

THE LIBERALISATION AND PROTECTIONISTS TRENDS IN THE GLOBAL TRADE REGIME

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Abstract

The international trade policy has been strongly affected by the force of globalization. The changes are evident in the growing importance of international trade to national economies and to domestic groups within those economies, in the closer linkages between trade and other international issues, and in the increased membership of countries in WTO. Both liberals and realistic point are important trends in the global trade regime. On the one hand, trade interdependence has been increasing, and there are strong pressures for further trade liberalization. On the other hand, this growing interdependence has led to increased competitiveness and greater temptations to resort to strategic trade policy. Nevertheless, if one considers the role of domestic and transnational (i.e., nongovernment) actors today, it would seem that the forces for trade liberalization are inexorable. As globalization has increased, a growing proportion of domestic firms in the advanced industrial states have become reliant on multinational operations. These internationalist firms have played a major role in pressuring for trade liberalisation.

Introduction

The decisions taken by the representatives of the governments participating in the World Trade Organisation (WTO) are, to a significant degree, influenced by various lobbies, such as organisations and unions of food producers or other non-governmental organisations, including trade unions. The problems of mutual relations between the representatives of governments and those non-governmental organisations which influence on multilateral trade negotiations conducted on the forum of WTO are the subject of the analysis in the undertaken research program, while special attention has been paid to the trade conflicts between the European Union and the United States of America.

The biggest confrontations within WTO involved agricultural problems. They could also be observed in other areas, such as steel industry, textile industry or in an environmental protection. There are serious conflicts existing between the idea of international trade liberalisation and environmental

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protection since one has to consider what is more profitable - environmental protection or international trade liberalisation.

Different positions of the USA and the European Community representatives could be observed during the round of trade negotiations. The governments of those two economic powers found themselves under a significant pressure of food producers who had serious difficulties with the sale of agricultural products surplus in the situation of the limited world market and lower prices. The problems of agriculture protection in the European Union, the protection resulting from the Common Agriculture Policy (CAP) of member countries, were becoming a serious obstacle on the way to the final decisions.

1. Protectionist pressures in different political systems

The role of trade unions in different political systems may be, to a high degree, different. In authoritarian systems it is, as a rule, smaller than in democratic systems. It would seem that if protectionistic pressure on the part of trade unions is weaker, the situation for economic growth is much better. Following that line of reasoning we could come to conclusion that the authoritarian system is better for the effectiveness of the labour market. The examples of Chile, South Korea, Singapore and Turkey from the seventies and early eighties could confirm that point of view. In many cases during those two decades the authoritarian regimes persecuted trade unions and put restrictions on basic labour rights. During that period of oppression, South Korea, Singapore and Turkey experienced a spectacular growth in the sector of processing industry and in the growth of demand for labour. Growing profits and the demand for labour in a processing industry, caused a general growth of prosperity of the employed. Although similar results were not noted immediately during the authoritarian phase of development in Chile, a number of observers express the opinion that the reforms introduced at that time helped to reorganise Chilean economy in the nineties. The application of democratic rules, on the other hand, may lead to lower productivity of labour force. In a number of years different democracies had to use significant financial resources for the employment of those who belonged to trade unions.

A different point of view says that government legislation concerning the labour market may be applied more effectively in an authoritarian system than in a democratic one. The authoritarian regimes often make use of individual interests of given circles. In most democratic countries there is no broad enough basis that would allow to use labour market policy for gaining the support from pressure groups, the urbanised labour marked elite included. The major difference between authoritarian and democratic regimes lies in the level of the outside influence. In a well functioning democracy, the outside opinions are also taken into account and there occur some limitations which come from the

outside, which restricts the achievements of given groups of interest. In a dictatorship, a government cares only that those groups are not too strong.

There is, however, a number of democracies among the industrialised countries where an effective labour market exists. There is also a number of democracies with effective labour market policy among the developing countries. Similarly, in the countries in which the transformation from the authoritarian regime towards a democracy is taking place, avoiding unfavourable phenomena on a labour market is often a priority. For example, the Chilean government moved towards democracy and to free trade unions without home income growth. The end of oppression in South Korea, in 1987, started the partnership relations in full of conflicts industry (Banerji and Ghanem, 1997: 173).

It is worth considering which of the two points of view presented above should be given support, that is, which of them is the proper one. The analysis of that problem may be based on the Grossman and Helpman model (Grossman and Helpman, 1994: 833 – 850). This model describes economic development on the basis of two sectors - urbanised, regulated processing sector, and rural, unregulated agricultural sector. The protection of the labour market, especially of minimum wages, is usually applied in order to bring the benefits for the employees of the regulated sector, since the sector of unregulated employees does not come under the legislation concerning the labour market.

