

An Exploration of the Driving Factors Behind Trade Protectionism

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Abstract: Given the thought experiment of David Friedman questioning the legitimacy of protectionism of international trade, this paper provides several determining factors contributing to protectionism in different dimensions: the profusion of infant industries lack the capability of achieving economics of scale, failing to compete directly with foreign mature sectors; indirect tax revenue like tariff could provide an extra fund for local government, and salvage of declining industries guarantees employment rate; and imposing protection policies could also be deems as unavoidable strategy when there is a politic competition. Overall, this paper outlines different logic reasonings behind the imposition of international trade protectionism policy. It is concluded that even though imposing international trade protectionist policy has detrimental impacts on both sides, there are still a bunch of ones exist served for political purposes other than economic considerations in the forms of trade war, high tariffs and certain quota , science and technology sanctions, etc.

Keywords: Infant industry, economic effect, economic nationalism, politic factors

1. Introduction

David Friedman's thought experiment ('the Iowa Car Crop') illustrates the importance of international trade by specialization. Friedman describes that there are two technologies for producing automobiles in America; one is to manufacture them in Detroit, and the other is to grow them in Iowa. In international trade theory, wheat crops and other agricultural products are the raw materials for manufacturing cars. Countries or regions have comparative advantages in different industries: Iowa in wheat production and State B in car manufacturing, for example. It is more efficient for Iowa to specialize in wheat production and trade with State B for cars instead of manufacturing cars itself. Imposing trade barriers to protect the car industry in Iowa would harm the farming industry by forcing them to spend more on domestic cars, leading to an inefficient outcome.

Even though this thought experiment shows that protective measures might be detrimental to the domestic economy, such policies widely exist. There must be different purposes that could justify protectionism: the need for protecting the infant industry, providing economic benefits to a country, and the result of nationalism.

2. Protecting Infant Industries

One reason why countries impose trade barriers is for the protection of infant industries. Since domestic firms and industries need time to build the capabilities necessary to compete in the global marketplace, countries may act to guard their burgeoning industries. For example, Henry VII (1485-1509) and other Tudor monarchs converted England from a raw material-importing economy to a powerful textile-manufacturing country. By raising tariffs on the export of wool or fully prohibiting its export, the monarchs restricted the outflow of these resources and ensured that sufficient supply remained for domestic use. For instance, in the 17th century, the UK government levied an export tariff on wool. Given that the UK was the main international wool exporter, this policy pulled foreign textile prices up [1][2]. This is because the tariff reduced the quantity of wool imported available to foreign wool-product manufacturers; more expensive raw materials meant a rising production cost shifted the supply curve leftwards, increasing the equilibrium price of their final product. The policy guarded UK infant textile producers against competition. Similarly, Sweden began using tariffs to protect its agricultural sector from American competition around 1880. From 1892 onwards, tariff protection and subsidies were provided to the industrial sector, particularly the emerging engineering industry [3]. Surprisingly, due to this shift between 1890 and 1900, they had one of the fastest-growing industrial economies across the world and maintained their position as the fastest-growing economy from 1900 to 1913.

For some countries that faced severe blockades and a deformed domestic industry, protectionism should be considered not just a booster for the economy but instead an urgent measure through which they can develop major sectors, laying a foundation for advancement. In 1791, George Washington's *Report on Manufactures* highlighted the need to develop American infant departments. In the report, Washington commented that "the safety and interest of a free people require that people should promote such manufactures." Kicsi, in "Protectionism and 'Infant' Industries," also approved the justification of it in that era [4]. In his opinion, free-trade relationships are beneficial, providing wider consumption and production frontiers for different-industry-specialized countries based on comparative advantages. However, the USA faced a problem; the nation could produce goods demanded by foreign countries but struggled to import them due to its isolating geography, especially in relation to Europe. For instance, during the War of 1812, the British imposed a naval blockade on the United States, targeting its coastal areas. At that time, the United States played a neutral indemnity in the war, conducting trade between both the UK and France. However, the UK enacted 12 "Orders in Council" to prohibit ships from America from entering French ports by compulsory measures like seizure because America regularly had business with France. These policies significantly reduced the contact between America and Europe.

Outer obstacles and internal pressure may also force the United States government to implement regulations encouraging the advancement of manufacturing. In colonial America, agriculture was the primary source of livelihood for 90% of the population, and most towns were shipping points for the export of agriculture. The infant manufacturing sector only started to develop in 1840. Furthermore, the manufacturing industry could not reach the full scale of economies that their older international competitors may have. Economies of scale are the cost advantages that enterprises obtain due to their scale of operation. They helped with the accumulation of industrialization and built a transition from the agriculture industry to the secondary industry. The number of farms grew from 1.4 million in 1850 to 4.0 million in 1880 and 6.4 million in 1910; then, they started to fall, dropping to 5.6 million in 1950 and 2.2 million in 2008[5]

Henry Carey was also a supporter of protectionism instead of the laissez-faire type. He emphasized that "the real, profitable, and only means of reaching full freedom of trade are found in efficient protection, which will meet completely and fully the doctrine of Doctor Smith..." In addition, Carey

believed that protection in distinct industries is irreplaceable until these industries can be self-sufficient and compete with foreign countries.

