is a milestone for the completion of the DDA as it could give a fresh impetus to the negotiation process, which was initiated in 2001 and got stuck in a stalemate since then (WTO, 2015c). Narlikar and Shishir Priyadarshi (2014: 1054) indicate that reaching a breakthrough after recurrent deadlocks for more than a decade, brings ‘a new life’ and energy to the DDA and the multilateral trade regime.

## **5. Conclusion**

Global crises and wars that occurred in particular periods of history have led to protectionist policies to be applied even by liberal countries. During crises import reducing and export promoting measures have usually implemented. In that regard, the most stunning example is the 2008 Global Financial Crisis as the support for liberal trade have gradually diminished following this crisis and many countries embraced protectionist measures. It is evident that due to globalisation, the practice of protectionist measures engenders deeper crisis.

The discourse of globalisation covers not only economic issues (Nye, 2001). It is evident that the world we live in has witnessed the increased interconnections among people, nation-states, institutions and non-state actors in an unprecedented pace regarding national, regional, international and even global levels. In a globalised economy, countries cannot apply protectionist policies in terms of their interests as the exercises that started with the GATT and continued throughout the WTO prohibit protectionist practices of countries. However, though customs tariffs are reduced by multilateral trade agreements, the WTO

cannot be effective regarding invisible barriers that increased over time. Countries clarify that they employed protectionist measures to enhance some of their national sector, their national defence and economic development. Agricultural sector, in particular, is the most protected sector worldwide. Hence, it can be argued that the WTO is in crises as it cannot be managed to prevent countries to apply protectionist measures in terms of their national interests. Indeed, the credibility and legitimacy of the WTO has damaged when it fails to produce an internationally comprehensive agreement to liberalise trade.

It should be mentioned here that protectionist policies to international trade have impacts on both an implementing country and other trading countries in a globalised economy. Indeed, the country that implements protectionist policies can influence the world trade according to its size. If that country is a small scale one, the implemented tariffs increase domestic prices while not affecting the world's supply-demand balance. On the other hand, large scale economies have a huge impact on the world economy, and thereby, influence other countries adversely and lead to welfare loss when they employ protectionist policies. Thus, it can be said that the international trade order that established in the post-War era encounters with a serious paradox as it cannot prohibit the augmentation of invisible barriers to international trade. Indeed, as even liberal countries embrace the principles of protectionism particularly during the crises, the neoliberal model has changed direction in terms of the world trade. However, although all actors, participated in a negotiation process of DDA, seek their 'self-interests', and thereby, lead to the impasse of the negotiation process, eventual efforts to secure an agreement at the Bali Ministerial have further illustrated that the WTO has a crucial importance to stimulate convergence among actors regarding the enhancement of the smooth process of the world trade.

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