

## PROTECTIONISM VS LIBERALISATION OF INTERNATIONAL TRADE: BALANCE UNDER THE ECONOMIC TURBULENCE

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In circumstances where the current level of globalization brought the issues of economic activity liberalization to the front, the author wonders whether the consequences of this process are so ambiguous in terms of both national economies and the world at large. The purpose of this article is to assess the possibility of optimum utilization of balance between protectionist measures and liberalization of international trade in the context of economic turbulence.

It is proved that the growth of protectionism worldwide is a steady and stable trend that will dominate, at least in the medium term. Assuming the strategic course of the countries in the WTO remains a gradual deepening and expansion of international trade liberalization, which is also a tool for the development of the national economy and is theoretically designed to improve its effectiveness.

It is concluded that in circumstances where national interests may suffer, the choice between protectionism and liberalization of international trade passes from the economic field into the social and political one, and is associated with the formation of new instruments of state support and promote the competitiveness of the national economy.

**Key words:** economic turbulence, international trade liberalization, promotion of the national economy competitiveness, protectionism.

### ПРОТЕКЦИОНИЗМ VS ЛИБЕРАЛИЗАЦИЯ МЕЖДУНАРОДНОЙ ТОРГОВЛИ: БАЛАНС В УСЛОВИЯХ ЭКОНОМИЧЕСКОЙ ТУРБУЛЕНТНОСТИ

В условиях, когда современный уровень глобализации вывел вопросы либерализации экономической деятельности на первый план, автор задается вопросом, так ли однозначны последствия этого процесса с точки зрения, как национальных экономик, так и всего мира в целом? Целью статьи является оценка возможности оптимального использования баланса протекционистских мер и либерализации международной торговли в условиях экономической турбулентности.

Обосновано, что рост протекционизма во всем мире – это сложившийся и устойчивый тренд, который будет доминировать, по крайней мере, в среднесрочной перспективе. При том, что стратегическим курсом стран, входящих в ВТО, остается поэтапное углубление и расширение либерализации международной торговли, которая также является инструментом развития национальной экономики и теоретически призвана повышать её эффективность.

Сделан вывод о том, в условиях, когда национальные интересы страны могут пострадать, выбор между протекционизмом и либерализацией международной торговли переходит из экономической плоскости в социально–политическую и связан с формированием новых инструментов государственной поддержки и стимулирования конкурентоспособности национальной экономики.

**Ключевые слова:** либерализация международной торговли, протекционизм, экономическая турбулентность, стимулирование конкурентоспособности национальной экономики.

### ПРОТЕКЦІОНИЗМ VS ЛІБЕРАЛІЗАЦІЯ МІЖНАРОДНОЇ ТОРГІВЛІ: БАЛАНС В УМОВАХ ЕКОНОМІЧНОЇ ТУРБУЛЕНТНОСТІ

В умовах, коли сучасний рівень глобалізації вивів питання лібералізації економічної діяльності на перший план, автор задається питанням, чи так однозначні наслідки цього процесу з точки зору як національних економік, так і всього світу в цілому? Метою статті є оцінка можливості оптимального використання балансу протекціоністських заходів та лібералізації міжнародної торгівлі в умовах економічної турбулентності.

Обґрунтовано, що зростання протекціонізму в усьому світі – це сформований і стійкий тренд, який буде домінувати, принаймні, у середньостроковій перспективі. При тому, що стратегічним курсом країн, що входять до СОТ, залишається поетапне поглиблення й розширення лібералізації міжнародної торгівлі, яка також є інструментом розвитку національної економіки та теоретично покликана підвищувати її ефективність.

Зроблено висновок про те, що в умовах, коли національні інтереси країни можуть постраждати, вибір між протекціонізмом і лібералізацією міжнародної торгівлі переходить з економічної площини в соціально–політичну й пов'язаний із формуванням нових інструментів державної підтримки та стимулювання конкурентоспроможності національної економіки.

**Ключові слова:** лібералізація міжнародної торгівлі, протекціонізм, економічна турбулентність, стимулювання конкурентоспроможності національної економіки.

**Introduction.** The joining of Ukraine to the World Trade Organization (WTO) once again brings us back to the issue of free trade, integration into the international economic processes and liberalization of foreign economic relations, the impact of these processes on the

national economy and the potential of using them for stimulating the development of the national economy. Economic studies mainly consider the consequences of the international trade liberalization as a purely positive impact on the economy of the country. Liberalization of

markets under which the reduction of various barriers in the area of trade in goods and services is primarily meant, is designed to stimulate the economic growth and development, increase the people's welfare, etc.

