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Essay Competition

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

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On March 8, 2018, Donald Trump signed an executive order imposing a 25% tariff on steel and a 10% tariff on aluminum exports. Surrounded by steel workers, he proudly announced that the two industries vital for American security – steel and aluminum production – would no longer be decimated and targeted by foreign trade. “They” assaulted America by dumping “their” steel and aluminum, Trump said, vaguely referring to China’s unfair trade practices.¹ The Us versus Them divide penetrated his speech, which largely went unnoticed by the newspapers covering the event. Indeed, Trump’s nativist rhetoric has become so common, no one even notices it anymore. Instead, the media focused on the executive order itself – what it meant for the American economy, and for the world.

And what do the new tariffs mean for the world economy? The world itself does not know. It is baffled and confused at the face of Trump’s anti-free trade rhetoric. How come that the creator and the main supporter of today’s global economic order is the one to undermine it in such an irrational fashion? Other national governments try to figure out how to respond to the new reality. Governments of Canada, Mexico and Australia have managed to secure an exemption from the tariff for their steel and aluminum exporters. Others, including the EU and China, have threatened to impose countermeasures on American farmers and manufacturing industry, spurring fears of a trade war.²

Among the pessimists, Trump’s announcement invoked comparisons to the state of the international economy prior to the Great Depression, when beggar-thy-neighbor policies exacerbated economic crises, which led to the rise of fascism in Europe.³ Amid the rising popularity of populism and economic nationalism in the democratic West, such fears are not unfounded. Indeed, as the president of the European Central Bank Mario Draghi stated on

¹ Dominic Rushe, “Donald Trump Signs Order for Metals Tariff Plan, Prompting Fears of Trade War,” *The Guardian*, accessed March 19, 2018. <https://www.theguardian.com/us-news/2018/mar/08/donald-trump-metal-tariffs-trade-war>.

² Ibid.

³ David Morris, “Did Tariffs Cause the Great Depression?,” *Fortune Magazine*, accessed March 19, 2018. <http://fortune.com/2018/03/04/did-tariffs-cause-the-great-depression/>.

March 8, Trump's tariffs cause "a certain worry or concern about the state of international relations, because if you put tariffs on your allies, one wonders who your enemies are."⁴

Because it creates confusion and insecurities on the part of America's allies, Trump's economic nationalism poses a threat to the peaceful functioning of the international system. It is important to remember, however, that Trump's protectionism is only part of the growing trend toward populism and nativism. In this essay, I will try to explain why populist politics has gained so much ground in recent years, and why it is urgent to address people's concerns without resorting to economic protectionism and nationalism. **I argue that economic protectionism in today's globalized world threatens to undermine the peaceful pattern of political and cultural exchange established since the World War II.** To avert this threat, I believe, political elites and policy-makers need to assuage the fears and insecurities associated with globalization, and at the same time, refrain from the opportunist rhetoric that scapegoats free trade as the main culprit of the ongoing economic crisis.

Nowadays, any discussion of economic protectionism is impossible without a careful consideration of globalization and its effects on the world. Merriam-Webster defines globalization as "the development of an increasingly integrated global economy marked especially by free trade, free flow of capital, and the tapping of cheaper foreign labor markets."⁵ This process is manifested by increased trade and migration, information and technological transfer, and cultural exchange.

Globalization is widely associated with progress and economic growth, and is credited to have increased the global wealth by lifting barriers on trade and capital movement. It has also contributed to the increasing wealth of the world's poor – poverty rates in developing countries, though still regrettable, have steadily fallen from the 1990s. Globalization has helped to create and enrich China's and India's middle classes, as a recent World Bank study

⁴ David Reid, "Draghi to Trump: If You Put Tariffs on Your Allies, Who Are Your Enemies?," *CNBC News.com*, accessed March 19, 2018, <https://www.cnn.com/2018/03/08/draghi-to-trump-if-you-put-tariffs-on-your-allies-who-are-your-enemies.html>.

⁵ *Merriam-Webster Dictionary*, s.v. "globalization," accessed March 19, 2018, <https://www.merriam-webster.com/dictionary/globalization>.

confirms.⁶ In fact, the wealth of this new middle class has grown faster than that of the top 1 percent, which is believed to be the main winner of globalization.⁷

Several factors lie at the core of globalization's positive effects on the world economy. Neoliberal economic theories provide the most comprehensive explanation for the economic success of globalization. First of all, globalization means that cheaper products and services are readily available where they are needed, increasing the efficiency of global economy. Second, globalization provides businesses with a better access to capital and commodities. Thus, producers from around the globe can use the cheapest commodities available, making consumer products more affordable and competitive. Last, as free-trade enthusiasts tend to argue, globalization increases competition, improving the quality of products on the market and thus benefitting consumers around the world.

While many have stressed these positive aspects of globalization, some economic experts have pointed to the possible negative consequences of this process. Contrary to the predictions of neoclassical economic theory, many underdeveloped countries fail to compete with the more advanced Western economies. As the infant industry argument goes, countries need to industrialize and modernize before they open their markets to the increased competition.⁸ Otherwise, developing countries may be turned into extractive economies that only export raw materials and depend on foreign imports. This pattern of trade is noticeable in many resource-rich African countries today. Abused by the extractive behavior of their corrupt governments and some foreign companies, these countries fail to raise the living standards of their citizens, as promised by globalization.

