INTRODUCTION

Throughout history it has been observed that protectionism usually rears its head during wars or economic recessions. Governments implement protectionist policies through the use of tariffs, subsidies, quotas on imports and other methods with the aim of protecting domestic industries and products. They believe that by taking trade-restrictive measures they are going to develop new local industries, protect and create domestic jobs and raise the national revenue.

However, as seen in the past, such plans and measures backfire and the consequences are severe. Protectionist policies push up the cost for local firms and their products, increase monopolies and reduce wellbeing by limiting the variety of products in the domestic market and strengthening the firms’ market power at the expense of consumers. In general, protectionist policies generate market distortions and imply long-term costs in countries that
have implemented protectionism. Protectionism “discourages” investments in the creation of products and services required to meet today’s needs.

Taking into account the disadvantages of protectionism, the World Trade Organization (WTO) and the United Nations try to oversee and monitor trade around the world to ensure that trade flows as smoothly, predictably, and freely as possible. They observe the current trade trends and most importantly the trade-restrictive measures implemented by countries.

**DEFINITION OF KEY TERMS**

**Protectionism**

Protectionism refers to actions and policies adopted by governments that restrict or restrain international trade by the use of tariffs, quotas and subsidies. The main goal of protectionism is to protect local businesses/industries and jobs from foreign competition and to make them more competitive by increasing prices or restricting the quantity of imports.¹

**Quota**

A quota is a government-imposed trade restriction that limits the number, or monetary value, of goods that can be imported or exported during a particular time period. Quotas are used in international trade to help regulate the volume of trade between countries. They are sometimes imposed on specific goods to reduce imports, thereby increasing domestic production.²

**Subsidy**

A subsidy is a benefit given by the government to groups or individuals, usually in the form of a cash payment or a tax reduction. The subsidy is typically given to remove some type of burden, and it is often considered to be in the overall interests of the public.³

**Tariff**

A tariff is a tax imposed on imported goods and services that restricts trade by increasing the price of the imported goods and services in order to make them more expensive.

---


for the customers and to provide additional revenue to the government and to domestic producers.\(^4\)

**Free Trade**

Free trade is the economic policy of not discriminating against imports from and exports to foreign jurisdictions. Buyers and sellers from separate economies may voluntarily trade without the domestic government applying tariffs, quotas, subsidies or prohibitions on their goods and services. Free trade is the opposite of trade protectionism or economic isolationism.\(^5\)

**The Great Depression**

The Great Depression began after the stock market crash of Wall Street in October 1929, lasted until 1939 and was the worst economic downturn ever recorded in the history of the industrialized world. The Great Depression caused severe declines in output, unemployment, and deflation as well as social and cultural effects that were no less staggering. Despite the fact that the Great Depression originated in the USA, it affected almost every country of the world. In the USA, by 1933, 15 million workers were unemployed and nearly half of the American banks had failed.

**BACKGROUND INFORMATION**

**20th Century Protectionism**

During the 19th century and more specifically after the Industrial Revolution, the world entered an unexpected period of economic growth. Many countries, especially the ones in Western Europe and North America, saw fast-developing economies. This global change reversed between 1914 and 1945 when a series of political shocks, like war and economic nationalism, occurred. The world economy grew very slowly, world trade grew a lot less and the degree of inequality between regions increased.

After World War I, “Germany faced huge reparations payments and France lost two-thirds of its foreign investments, while Great Britain suffered major losses to its merchant shipping fleet, liquidated much of its overseas investments, and accumulated massive foreign debts.”\(^6\) Borders changed dramatically as Germany lost much of its territory. This resulted in

---


the creations of tariff barriers, currency areas, disruptions to transport routes and massive problems with dislocations and adjustment. The Gross Domestic Product (GDP) across Western Europe was reduced as well.

During the 1925-1928 period, the world tried to rebuild itself; however, this progress was shattered by the Great Depression of 1929-1933. This caused widespread debt default, a massive flight of capital from Europe to the USA and a collapse in global demand. The poorly planned Smoot-Hawley tariff legislation of 1929-1930 also resulted in a massive increase in US tariffs on imported goods and in the collapse of open trade.

The increase of US tariffs unleashed a wave of trade protectionism which saw world trade fall by more than a quarter during the following years. The USA’s economic downturn was the most severe, as its financial system had collapsed, but Europe was affected as well. Global GDP had decreased, too. Finally, the undermining of international cooperation and the rise of militaristic regimes laid the groundwork for the outbreak of WWII.