The current level of globalization brought the issues of economic activity liberalization to the front, however, are the consequences of this process so ambiguous in terms of both national economies and the world at large? How to use optimally the balance of protectionist measures and international trade liberalization in the conditions of today's economic turbulence, based primarily on the principle of «do no harm»?

The attempt to answer these questions based on the results of analysis of the impact of the processes of large-scale international trade liberalization on the national economy is **the purpose of this article**.

For a start, we need to give a general theoretical assessment of the global processes and their impact on the liberalization of international trade. So far many studies on global economy modelling under the conditions of full or partial liberalization of international trade, have been conducted. The most frequently, as one of the reference points (baseline scenario) the implementation of the basic ideas of the Doha Round of the WTO negotiations, applying for a relatively high level of economic openness but still not implemented is selected [1].

In the context of using different scenarios, different mathematical models with different input data (many of which are not based on statistical materials, but on expert judgement), the main goal of such works is consistent – to reveal the scale of influence of further liberalization of international trade on the countries and some regions separately, as well as on the general welfare of the world in general. The trend of decrease in expectations of growth due to the policy of liberalization is clearly traced. Once again noting the differences of the used models, we distinguish that the overall downward trend of assessment of possible consequences for the world economy as a whole is stable and shows the gradual cooling of the scientific community towards liberalization as the most attractive and certainly necessary option for further development [2].

We can outline a number of objective reasons influencing such expectations increase in the number of bilateral and multilateral agreements between countries, the establishment of special trade regimes that enhances integration and reduces the effect of joint actions in the WTO. In addition, a significant role is played by the constant improvement of the quality and availability of statistical information, which with a certain time lag indicates the already deep economic integration of national economies today. Of course, modelling features, differences in economic components of the models, used coefficients and other research facilities are still important.

Despite this all research results remain in the positive zone, indicating a possible positive effect of the international trade liberalization on the growth of the

global economy. According to some estimates, the total liberalization of international trade, eliminating tariffs, domestic subsidies and grants will lead to increase in world output by \$100 billion, or 0.33 %. At the same time, 73.8 % of the revenues will come from developed countries, 2.2 % from developing countries and 24.1 % from the group of the least developed countries [2]. According to the director of the WTO P. Lamy, the total positive effect can reach \$130 billion [3].

There is also a number of studies, making even more optimistic forecasts with the other proportions of the global product division between countries (a higher proportion of the developing and the least developed countries). They all agree on the fact that the overall effect for the whole world will be very positive, but there are always certain assumptions and conditions.

Some authors defend the point of view that the liberalization of international trade cannot create identical benefits for absolutely all members of the world community. Some countries, industries can significantly lose in the process of redistribution of production functions and investment flows, to which the policy of economic openness will lead: «While the nations as a whole will benefit from trade (in terms of liberalization), nevertheless, it is very likely that international trade may cause damage to certain groups within the nation ...»[4].

It is proved in a number of studies, for example, that even in the widely used basic models of international trade, by an example of which the necessity of free trade is often proved (Ricardo model or the Heckscher-Ohlin), there are significant contradictions [5].

Objectively, the issues of distribution of the potential effects depend on the specialization of the country and its competitive advantages, and the distribution of profits within the nation depends primarily on the distribution of ownership on the factors of production and, more often, someone's gain can be achieved only by the loss of others. The possibilities of partial loss compensation for losers by winners that are theoretically necessary to maintain Pareto optimum, in real life are hardly realizable. Accordingly, the actual growth of global welfare cannot be called as entirely positive if the individual countries at the same time may be infringed, which in turn will lead to a further increase in social tension, separation and instability in the world, that, however, is often overlooked in studies of the consequences of free trade [6].

In other studies, where the features of economic growth of the countries with low and high trade barriers are considered, the impact of international trade liberalization on the growth of the national economy as a whole, and through it, on poverty reduction in the country, is generally placed in doubt [1]. This is, for example, the lack of influence of gradual international trade liberalization on the welfare of the country, when developing companies do not become familiar with new technologies and do not receive other benefits from export trade as such, but rather the already successful

companies are now turning to export. Adhering to international trade liberalization as a promising direction of the world economy development, the authors indicate the presence of a variety of conditions in national economies, which can make some protectionist measures effective.