A well-known American economist and Nobel Prize winner Joseph Stiglitz has famously declared that thoughtless adherence to laissez-faire politics can put people "on the

⁶ Xavier Devictor, "Is Globalization a Good or a Bad Thing?," *The World Bank*, accessed on March 19, 2018. <http://www.worldbank.org/en/news/opinion/2014/02/11/is-globalization-a-good-or-a-bad-thing>.

⁷ Ibid.

⁸ David Levi-Faur, "Friedrich List and the political economy of the nation-state," *Review of International Political Economy* 4, no. 1(2010): 154-78, <https://doi.org/10.1080/096922997347887>.

wrong side of globalization.”⁹ While some free-trade enthusiasts may consider this statement a danger to the free market orthodoxy in the global policy community, it should not be disqualified and merits a careful examination. We should remember that the criticism, in this case, is coming from a renowned economist, who has gained vast experience with globalization from serving as the senior vice president of the World Bank. His main argument is that globalization, when poorly managed, creates and further exacerbates existing inequalities. When profit-seeking motifs are left unregulated, fundamental human rights are at risk. Just think about the children currently working in the sweatshops of South East Asia and the mines in sub-Saharan Africa. These children’s fundamental rights are violated because of the unequal power relationship between multinational corporations and small developing economies. In this case, globalization with unmitigated negative effects privileges the wealthy, who reap its benefits, leaving the poor and the disadvantaged behind.

In his book *Globalization and Its Discontents*, Stiglitz argues that the push for more globalization today is different from the one that reduced trade barriers after the World War II.¹⁰ In the past, countries lifted trade tariffs, allowing free flow of products that gave countries an opportunity to develop and improve the sectors where they had comparative advantage. Today, he argues, trade tariffs are already low, and globalization is directed toward the removal of non-tariff trade restrictions. However, some of these restrictions are there for a reason. They came about as the result of a democratic choice of the people to shield the workers, the environment and the consumers from the encroachments of profiteering businesses.

The main sector that advocates for more globalization today, Stiglitz says, consists of multinational corporations, who call for “regulatory harmonization.”¹¹ Stiglitz says that what these corporations really want is a race to the bottom – a situation where regulations are so

⁹Joseph E. Stiglitz, “On the Wrong Side of Globalization,” *The New York Times*, accessed March 19, 2018. <https://opinionator.blogs.nytimes.com/2014/03/15/on-the-wrong-side-of-globalization/?mtrref=www.economicshelp.org&assetType=opinion>.

¹⁰Joseph E. Stiglitz, *Globalization and Its Discontents*, New York (W.W. Norton, 2002).

¹¹ Stiglitz, “On the Wrong Side of Globalization.”

lax, any ethical concerns about the environment and the working conditions in the developing world are ignored for the sake of profit. If they are left unchallenged, multinational corporations will be the only winners of globalization. The rest of us will lose, miserably. More globalization today may entail the abandonment of regulations that protect our consumer and labor rights, our health and environment. One of the examples Stiglitz gives to prove his point is that Trans-Pacific Partnership (TPP) would have allowed corporations to seek restitution in an international court for diminution of their potential profits due to trade regulations.¹² Thus, corporations would be able to sue national governments for existing regulations that are aimed to protect, among others, public health and environment.

For instance, Phillip Morris has sued the government of Uruguay for its anti-smoking regulations that have allegedly hurt the company's profits and violated the bilateral trade agreement between Switzerland and Uruguay. Many have pointed out that the case was brought by Phillip Morris to intimidate other national governments and prevent similar measures in the future.¹³ The anti-smoking regulation was lauded by the World Health Organization (WHO), and in the end, the World Bank has ruled in favor of Uruguay. Despite the happy ending for democracy and public health, this case shows that some regulations are necessary to protect people's interests against the corporations with weak ethical standards. As Uruguay's President Tabaré Vázquez said after the court victory, "It is not acceptable to prioritize commercial considerations over the fundamental right to health and life."¹⁴

Indeed, sometimes neoliberal economic theories contradict social reality. American economists David Autor, David Dorn and Gordon Hanson have recently conceded that increased trade with China has been detrimental to American jobs.¹⁵ The neoclassical economic theory posits that with free trade, job losses are inevitable; however, new, more

¹² Ibid.

¹³ Benedict Mander, "Uruguay defeats Philip Morris test case lawsuit," *The Financial Times*, accessed March 19, 2018. <https://www.ft.com/content/1ae33bc8-454e-11e6-9b66-0712b3873ae1>.

¹⁴ Ibid.