Even though WWII was more devastating in comparison with WWI, the post-WWII era saw economic development. GDP grew by 4.9% and world trade by 7% every year. The United States and Europe also grew tremendously, trying to recover from the Great Depression, and East Asia saw a rapid rise in its industrialized economies and was able to reach the highly industrialized countries of the West.

21st Century Protectionism

As mentioned before, protectionist policies tend to be introduced during economic recessions. In 2008, the year when the second biggest global financial crises started, was no different.

In the beginning, the G20 countries were concerned that protectionist policies would rise. At the same time, though, the International Monetary Fund (IMF) and the World Bank projected a decline of 2.1%-2.8% in global trade that led to the “standstill agreement”, a commitment where the G20 agreed to “refrain from raising new barriers to investment or to trade in goods or services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports”7. Shortly agreement was

---

reached, the G20 countries adopted trade-restrictive measures. In 2016, the World Trade Organization (WTO) released a report saying that the G20 economies had implemented new protectionist trade measures, between October of 2015 and May of 2016, at the fastest pace seen since the 2008 financial crisis.

Despite the trade-restrictive measures implemented by some countries, especially the G20, there were not many, if any, extremely severe consequences. The main, and the most obvious, effect that these measures had on the world was a slow-down in world trade. However, this was not attributed only to the protectionism measures, but to other factors such as the changing structure of trade and aggregate demand as well.

Overall, the economic and financial crisis in 2008-2009 proved that trade protectionism was not as severe as the Great Depression. Protectionism was not as striking as it was in the 1930s and one of the main reasons was the existence of a set of multilateral trade rules.

**Typical Methods of Protectionism**

**Tariffs**

As previously mentioned, tariffs are taxes imposed by governments on imported goods and services. Tariffs are usually imposed when local consumers choose to buy foreign-
produced products because the purchasing cost is lower, thus governments try to protect the domestic industries and simultaneously raise revenue. Taxing imported goods will increase the cost to importers and the price in the local market.

There are two types of tariffs: the specific tariff which is imposed as a fixed fee based on an item’s value (e.g. $1,000 on any car) and the ad-valorem tariff which is imposed based on an item’s value (e.g. 10% of the car’s value).  

Non-Tariff Barriers

Non-tariff barriers are barriers to trade that take a form other than a tariff. Such barriers are quotas, embargoes, sanctions, licenses and other restrictions.

Quotas

Quotas are trade restrictions imposed by governments focusing on the quantity of products that can be imported into a country. Quotas, similarly to tariffs, help protect domestic production and restrict foreign competition.

Subsidies

As a form of financial aid, subsidies are tax reductions or cash payments provided by governments to individuals or businesses that are struggling. By offering such reductions or payments to industries, the government can help domestic industries compete with international trade as it cuts down on the cost of production and thus industries are able to lower prices.

Inefficiencies of Protectionism

As mentioned before, governments apply protectionist measures to their policies for 2 main reasons. First of all, they want to protect domestic industries, especially the infant industries, from international competition. By implementing trade-restrictive measures, they give the industries more time to grow and develop a competitive edge. Another reason is that governments want to strengthen domestic employment by encouraging the consumption of domestic goods. A decrease in imports means that domestic firms are able to produce and sell more of their goods leading to an increase in the workforce. Most of the times, though, these measures and plans have completely opposite results.

---

To begin with, protectionism weakens local industries. Without competition, these companies do not have the need to invest in order to develop their machines and other materials, so the quality of their products remains static or, in extreme cases, it can deteriorate. Furthermore, with the elimination of imports on foreign goods, some industries might not be able to produce their products, because they do not have the necessary material(s). This can lead to an increase in monopolies and to the closure of these industries, which, in the long-term, will result in the loss of jobs or free trade. Moreover, trade-restrictive measures push up the cost for local firms and their products, and reduce the wellbeing of the domestic market as it limits the variety of products and strengthens the market power of local firms at the expense of consumers. This means that firms raise the prices of their goods without necessarily improving the quality of the products, so consumers have no other option left as they are forced to buy these goods. Additionally, protectionism decreases GDP which is a leading indicator of a country’s economic health. Finally, protectionism can ruin relationships between nations because it can cause retaliatory reactions. A clear example is that of the relationship between the USA and China. “When the US imposed tariffs on Chinese tires in 2009, China retaliated by putting up barriers against different U.S. goods such as their chicken. This kind of hostility between nations decreases the specialization between two nations, eventually damaging the economy.”

