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What does economic protectionism mean for the political and cultural exchange between nations?

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I hereby grant my consent to the American University of Bulgaria to publish this essay, should it be one of the winners of the University Council Essay Competition for the 2018 academic year. I further acknowledge that my participation in the competition is voluntary.

Last July the city of Hamburg, Germany faced an anti- globalization movement protest which escalated to violence, amid the G20 summit meeting of the world's leading economic powers. Despite the multitude of reasons and the significantly numerous statements and resolutions that led this unconventional activist group to attempt demonstrations in the streets of Europe, such anti-globalists movements have been known for their animosity towards big corporations and their tendencies to denounce free trade and globalization. What the event indicates is not merely the occurrence of a mass demonstration; I believe it somehow reveals the underlying fact that the public is fearful or at the least, perturbed at the emergence of such issues as globalization and trade liberalization. Hence which are the facts concerning trade along with the extent to which it is liberal? And why does this topic deliver uneasiness or even fear?

Economic protectionism, as part of trade arrangements refers to government driven policies that restrict international trade to a certain degree or completely restrain it¹, therefore imposing a barrier to economic exchange often with the intent of minimizing the threats that foreign competition puts upon local and domestic economy.

At first glance, when a government takes protectionist action, we would assume, given this definition, that the corresponding consequences are to affect merely the economic sphere of a country. To which extent those impacts would be positive or negative on the development of the domestic economy, that is dependable upon different economic factors and indicators belonging to different countries, however the question remains a topic of great debate not only among economics experts, but also among the general public, as we become more and more aware and involved in the unfolding political and economic events of our nations, primarily due to the influence of the media.

¹ Encyclopædia Britannica, inc., 2014

What is interesting to note nonetheless, refers to the fact that we often encounter the concept of protectionism as it is commonly mentioned in the financial media, however it generates controversy, as it is true that most of us agree the concept has a negative connotation to it, i.e. it gives birth to an inner fear of being out of touch with the rest of world, but unfortunately we are the same to argue that the adoption of protectionist measures will protect our domestic economies from the threat of globalization.

The argument really can be compressed down, if we want to evaluate the solely the economic impacts commonly caused by protectionism, to weighing up the flaws and benefits of adopting protectionist measures, as opposing to Adam's Smith doctrine of 'Laissez- faire'²², otherwise known as free trade. For the purpose of establishing which of the two trade policies is the most beneficial in the long run, an analysis of the validity of the claims protectionist proponents defend, to present the rest of us with the disadvantages of the development of trade in significant absence of government interference, is required.

To begin with, advocates of protectionism don't hesitate to defend the belief that what can be inducing a sharp decline in domestic production is closely related to the significant power, free trade policy has in setting lower prices highly attractive to consumers, causing domestic products to be neglected and bringing about a shortage of jobs in the domestic industry. This causes a repetitive cycle that couples reduction in employment with reduction of prices of goods consumed. The argument is not entirely flawed, it is short-sighted thereto, primarily due to the fact that while certain industries

²² Laissez-faire, (French: "let them do"), policy that defends the idea of least governmental interference amount in the economic affairs of individuals and society. The policy of laissez-faire received strong and large support in France in the 18th century and in England, under the influence of economist and philosopher Adam Smith. (Encyclopædia Britannica, inc., 2014)

might be suffering job reduction, other positions available are being created in various needed sectors.

Yet another rather typical argument in opposition to free trade involves the so-called infant-industry argument, alongside with the unfair competition argument, both entertaining the idea that the threat of established foreign industries does not only direct the attention of the consumers to lower-priced imported products, but it also hinders the potential growth of emerging domestic business which are trying to allocate themselves in the market as a consequence. This has given incentive to businesses to lobby for government protection against international trade³. What does not necessarily make sense is that these companies are not willing to incur short-term losses when being in the first steps of entering the market, therefore it would be sounder and more prudent if the government provided the necessary liquidity via loans and subsidies, rather than providing “international trade protection”. Moreover, opposing the view that foreign competition would not permit the domestic infant industries to grow, I would say that in absence of vigorous foreign competitors, protected domestic business have no incentive to improve. While they do not improve, consumers are obliged to accept the situation in the markets and purchase inferior goods at higher prices.

Free trade has a supremacy over protectionism, as I think the brief analysis conducted above represents only a small window that might allow us to distinguish and ascertain the level of credibility that we should be placing on either of the policies, free trade or protectionism, in terms of each policy’s performance and efficiency post-implementation. There are certain sectors of the economy for which some people would argue protectionism works best, but I believe protectionism can only bring a short-term

³ Beggs, 2018

equilibrium or stability, as it obscures other economic data until recession starts to give symptoms of its presence in the economy. At that point governments are faced with the necessity of replacing protectionism by free trade. I do not possess the necessary authority to make economic correlations in lack of recent and relevant empirical data at hand, nor to contradict experts on the matter, but one thing which me and every other citizen can do under their full jurisdiction, is to inspect the past. What I think remains true, as I have found out throughout my Economics studies, concerns the certitude that the economy has a recurrent pattern to it, which we have labelled as economic or business cycles, and we acknowledge them to be part of the natural fluctuation of the economy. That said, what I am implying through the use of the term ‘an inspection’ or an observation of the past, entails the fact that maybe we are not capable of fully- interfering with these fluctuations and we are not aware in the first place of the reason behind their existence, but the cycle does almost to an extent encompass our “encyclopedia” of economic history and preventive measures we should derive from it accordingly.