¹⁵ Autor et al., "The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade," *Annual Review of Economics* 8 (2016): 205-40. <https://doi.org/10.1146/annurev-economics-080315-015041>.

lucrative jobs are constantly created in more productive and competitive industries of the economy. Autor et al. (2016) show that contrary to this empirical wisdom, labor markets are very slow to adjust to the new economic reality.¹⁶ They find that the harmful effects of the trade with China, expressed in depressed wages and elevated unemployment rates in the exposed industries, linger for at least ten years after the initial shock. Some economists would dismiss these effects as the tragedy of “creative destruction.” Others, including me, would argue that we need to figure out when free trade can be detrimental, and try to mitigate its harmful effects **without abandoning free trade**.

If the division on globalization’s winners and losers is only part of the creative destruction, how would you explain the necessity of job losses to an American blue-collar worker whose job was outsourced to another country? What about the staggering unemployment rates in Europe after the latest financial and economic crisis? If economists argue that it is necessary to cut wages and social expenditures in the name of long-term benefits, as many of them still do, should we be surprised that people look for false hope and protection from populists like Trump? The answer is no, and it does appear that **the current rise of populism and nativism is a chaotic but logical response to the mismanagement of globalization**.

In addition to these economic and political aspects, it is worth mentioning that globalization is often criticized for its effects on cultural diversity around the world. Multiculturalism that comes along with globalization allows for a better understanding of the values and traditions of another culture. However, it can also lead to cultural homogenization, with previously closed communities losing their distinct cultural identities and appropriating Western values. This effect, which George Ritzer considers a particular case of the “McDonaldization of Society,”¹⁷ in addition to the alleged cultural imperialism of the West are some of the negative aspects of the global cultural exchange.

¹⁶ Ibid.

¹⁷ George Ritzer, *The McDonaldization of Society*, Los Angeles (Pine Forge Press, 2011).

Does this mean that globalization and free trade should be abandoned? God forbid, no! Despite some of the harmful effects that globalization might have on national economies, it also offers major benefits. Even though it creates a danger of cultural homogenization and “McDonaldization of Society” (Ritzer, 2011), free trade is one of the main sources of peace and stability in the global system. The increased interconnectedness that globalization creates contributes to political and cultural exchange between nations. In fact, resorting to economic protectionism would mean the destruction of the global economic order. This would pose a threat to the peaceful political and cultural exchange between nation states.

One of the main lessons of the history of European integration after the World War II is that economic cooperation creates conditions for peace and prosperity. After the war, European states abandoned the old rivalries to create a framework of economic cooperation, which eventually led to political cooperation. As Schumpeter’s theory of liberal pacifism explains, commercial interests and liberal institutions have a pacifying effect on the relationship between nation states.¹⁸ Free trade in this case creates an “unwarlike disposition,” and people are more likely to demand democratic governance and peace.¹⁹ Although this view might place too much emphasis on people’s commercial interests, it does explain the prolonged peace that Western democracies have enjoyed so far. Economic protectionism, thus, runs the risk of eliminating the mechanism that keeps nation states’ aggressive impulses in check. This would mean the end of the international regime that has prioritized non-aggressive resolution of inter-state conflicts.

To understand the possible consequences of a trade war, one needs to look no further than the first half of the 20th century. The Smoot-Hawley Tariff Act, sponsored by Senator Reed Smoot and Representative Willis C. Hawley, raised US tariffs on more than 20,000 imported goods in 1930. This led to retaliatory measures from other countries, and a trade war

¹⁸ Michael Doyle, “Liberalism and World Politics,” *American Political Science Review* 80, no. 4 (1986): 1151-69. <http://www.jstor.org/stable/1960861>.

¹⁹ *Ibid.*, 1153.

that exacerbated the Great Depression.²⁰ Treating trade as a zero-sum game, Western countries worsened the looming economic crisis by pursuing beggar-thy-neighbor policies against other states. Raising tariffs and imposing quotas on imports, these countries exacerbated the Great Depression's effects on international trade and reduced the size of the markets for their own businesses, which in the end, only harmed their domestic producers.

The prolonged depression of the 1930s gave rise to populism and economic nationalism, which led to the spread of fascism in Europe. Gaining popular support because of its nationalist rhetoric and a promise to rejuvenate the German economy, the Nazi Party came to power and turned the Weimar Republic into a dictatorship. After the first six years in power, Hitler could boast that his policies led to the rapid economic recovery from the Great Depression, which only increased his public support. What followed after was the bloodiest international conflict in the human history that would serve as a warning of the dangers of nationalism.

As history of the Great Depression shows, trade wars and economic protectionism do not alleviate economic crises. On the opposite, they exacerbate existing problems, making populism and scapegoating of the minorities more acceptable to the public. Living through such uncertain times as we do now, the world is at risk of witnessing how the international order is dismantled and substituted by aggression and disorder. To avert this danger, politicians need to be careful not to resort to opportunism and populism. On the other hand, it is also necessary that the sources of the current populist drive – the challenges posed by globalization - are not left unaddressed. The forces that feed into populist rhetoric are not going to disappear on their own. Thus, the most important task for politicians around the world right now is to address these problems, assuage the fears of globalization's losers, and thus **guarantee peace and prosperity in the future.**

²⁰Robert Whaples, "Where Is There Consensus Among American Economic Historians? The Results of a Survey on Forty Propositions," *The Journal of Economic History* 55, no. 1 (1995): 139-154.
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