Thus, the conclusion about the ambiguousness of the assessments of the impact of international trade liberalization on the national economy and the need for a balanced approach to the issue of the degree of its openness, is at the same time thinking about compensation measures of potential losses and risks. The proof of this is the active usage of various measures to protect the domestic market and to support domestic producers by all countries of the world in practice.

Ukraine's participation in the WTO is certainly a serious step towards liberalization of foreign economic activity of the country. But it would be wrong to say that the national economies within the WTO act under the conditions of free from protectionism international trade. Today all countries belonging to the WTO use a wide range of both tariff and non-tariff barriers to support national economies. Moreover, if we look at the current economic situation in general and world trade undermined by recent global economic crisis, we can see even the growth of protective measures, including widespread public support for national producers. Thus, just for the period from October 2009 to October 2010 the governments of the WTO members used 200 new ways to restrict import, mainly special methods to protect the market which covered 1.2 % of its total amount [7]. And it means that further liberalization of international trade is postponed so far, despite all today's calls to abandon protectionism.

As an example of protectionist measures taken in response to the crisis, is the so-called «American Recovery and Reinvestment Act» adopted in early 2009 in the USA. According to it, the funds budgeted for the economic recovery programme, are prohibited to be used in the construction and renovation projects, metallurgy and other fields, if the resources involved in the project are not American-made. Laconic phrase «buy American» accurately reflects the main message of the document [6].

Protectionism is kept up-to-date also in a number of small economies of developing countries. The particular difficulties are experienced by the states with a strong adherence to the U.S. dollar and international markets. Ecuador can be taken as an example that received in July 2009 the WTO official permission to introduce a system of quotas and tariffs on import. In 2009 Ecuador announced a number of new import restrictions on 630 commodity items that affected about 8 % of the customs tariff environment in the country and 23 % of its import. The tariffs on more than 350 goods were increased and quota restrictions on 270 other products were imposed for one year [8].

Right in the midst of the crisis, a new round of tension between the two leading players in the international trade, the USA and China, appeared. Under the

pressure from the U.S. Steel Union, in America an anti-dumping investigation concerning import of Chinese steel pipes began. From 2006 to 2010 the amount of their shipments quadrupled and reached \$2.6 billion. Under the influence of the steel lobby, the USA imposed anti-dumping duties on Chinese products, that brought new supplies to a standstill, whereon immediately responded by saying about the «abuse of protectionism». This is just a continuation of a series of mutual accusations, which began in September 2009 after the US introduction of a 35 % tax on automobile tires from China. The problems in bilateral relations are particularly strong in steel, paper, automotive, chemical and food industries and still continue to persist [9].

The sum-total of these steps, putting the barriers on the way to international cooperation, led to an increase in the amount of anti-dumping procedures (after several years of their gradual reductions) – by 16 % in 2010, according to the WTO statistics [10]. According to the International Food Policy Research Institute (IFPRI) estimates, the increase in tariffs on agricultural products only for the period from 2009 to 2012 led to a reduction in the volume of international trade by 7 % [11].

**Summary.** Thus, it should be noted that the growth of protectionism worldwide is a steady and stable trend that will dominate, at least in the medium term. Based on the understanding that international trade is a classic example of game theory, the introduction of protectionist measures in the short term will be beneficial to individual countries and could trigger the transition to similar policies in other countries. All this will have a negative impact on international trade and throw the process of international trade liberalization back.

Taking into account the above given arguments that liberalization as such is not an absolute and unquestionable weal recommendations to the government on the continuation of support of the used protective measures look reasonable.

In this case, however, raises the question of finding the optimal balance between protectionism and liberalization of international trade which is also a tool for the development of the national economy and is theoretically designed to improve its effectiveness. In circumstances where national interests may suffer, the choice between protectionism and liberalization of international trade moves from the economic field into the social and political one. This is confirmed by the actions of many states today that in terms of economic turbulence seek options to protect domestic producers and increase the extent of protectionism. This leads to the appearance of new instruments and methods of domestic support, the creation of new institutional operating procedures of national economic systems.

Thus, the strategic course of gradual deepening and expansion of international trade liberalization should be combined with adaptation of the internal market support measures and formation of new instruments of state support and promotion of the competitiveness of the national economy.

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