In general, protectionist policies lead to market distortions and imply long-term costs. Protectionism discourages investments and slows down the economic growth of the countries that have implemented trade-restrictive measures.

---

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

Figure 3: Trade-Restrictive Measures implemented by G20 countries

Figure 4: Weighted average applied tariff 10 major counties in 2015
Argentina

Argentina has a long-standing history of protectionism and the latest appearance of protectionism policy was after the breakout of the 2008 global financial crisis. According to the European Commission, Argentina is the country with the highest number of trade restrictive measures (160) and the country is also the most protectionist country within the G20 group having a total of 23% of the total trade restrictions implemented by the G20 countries since 2008.

Ever since 2008, there have been some protectionist drifts, though during 2013-2014 the country modified and introduced some more trade restrictive measures such as border barriers and behind-the-border measures. Finally, since late 2015 the Argentinian government has relaxed some of the foreign exchange controls and has eliminated a significant number of trade barriers.

Brazil

Since 2008, Brazil has been the fourth most protectionist country in the G20 group having 9% of the trade-restrictive measures applied by the G20 countries. Even though the economy of Brazil remains same stagnant, Brazil has decided to keep in place the size of its protectionism measures that already exist. These restrictions not only prevent some companies from exporting their products to Brazil, but they discriminate against foreign companies.

During 2013-2014, Brazil increased its imports tariffs from 2% to 16% for certain goods and from 0% to 4% for cement. Brazil also introduced new behind-the-border measures (at a lower number than in previous years) and some trade-facilitating measures since exporting to Brazil is proving to be extremely problematic.

As a result of protectionism, “the productivity rate of the Brazilian economy came down, growth in the longer-term came down, and the bottom line was actually less growth, more inflation.”10 During the past two years, Brazil has been trying to battle the economic recession by reducing the number of trade-restricted measures that were implemented.

China

China has one of the most difficult markets for foreign operators. Up until 2013 China had introduced new trade restrictive measures, mainly in the form of behind-the-border measures, and it accounted for 6.3% of the G20 protectionism arrangements. According to a

---

report published by the European Commission, further measures, though, were introduced and they reached 8.4% of the measures implemented by G20 countries. Finally, over the 2013-2014 period China implemented more trade restrictive measures in the form of behind-the-border measures and stimulus packages.

**India**

India aims to “further push the progressive integration of the country in the global economy as a growth strategy”\(^\text{11}\), though at the same time it maintains substantial tariff and non-tariff barriers that threaten possible development regarding trade relations with the European Union and other partners. India is responsible for 7% of the protectionist measures implemented by the G20 countries making it one of the four countries with the highest number of new relevant measures.

India’s preferred tool for protectionist measures over the period of 2013-2014 was border measures. India increased its custom duties on several products, its restrictions on the import of several metals and jewelry, and its export restrictions on onion, potatoes, chemicals and iron ore pellets. Lastly, India also implemented some stimulus measures.

Based on the World Bank 2016 Ease of Doing Business Report and the European’s Commission 2016 Report on Trade and Investment Barriers and Protectionist Trends, India is aiming to “put” its economy on a path of sustained and rapid growth. The Indian government has started a process of economic reform and progressive integration with the global economy, though India’s trade remains comparatively restrictive.

**Indonesia**

Indonesia has accounted for 12% of the protectionist measures implemented by the G20 countries since 2008, making it one of the most emerging economies adopting the bulk of new trade restrictive measures. Indonesia is the fourth largest partner of the European Union, but trade between them is challenging as Indonesia has placed several trade barriers including various technical requirements, rules of origin or quotas on specific items. This situation is deteriorating over time and the rise of economic nationalism has led to a sudden powerful movement towards protectionist policies.

**Russia**

---

Russia is the second most protectionist country within the G20 having 20% of the total trade restrictions imposed by G20 countries. During the period 2013-2014, according to the European Commission, Russia implemented the highest number of new trade restrictions (32 new measures), with the majority of them being border measures at import. Russia also implemented restriction on exports and intervened in support of domestic companies against foreign competition. Russia approved a state program “Development of Foreign Economic Activities” to improve the access of Russian goods to foreign markets. Finally, according to GTA estimates, when Russia occupied Crimea in February 2014, the situation deteriorated and Russia implemented 1,349 new protectionist measures.