The sector of regulated employees, and also the owners, demand from the government that it leads an economic policy that is favourable to them. The employed demand high minimum wages, while capitalists demand high profits. Both groups demand the restrictions on the degree of economy openness. In a closed economy, higher market minimum wages and higher profits are usually connected with higher prices for home consumers, and this is not easy when those consumers are free to buy the substitutes in form of imported goods. Thus, incomes in an economy may be created by protection and later divided among the employees of the regulated sector and the capitalists, although sometimes the government itself takes a part of those incomes (Banerji and Ghanem, 1997: 173).

A government conducting an economic policy takes into account a number of factors. Firstly, it has to decide the degree of obtaining the resources, that is, how much from those resources it wants to obtain. Hence the importance of investments and of future economic growth, and also of defining the possibilities for keeping the power it is currently holding. Secondly, the government should define the scale of support from each of the pressure groups that can influence the situation. The position and importance of each group for the development of political processes should be considered. For example, in the country where the regulated labour market is divided, and politically weak, only the capitalists may have a deciding voice in political processes. And the contrary

also happens - in the societies where the labour market is organised, it may play the important role in mobilising voters.

How can we recognise the type of power, the type of rule? First of all, we should investigate what level of resources a given government is going to achieve. If an authoritarian government is more or less corrupted than a democratic one, it will be creating the income, to a bigger or lesser degree, through protectionism. It will also appropriate some part of that income. Secondly, a given type of government may remain under the influence of different pressure groups. If an authoritarian government is trying, to some extent, to subordinate special pressure groups including the regulated labour sector, it will be, to some extent, generating incomes through protection and it will be turning over some part of them to those special pressure groups.

2. The level of protectionist pressures

The above arguments show that the policy is defined by political factors (including the type of the government and the burdens resulting from obligations towards employees and capitalists), and by economical factors (wages, prices, the structure of production and consumption). On the basis of the present discussion, we can present two equations, one pertaining to the level of protection, and the second pertaining to the national economy and deformation of wages.

$$1) \quad \pi = f(e, l, k, R)$$

$$2) \quad \varphi = f_1(\pi, e, l, k, R),$$

The level of protection (π) depends on the economic parameters (e), a relative political importance of urbanised employees and capitalists (l and k , respectively), and on the type of the government (R). Deformation of wages is, on the other hand, the function of π and of e, l, k and R . In case of a small economy, economic parameters that can influence π and φ include flexible consumer and producer prices, demand flexibility, wages and the demand for labour force, and also the price of goods on an international market.

One can expect, a priori, that the growth of π is dependant on l and k . If interest groups become stronger, the pressure to form incomes based on protectionism may become stronger. The influence of R , that is, the influence of a political authoritarianism on the level of protectionism, that is, π , depends on the fact whether the opinion, that the level of protectionism depends on the effects of democratisation, is correct. It is also thought that the increase of the deformation of wages depends on π and l , while its decrease depends on k . As long as the incomes are obtained from trade protections, those incomes can be handed over to urbanised employees. An important problem in case of urbanised labour force as an interest group with growing strength is the fact that urbanised employees may gain a big share in the division of incomes but the growth of

political importance of the capitalists may cause that the shared incomes, handed over to the labour force in regulated sectors of economy will become smaller (Banerji and Ghanem, 1997: 173).

There is no doubt that it is easier for wealthy rather than poor societies to choose democracy (Helliwel, 1992). Since those wealthier societies at the same time have a tendency to a bigger openness, the direction of cause-result events may run from the openness of society to the political system, and not, as was suggested earlier, in the opposite direction. The research showed also that the level of education plays an important role in this respect. The countries with a higher level of education of labour force are more open.

On the basis of the earlier considerations, one can come to the conclusion that authoritarian systems have a tendency towards a broader application of protectionism than democratic systems, and that, in turn, the trade restrictions accompany significant deformations of wages on the labour market. This opinion may be justified on the basis of the observations of the situation in a number of countries.

Freedom of association is one of the elements of good management and the necessary condition for development. The authoritarian governments do not respect, however, the freedom of association, which is connected with the policy of trade restrictions and with the deformations on the labour markets. One cannot state, however, that improper or ineffective policy on the labour market belonged exclusively to authoritarian regimes or that authoritarianism automatically generates this kind of policy. There is a number of examples of authoritarian countries which do not conduct policies of that kind. The works of such authors as Fields or Freeman show that the repressions against the labour force are not necessary, if one wants to achieve a required economic growth (Fields, 1994; see also Freeman, 1993).