Referring to the past, economic administration and regulation during the World Wars was not a capstone in our recent history. Faced with economic issues and dilemmas, governments sought to defend their industries by assessing protective barriers. The outcome was the Great Depression. Subsequent to the Second World War, leaders recognized that they could not afford to make any other mistake of that nature, as they tried to tackle the task of getting the world economy back on its feet. Hence, why are we contradicting history and past experiences?

Furthermore, two theoretical hypotheses that highlighted the only two circumstances the protectionism doctrine would be beneficial (i.e. increased welfare) began

to gain popularity among economists of the postwar period. “The first hypothesis entertains the idea that a country might be able to use the threat of protection to get other countries to reduce their protection against its exports. The second exception in which protection could improve a nation’s economic well-being is when a country has monopoly power over a good”.⁴ The issue is that the threat of protectionism can only represent a menace merely permanently and it might not generate any results because other countries might not lower trade barriers just because of this imposed threat. In regard to the second argument, the scenario that a country might have significant monopolistic power over a good is unfeasible. Therefore, the likelihood of successful exploitation of protectionist barriers is quite dubious, at least on an economic perspective as discussed up to this point.

Having established my standing on the matter, specifically the fact that economic protectionism does not bring about economic prosperity, I have to say there are more implications to protectionism that stretch beyond the spheres of economy, politics and government policy enacting.

Although economic in nature, protectionist measures such as the imposition of tariffs, the settlement of import quotas, or the intervention in the foreign exchange rate, can affect or restrict cultural and social interaction between countries to a certain extent, as they compel consumers to forgo some international goods options and substitutes. However, the impacts of the abovementioned protectionist measures do not place a larger burden on cultural exchange than cultural protectionism on itself does. Cultural protectionism occurs under the circumstances of a country seeking to preserve their cultural and tradition heritage, through the restriction of trade and foreign competition in a certain set of cultural commodities. In the name of preserving cultural heritage, some

⁴ Bhagwati, 2008

people would prefer to isolate themselves from external developments and some governments would keep them purposely trapped in the ‘dark ages’ for maintaining the nationalism doctrine alive. The issue is just as much related to economy and politics as it is to culture and tradition. Those who are claiming to protect cultural traditions from the strong aggression of globalization, are in fact patronizing towards those who want to be able to merge, adapt or improve in accordance to the rest of our civilization.

Proponents of protectionism argue that nearly all developed countries have successfully implemented protectionist measures⁵. If that would be the case, then one of the largest and most developed capitals in the world, Beijing wouldn’t be subject to being ranked as one of the least culturally diverse regions with the least ethnically fractionalized society. Seeking to preserve its ‘uniqueness’ the Chinese government is hindering Beijing’s path to development by taking away their opportunity to engage in a competitive market and profit from the process of doing so, similarly like the Chinese economy has done for the past decades. As a consequence, cultural events are being cancelled because Beijing officials openly regard Western influence as an invasion.⁶ However, the Western powers would argue that such measures are not confined to the purpose of cultural preservation, instead China is acting in account of the perceived foreign influence which poses a political risk, as it exposes their governing model.

Furthermore, even countries who are most supportive of free trade have at some point implemented protectionist policies, as a means for shielding them from the global crisis impacts. We have witnessed such a scenario after the American mortgage market failure generated the global crisis of the 2007-2008, after the which, the European Union

⁵ Kuepper, 2017

⁶ Volodzko, 2015

implemented a number of protectionist policies against non- EU third- parties, originating from the argument that the protection of national EU countries' economies would subside the induced crisis in the EU markets.

“The protectionist approach which defends not to allow free trade, to restrain cross-border trade and to protect the domestic manufacturer against foreign competition (Bhagwati, 2009), poses a risk of a dangerous virus (Kalaycı, 2011)”.⁷ What is easily discernable here is the fact that protectionism is being referred to as a dangerous virus. However, there is little information available on the extent to which protectionism might have impacted EU countries' ability to engage in cultural exchange. What has been highlighted though by many, regards the influence that cultural distance, among countries of different cultural backgrounds, has to facilitate the implementation of trade barriers and protectionism, alternatively stated as: “The lower the cultural distance between an export country and an export market, the lower the perceived export barriers”.⁸ Based on Korneliussen's and Blasius' hypothesis, I would say that perhaps we should take into consideration the fact that the implementation of protectionist measures, enlarges the cultural gap between the EU and the countries that they are engaged in a trade exchange with. “Cultural distance is expected to be a determinant of perceived export barriers because, as cultural distance between an export country and export markets increases, it becomes more problematic for exporters to identify and interpret signals from the export market”.⁹ The implications of the hypothesis might not be as dominant and significant for some, but it yet indicates that in point or another in time we are deliberately slowing down the emergence of international markets and the process of globalization, which is intended