Ahead of the G20 meeting in Hamburg Germany in July 2017, the President of Russia, Vladimir Putin, said that Russia opposes “the growing policy of protectionism in the world. Illegitimate trade and financial restrictions with obvious political implications are aimed at eliminating competitors. It curtails business ties, results in a loss of trust between economic participants. It is tearing apart the very fabric of the world economy.”

Turkey

Having applied 24 measures, Turkey accounts for about 3% of the total trade restrictive measures implemented by the G20 countries. Turkey has preferred the regulation of trade at entry and the majority of the implemented measures have been import restrictions. Finally, Turkey has strengthened the preferential treatment for domestic products and companies.

USA

Since 2008, the United States of America has implemented about 18 potential trade restrictive measures. These measures have the form of behind-the-border measures and they affect mainly government procurement. These procurement-related trade restrictions grew both at federal and at state level during 2013-2014.

In 2017, at the beginning of his presidency, the new President of the USA, Donald Trump expressed his strong feelings against globalization. He has given the famously protectionist trade litigator Robert Lighthizer the position of US Trade Representative, which means that the president is aiming at the implementation of a protectionism policy. Such measures will be detrimental to the American economy. It will harm many workers and

---

industries by making the USA a high-cost island for industrial inputs. Industries will have to move their productions to the US if the products are aiming strictly at American consumers, but at the same time it will support offshore production if the goods are aimed at export markets.

**European Union**

According to GTA reports, the number of trade-restrictive measures imposed by the EU and its members has decreased. Its protectionism level reached 10% of the total alleged protectionist measures in 2014, so trading with other countries is broadly successful.

To be more specific, according to the United States Trade Representative (USTR) Office, bilateral trade and investment relations between the EU and the USA have been successful in general, though the USA still faces some chronic barriers. Trade barriers exist in agricultural products, non-tariff barriers in the pharmaceutical sector and service barriers mainly in the telecommunications and legal services. The service barriers, though, concern only member states individually and not the EU as a whole. Furthermore, “the United States continues to demonstrate concerns regarding the EU’s system for the protection of geographical indication (GI), including with respect to its negative impact on the protection of trademarks and market access for U.S. products that use generic names”. Finally, a few years ago the European Commission reported an increase in the number of investigations by third party countries against the EU concerning the subject of trade defense instruments.

**World Trade Organization (WTO)**

The World Trade Organization is the successor to the General Agreement on Tariffs and Trade (GATT), which was created in 1947 and liberalized world trade. In the late 1980s, the need for a stronger multilateral organization responsible for solving trade disputes and monitoring trade, grew rapidly resulting in the creation of the WTO in 1995. Nowadays, the WTO operates as a global system of trade rules, resolves trade disputes between members, supports the needs of developing countries and acts as a forum for negotiating trade agreements. The main purpose of the WTO is to open trade for the benefit of all.

**The Organisation for Economic Co-operation and Development (OECD)**

The OECD is a group of 34 member countries that support free market economies. The member countries work together, share experiences and seek solutions to common problems. They try to understand what causes economic, social and environmental change,

---

they measure the global flows in trade and investments and they analyze and compare data in order to predict future trends. Finally, they set international standards.

**United Nations Conference on Trade and Development (UNCTAD)**

The UNCTAD is a permanent inter-governmental body of the United Nations (UN) that was established in 1964. UNCTAD’s main goal is to support developing countries in order for them to reap the benefits of the globalized economy, so they equip those countries to deal with greater economic integration. In order to do this, they provide analysis, consensus-building and technical assistance that will help them use trade, investment, finance and technology as a means to sustainable development.

