

Chapter 5

Trade Protectionism: Pros and Cons

Birgül Cambazoğlu

Aydın Adnan Menderes University, Turkey

ABSTRACT

The increased commercial protection of countries as a result of the Great Depression caused the effects of the global crisis to deepen and last longer. Many countries took short-term steps to minimize the negative social impacts of the crisis by implementing protectionism. However, the crisis was gradually deepened and exerted long-term impacts on macroeconomic variables. The international platform made several attempts to reduce protectionism. However, following the global economic crisis in 2007-2009, the barriers to international trade have increased in many countries, especially in the USA. In many countries, inward-looking protectionist economic policies have been increasingly preferred. Thus, the global impact of countries' adoption of protectionism in their international trade policies has begun to be discussed in terms of the pros and cons for partners. This study analyzes the pros and cons of international trade protectionism on the basis of the impact of trade on macroeconomic variables. The results show that not only protectionism but also free trade produces both winners and losers.

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INTRODUCTION

International trade and trade theories are among the oldest branches of economic thought. From the ancient Greeks to the present day, the determinants of trade between countries, their impacts on the parties, and the question of which trade policies are best have been the subject of considerable debate. Depending on the gains from trade or on the losses of those damaged by imports, researchers have put forward different views (Irwin, 2001). It can be said that these views are basically divided into two opposite camps. The first camp focuses on the benefits of free international trade to the parties, especially on its contribution to economic growth and technological progress, while the second focuses on the idea that domestic industries, laborers and cultures are damaged by foreign competition. As it is seen, there is no consensus that free trade is the best trade policy.

With respect to these two main perspectives, the first has been influenced by Classical thought and the second by Mercantilist thought. According to the Mercantilist thought prevailing in Western Europe in the 17th and 18th centuries, the most profitable situation, that is the source of wealth, is the case where the value of exported domestic goods exceeds the value of imported foreign goods. In other words, the case of foreign trade surplus was considered the most profitable situation. The Mercantilists camp stated that the export of industrial products is beneficial (their import is harmful), while the exports of raw materials are harmful (their import is beneficial). They justified this view by arguing that the increased volume of raw materials in a country provides a cost advantage and by extension leads to an increase in production and employment; thus, the export of high value-added products contributes to the country's economy. They further noted that for the proper functioning of this process, it is necessary to support it with government policies. They, therefore, proposed a highly interventionist system by using trade taxes that change the commodity composition of trade in favor of its homeland. Thus, the entry of gold into the country is supported, while the exit of gold from the country is hindered. One-way free trade in favor of the home country is advocated in line with the basic tenets of Mercantilist thought, which is consistent in itself. In other words, the dominant view is trade protectionism for the main country. However, how is this strategy supposed to work if all partner countries of international trade behave the same? In other words, not every country can have a foreign trade surplus, export only high value-added products or import raw materials. Mercantilism has been subjected to the following criticism: "How can trade be done between countries if each country tries to enjoy a foreign trade surplus?".

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