⁷ Durusoy, Sica, & Beyhan, 2015

⁸ Blasius & Korneliussen, 2008

⁹ Eriksson, Johanson, & Majkgård, 2000

to ease cultural barriers. As a citizen of the European Union, I stand firm in the belief that the EU officials have taken protectionist measures throughout the past decade, primarily and solely for the purpose of protecting EU countries' economies, firstly with less-common and less-determinative protectionist-isolationist measures, because we have historically been known as proponents of free trade and promoters of embracing cultural diversity and accepting a highly ethnically fractionalized society; meaning that it is highly unlikely, at least from my personal point of evaluation, that we are currently seeking to build a protective shield against the winds of globalization.

However, that does not seem to be the case with Canada. Cultural protectionism in Canada is carried out in the prism of conscious pursuits and well-developed tactics of the Canadian government since the 20th century as they hope the policy facilitates the promotion of their tradition and production, while also restricting the amount of influence tempting to infiltrate their borders, particularly against the threat of the popular American rapid and "intrusive" cultural expansion. "Given Canada's fragmented population, its geographic location and the extent of American popular culture permeating the border, Canada has a tradition of implementing protectionist cultural policy with the goal of unifying the population and resisting cultural imperialism".¹⁰

At this point in history, we all agree that trade liberalization, and globalization have reached a rapid diffusion in comparison to any other previous era, primarily due to increased technology and communication. As the latter continue to develop, culture is exchanged beyond geographical barriers, on a global level. The concepts of culture and nation and the relationship between them must take a new or at least, partially different meaning on the terms of a renovated global setting. But, why should some countries,

¹⁰ Murchison, 2008

among them Canada be fearful in front of these dynamics, thus why is the breakage of barriers regarded as a national threat. Many would argue that the increased exposure to other nations' identity through imported goods and imported media, fragments the domestic nation and divides the population. "Consequently, proponents of domestic protection of cultural industries argue foreign cultural exposure undermines the nation as citizens become disenfranchised with their national culture in favor of associating with common interest groups on a global scale".¹¹

Omae is not the only one to argue that this increased interaction poses a threat to national unity and causes a decline in national power. As Michael Billig on his book *Banal Nationalism* would argue during the same period, that the breakdown in national cultural unity is attributed to the exposure and competition with other identities which undermine national loyalty.¹² Apparently, countries like Canada are resisting what they believe to be an era of cultural imperialism, rather than globalization, by purposely imposing economic driven protectionist measures that ultimately and hopefully from their standpoint, will have a strengthening impact on the Canadian identity. Author, Bernard Ostry would argue in the 20th century, that their main concern involves the fact that the Canadian population is perceived to have become Americanized to a greater extent than populations in European countries for instance.¹³ The argument that the public but also individuals who have a certain influence or authority over the society, feel threatened from the impacts of trade liberalization and crouch behind the walls of protectionism, is recurrent evidently.

To conclude, there certainly exists sufficient correlation between protectionist policies in economic terms and a nation's culture formation, which gives ground to

¹¹ Omae, 1995

¹² Billig, 1995

¹³ Ostry, 1987

establish that whenever protectionist measures are employed rather or not with the purpose of affecting the economy and culture simultaneously, there will be impacts and restraints on the amount of cultural exchange. Proponents of protectionism and nationalism, them being governments or particular groups of interest, are undoubtedly fearful of the possibility of nationalism becoming blurred out in the Z-generation age. Dynamics of this nature are beyond these parties' ability to control as the velocity at which technology, imported media and the increased interest in imported cultural goods expand, outlasts any protective policy implementation or any, more than just *démodé*, decaying nationalist ideology *de facto*.

Cultural policy and protectionist measures are being called in an era of globalization as means of sheltering domestic cultural industries from the ascendancy of certain foreign competitors. There has most certainly been political defense of cultural protectionism policy that points to the inherent affinity between cultural products and a nation's tradition and identity; which in turn makes me put into question the grounds or the necessity for the utilization of cultural protectionist measures by certain governments, as based on an *a priori* argument we can observe the fact that nation states are yet, 'surviving' the commoditization of cultural goods on both a domestic and global level, and the exposure to foreign cultural goods and competitors in absence of protectionism.

To coerce cultural isolationism via economic protectionism, based on the premise that an unexposed culture to the worldwide integration streams, protects and homogenizes the citizenry and ensures a nation's prosperous economic future, represents an inefficient methodology of government policy making, and overall a rotten ideology to me and

something most governments and global organizations have proclaimed to consigned to the oblivion of the past centuries.

Thank you.

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