**TIMELINE OF EVENTS**

<table>
<thead>
<tr>
<th>Date</th>
<th>Description of Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930s</td>
<td>The biggest economic recession and the Great Depression</td>
</tr>
<tr>
<td>2002</td>
<td>The “Manual on Statistics of International Trade in Services” was published</td>
</tr>
<tr>
<td>2008</td>
<td>The second biggest economic and financial crisis and the start of the WTO’s series of yearly reports</td>
</tr>
<tr>
<td>2013</td>
<td>The OECD in partnership with the WTO published the Trade in Value Added (TIVA) database</td>
</tr>
<tr>
<td>2014</td>
<td>The OECD released the Services Trade Restrictiveness Index (STRI)</td>
</tr>
</tbody>
</table>

**UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS**

**UN meeting on: Trade Reform, Removal of Protectionist Measures Vital to Economic Growth, Second Committee Hears in Debate on Macroeconomic Policy Questions**

The Second Committee (Economic and Financial) met the morning of October 24, 2013 to discuss macroeconomic policy questions.
UN meeting on: Raising Domestic Revenues, Resisting Protectionism Key to Funding Sustainable Development Goals, Speakers Tell Economic and Social Council Forum

“The Economic and Social Council Forum on Financing for Development follow-up opened its expert segment today with a panel discussion and set of three thematic round tables dedicated to garnering the vast resources required to achieve the 2030 Agenda for Sustainable Development.”14

MANUAL on STATISTICS of INTERNATIONAL TRADE in SERVICES

“The Manual on Statistics of International Trade in Services has been developed and published jointly by our six organizations, managed through the mechanism of an inter-agency task force.

The Manual sets out an internationally agreed framework for the compilation and reporting of statistics of international trade in services in a broad sense. It addresses the growing needs, including those of international trade negotiations and agreements, for more detailed, more comparable and more comprehensive statistics on this type of trade in its various forms. The recommendations, which will be promoted by our six organizations, will enable countries to progressively expand and structure the information they compile in an internationally comparable way.”15

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

WTO

At the beginning of the 2008 economic and financial crisis, the WTO was requested to enhance and strengthen its trade monitoring work by publishing reports. The aim of these reports is to enhance transparency of trade policy developments around the world, and to provide to all members of the WTO and to observer states up-to-date information about the trends in the implementation of trade liberalizing and of trade restricting measures.

---


Ever since, the WTO has published two reports every year. There are two series of trade-monitoring reports. These are: a) “WTO-wide reports on trade-related developments covering the whole WTO membership and observers” and b) “joint reports with the Organization for Economic Co-operation and Development (OECD) and the UN Conference on Trade and Development (UNCTAD) on trade and investment measures taken by G-20 economies”.

The WTO in partnership with its members have also agreed on some principles of the trading system that are the foundation of the multilateral trading system. These principles include:

- **a) Trade without discrimination**
- **b) Freer trade: gradually, through negotiation**
- **c) Predictability: through binding and transparency**
- **d) Promoting fair competition**
- **e) Encouraging development and economic reform**

**OECD**

The OECD holds annual meetings with the Trade Ministers from OECD and partner countries, the World Trade Organization and representatives from both business and labor in order to consider emerging current trade policy priorities of widespread interest.

In 2013, in partnership with the WTO, the OECD published the Trade in Value Added (TIVA) database which highlighted the trade policy implications of global value chains. It also pointed out the need for eliminating unnecessary trade costs in order for industries to improve their productivity by accessing import and export markets.

In 2014, the OECD released the Services Trade Restrictiveness Index (STRI) which provides countries with up-to-date information about services trade barriers in 22 sectors across 44 countries. For the first time, policymakers and trade negotiators are able to analyze reform options, compare them with the global best practice and to assess their effects.

The OECD developed a set of Trade Facilitation Indicators (TFIs) “to help governments improve their border procedures, reduce trade costs, boost trade flows, and reap greater benefits from international trade”.

---

POSSIBLE SOLUTIONS

Finding solutions is not easy as it requires the reform of policies. The solutions proposed should be specific and should be based on the inefficiencies of protectionism.

First of all, all governments need to be informed about the risks and dangers that protectionist policies can have on the local market. Based on history, they need to fully understand the importance of tackling and eliminating trade-restrictive measures as most of the times the results are the complete opposite of the initial goal.

Moreover, reports on current trends in the implementation of trade-restrictive measures and on the economic development of all countries, especially the ones who have implemented protectionist measures, should be enhanced, highlighted and promoted throughout the world more so that the inefficiencies of protectionism are more evident to all states.

Multilateral negotiations between all countries, including the participation of the WTO as well, are also a key factor in eliminating protectionism. Through dialogue, countries can agree on the reduction of any trade barriers, can eliminate the discriminatory treatment in international trade relations and can agree on common standards for products.

BIBLIOGRAPHY


### Figures