Admittedly, protectionism is not the most efficient policy in all cases. The core of the protective theory is the idea that, after a learning period, nascent sectors could possess better workers and more mature working patterns, which decreases average cost curves. On the contrary, Meade described that it would be possible for those who raise sufficient funds in the capital market to compensate for their initial excess loss [6]. Nevertheless, this method does not always work. For example, in colonial America, the whole country was commercially blocked; there was insufficient money or funds from domestic or foreign financiers to pursue the alternative.

3. Economic Effect

Tariffs such as customs duty can bring a government additional fiscal revenue. This will occur when the value of elasticity of imports is less than 1: when demand for imports is inelastic. The imposition of tariffs would not dramatically reduce the quantity demanded, instead elevating the total tax receipts. The increase in government revenue could be spent on education, healthcare, military, R&D, and infrastructure without worsening the budget deficit. From the 1830s, American government grants were given to agricultural universities and related scientific research [7].

Other aspects included protection for the sunset industry usually referring to a declining industry. Sunset industries are often an important part of the economic and social fabric of many countries. Trade protection policies could offer shelter for these industries by restricting imports or raising tariffs, therefore reducing domestic business closures.

3.1. Economic Nationalism

In some cases, protectionist policies are the expression of economic nationalism. Rusty Reno defined nationalism as a “priority-setting word” that signals a regrouping of national identity [8]. It stems from national consciousness and prioritization opposing, or comes at the expense of, other nations. Economic nationalism places the national economy above all other economies.

In the recent trade war between the U.S. and China, this nationalism was induced.

According to Boylan and Wang, nationalism was expressed in three ways: the push for energy independence, the revival of manufacturing, and internal and external xenophobia [9]. On the manufacturing side, in the 2016 election, candidate Donald Trump called for a renaissance of manufacturing to tackle the worsening US manufacturing industry. At the beginning of the COVID-19 crisis in 2020, the president provided bank loan promises, decreases in taxation, and deferrals to companies’ tax payments. In addition, the Trump Administration proposed lowering fuel efficiency standards to reduce car prices. This policy targeted reversing the hollowing out of the US domestic manufacturing industry, decreasing employment opportunities in China’s export markets (the North American Free Trade Act). Increased exports and lower imports could also improve current account deficits to improve the US’ competitiveness towards China. Total manufacturing output in dollars reached an all-time high in mid-2019; capacity utilization was back to post-war norms, and exports of goods, which are ten times those of agricultural products, increased by about 15 percent from January 2017[10]. Nevertheless, despite these advantages, the manufacture-targeted policy would exacerbate the trade war and cause more retaliatory trade barriers.

In addition to initiating trade wars, countries may impose trade barriers in retaliation to aggression from foreign countries. In 2018, a tariff was levied on imported solar panels and washing machines by America; China responded by initiating an anti-dumping investigation into U.S. sorghum. President Trump announced steel and aluminum tariffs aimed toward China, followed by 128 U.S.

products, including ethanol produced in the Midwest, as the targets of retaliatory tariffs in around 14 days [11]. Economic nationalism induces more trade disagreements and retaliatory protectionism.

Nationalism also appears to play a role in the protection of strategically important sectors. For instance, the ability to generate advanced technology brings countries geopolitical influence and bargaining power in international relations. Most significantly, this protectionism would exert a detrimental effect on the development of opponents' industries. This phenomenon is exemplified by the chip war, involving the Taiwan Semiconductor Manufacturing Company (TSMC). TSMC is a global leader in chip manufacturing and a crucial company in Taiwan. It had a normal trade relationship with China and the U.S. until the Trump Administration imposed restrictions on Huawei. These restrictions prevented

Huawei from purchasing chips from TSMC, causing a blow to Huawei's smartphone sales. In 2020, Huawei experienced a 21.5% decline in global smartphone shipments due to trade restrictions and the ban on access to key technologies, including TSMC chips [12]. To mitigate the impact, Huawei increased its investment in R&D, spending around 20.5 billion dollars in 2020, accounting for 15.1% of its total revenue according to research firm IDC. According to Kshetri, the Chinese chip industry is not mature enough to take effective precautions, and problems like corruption and lack of incentive for human capital are road blockers [13]. Strategically important sectors might not have to be a result of nationalism. For instance, water resources are preserved in a country mainly due to resource security.

In conclusion, from a political point of view, protectionism brought by economic nationalism appears to be successful in striking competitors.

4. Conclusion

To summarize, protectionism has justifications: protecting domestic infant industries from foreign competition, ensuring they grow rapidly, and being capable of boosting the economy. It can serve as a political purpose for striking opponents' growth, reviving hallowing-out industries, and raising tax revenue.

Even though protectionism has various seeming points mentioned above, not all of impacts have been quantified yet. Therefore, it is difficult to determine the exact influences of protectionism when it comes to super specific. For instance, the implications of third party usually are not considered, not to mention the chain effect occurred. In addition, legitimacy of protectionism should also be taken into account. It requires profusion of discussions and debate to judge whether protectionism policies could be classed as rights of every country.

There will be other query about whether protectionism would be new trends across the world. The probable answer would be no as a result of more and more intense economic globalization. Specific division of labor in different countries plays a momentous role in low-cost production. More significantly, protectionism would hinder win-win game globally. To sum it up, protectionism policy would just aim at certain regions and certain state.

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