

## „Protectionism versus Free Trade“? – The Wrong Debate!

„In trade policy we are fighting against every type of protectionism and we are committing ourselves sustainably to further opening up of the market“, these are the words of the coalition agreement of the new German Federal Government. Free markets are seen as a universal formula and the Federal Government is not alone in this perception. A similar thing was proclaimed at the WTO ministerial conference in Geneva. General Secretary Pascal Lamy announced that the WTO made important contributions to solving problems and that the multilateral trade system was a significant guarantee against a regression into protectionism. For most politicians and managers of large organisations the liberalisation of world trade is the ideal way to progress and increase prosperity. The antithesis of liberalism is protectionism which is linked to economic decline and losses in welfare.

However this debate does deflect from the actual problem of the economic policy: which measures are appropriate for a particular national economy in a particular situation in order to protect their own markets, maintain income streams for particularly vulnerable groups, to contribute to securing nutrition and industrial development or to intensify protection of environment and resources?

The liberalisation of financial services for example is only appropriate if it provides the people in the countryside or other disadvantaged groups with better access to credit. Or the agricultural protectionism of the European Union: it is appropriate to the extent that it contributes to rural development in Europe, protects the environment and maintains small scale agricultural livelihoods without forcing farmers in other parts of the world out of the market through subsidised exports. Subsidising of European agriculture which is limited to small scale operations with organic farming and which at the same time makes exports unattractive through export duties which absorb the subsidy would be regarded as „protectionism“ – and yet is sensible

economic policy at the same time. An opening of the global agricultural markets would be the opposite in every respect. Therefore the developing countries which insist on instruments for the protection of their own agriculture with the aim of securing nutrition and rural development are pursuing a policy which is fundamentally correct. The same applies for the resistance to reductions in duties as a consequence of the NAMA negotiations or the liberalisation of services.

### Protectionism in a state of change

At one time high tariff walls and limits on quantities were the principal instruments in the protectionist tool box. But in the seventies so-called „non-tariff trade barriers“ such as product-, social- and environmental standards came to the fore. No wonder that these have been increasingly involved in the liberalisation of world trade since then.

Classical protectionism is not popular due to the global linking of production chains with companies which operate internationally. With the economic and financial crisis the trend towards further liberalisation which has been unstoppable for a long time experienced a noticeable setback. Industrial countries took measures in isolation during the crisis that were branded as a form of „protectionism“ from a liberal economic perspective: subsidies in the form of credits or sureties or „buy at home“ regulations in public purchasing and in economic programmes. For developing nations and emerging nations subsidies are however not a realistic option due to a lack of comparable financial power - for them the „old“ policy of duties remains where their room for manoeuvre is additionally limited by WTO, bilateral trade agreements and international monetary funds.

In the group of the economic elites, the international groups and the economic ministries of the rich industrial nations which

### Protectionism as a shock scenario

„[A] spiral of protectionism is looming which will delay the global economic recovery if it does not suffocate it. [...] Securing open markets and free trade is the next important task for a globally coordinated response to the crisis.“ Deutsche Bank Research 2009: Aus Erfahrung schlecht. Die Rückkehr des Protektionismus. (Experience says it is bad. The return of protectionism). 6.5.2009.

„We should not forget: The main reason for the depth and duration of the global economic crisis of 1929/30 is not just in its background, it was above all the subsequent worldwide regression into protectionism. In order to emerge quickly and strongly from the crisis we need more worldwide trade, not less!“ Hans-Peter Keitel, President of the BDI (Federation of German Industries), speech on 26.5.2009.

support them, the unbroken interest in „free trade“ did however become clear shortly after the outbreak of the crisis. In this „free trade“ should not in any way be confused with unrestricted exchange of goods. An important element of the global free trade system is the protection of intellectual property rights, including patent protection, copyrights and trademark protection - rights, which would hardly be conducive to „free“ exchange.

In a nutshell: globally decreasing duties, increasingly freed from state regulation in the social and environmental sector, also strong patent protection and investment conditions adapted to their interests and extensive state „rescue packages“ in times of economic crisis - those are the best pre-requisites for global companies to use favourable production conditions in emerging and developing countries and at the same time serve well-funded demand globally.

### Protectionism versus Liberalisation - particular interests instead of prosperity for all?

As a consequence of the financial crisis a WTO study only lists 238 measures worldwide with an effect of restricting trade for the period from September 2008 to May 2009. These include increases in duty and also non tariff based measures such as granting state subsidies. Taking into account the 190 plus WTO members worldwide, the danger of protectionism is clearly limited. At least it seems to be a great exaggeration to connect a further decline of world trade with a „new protectionism“. The decline on the world markets can largely be attributed to harder access to credit, decreasing demand and overproduction.

The problem lies elsewhere. „Free trade is not anti-protectionism. It is the protectionism of the powerful“ - this is how Vandana Shiva, the Indian activist and holder of the alternative Nobel Prize puts it. In fact what is deemed to be free trade is essentially the securing of „rules for the rich“, the securing of the rights of international groups against attempts at political regulation even if this involves measures which are most relevant from an environmental or social political perspective.

As the term „protectionism“ serves as a negative label for all state measures for protection of the economy, the cries of protectionism have prevented - so far successfully - a debate with the aim of a clear differentiation between appropriate state intervention and a damaging policy of separation which goes hand in hand with nationalistic or even racist tendencies („Buy American“, „Children instead of Indians (Kinder statt Inder)“). On the contrary: the discussion about quality and targets and therefore also about the appropriateness or inappropriateness of state interventions is not led or is reduced to saving jobs. In this way a substantial socio-political discourse about the ability and necessity of shaping state policy is nipped in the bud.

The yardstick of assessment of trade policy measures should however be how much state interventions serve the common good, thus environmental protection and social justice. The outcome would then involve maintaining and newly creating protective and control instruments for socio-ecological regulation of the economy - regardless of where these instruments could be placed in the received wisdom of „free trade versus protectionism“. In this sense the change of thinking which has to some extent started in the debate on re-regulation of the finance markets must also be extended to trade and investment policy.



Is protectionism the answer?

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#### Links

[www.weed-online.org](http://www.weed-online.org) / [www.eed.de/welthandel](http://www.eed.de/welthandel)

#### Literature

**Christina Deckwirth, Michael Frein (2009):** Zwei-Klassen Protektionismus (Two classes of protectionism). In: Blätter für deutsche und internationale Politik, Nr. 12/2009

**Rodrik, Dani (2009):** Mythos Protektionismus (The myth of protectionism). In: Financial Times Deutschland, 19.10.2009

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