Finally, it should be pointed out that there exists a close relation between democracy and an economic growth. There are well known examples of open societies that stimulate the economic growth. This is true mainly in case of highly developed and strongly urbanised countries. In the countries with a developed democracy, the pressure groups have a bigger opportunity for acting. The research shows that the presence of trade unions helps to accelerate the economic reforms (Devarajan, Ghanem, Thierfelder, 1997: 145 – 170). The benefits resulting from liberalisation of the international trade are bigger when the trade unions exist in the sector of the economy under protection. The growth of import abilities leads to the decrease of wage pressures, and when the trade unions agree to that, such a situation allows for a better allocation of labour force in the economy. This is true both in the case of active and passive trade unions, although the effects are better in case of active trade unions.

The trade unions active on an urbanised labour market had a significant influence on the decisions of governments, in the course of multilateral trade negotiations within WTO. It was especially evident in the negotiations on

lowering customs duties and non-tariff measures in steel, shipbuilding, textile and clothing industries, and in coal mining. In the so-called "sensitive" industries, which, for example, in the European Union were under special trade protection, the position of trade unions was very strong.

3. Food producers pressure on the position of governments in trade conflicts

The biggest conflicts between the United States and the European Union within WTO were caused by agricultural problems. The governments of the two economic powers were in many times under a very strong pressure of food producers, who had problems with the sale of agricultural products surpluses in the situation of the shrinking world market and lower prices.

The problem of liberalisation of agricultural products trading is linked to the problem of subsidies application. According to the WTO decisions (art. XVI), exports of the agricultural products, as so-called basic goods, can be subsidised, if this fact does not interfere with the economic interests of other participants of the agreement. Actually, subsidising exports of agricultural products may have many different forms, starting with a direct subsidy, through variable compensatory fees, and finally through various forms of government guarantees and preferential credits. In the ministers declaration we read only about a better discipline among the members of WTO. The total prohibition of subsidies would be the simplest course, but it does not seem to be realistic.

In an effort to limit the EU budget expense for subsidising agricultural products, it was decided, among other things, that in case of fats, the money will be transferred from the processing sector to the production sector. Instead of compensating the industry for higher costs of purchasing more expensive, local raw materials (the prices paid to the growers of rape or sunflower in the EU are much higher than the world prices), it was decided that subsidies would go directly to farmers, and the size of farms was to be the basis for calculations. At the same time, the Union authorities disclosed that they will be trying to reduce gradually those expenses by reducing guaranteed prices.

This reform was the first in which the attempt was made to eliminate the structural surpluses, the surpluses which had been disorganising the EU agricultural market and the international trade for many years. It is worth pointing out here that the direct result of announced changes in the agricultural policy of the EU may not be favourable in the abroad. The simplest form of compensation for farmers are usually the restrictions for the suppliers from abroad. The agricultural lobby in France is especially active in this area. As a result of its activity and the pressure exerted on the government the agricultural goods from abroad have been successfully blocked from the EU market. The position taken by that agricultural lobby influenced also the position of the EU representatives in the debates on the agricultural questions during the multilateral trade negotiations.

In spite of the trade conflicts, most clearly visible in the USA - the EU relations, all the countries participating in the international trade were interested in the successful of the international trade negotiations. The reduction or the elimination of trade restrictions stimulates significantly the growth of the world trade exchange, while the foreign trade, in turn, is an important factor of the economic growth of individual countries.

4. Conflicts between the tendencies to international trade liberalisation and environmental protection

The tendencies to liberalise the international trade often stand in clear conflict with the protection of the natural environment which, during the intensification of production, found itself in the centre of attention. The process of pollution was one of the negative results of scientific-technological revolution. Many countries introduced special legal regulations in order to protect the environment against pollution. Ecological organisations of different types were established, and also the pressure groups, especially in industrialised countries, interested in the use of trade restrictions by governments for protection of the environment.

The pressure groups acting for natural environment protection see the trade policy in two aspects: as the way of improvement the standards of environmental protection in individual countries and over their borders, and as the instrument for persuading those countries to sign the international agreements on environmental protection. The imports restrictions against the producers coming from the countries with low standards of environmental protection may lead to the improvement of production standards by the local companies resulting from fighting with low competitiveness, and from the attempts to compete with foreign firms (Anderson, 1997: 319).

The application, in trade policy, of discriminating means in relation to the environment, which happened in the countries of western Europe, is in accordance with the article XX of WTO, and it testifies to the fact that trade barriers are used for the protection of the environment. Thus, the activities related to environmental protection are in conflict with the tendencies leading to international trade liberalisation, and with higher investments. From the theoretical point of view, we cannot say that trade liberalisation may help the environmental protection, especially when serious steps have to be taken in order to protect this environment against further degradation (Chichilnisky, 1994: 851 - 874; see also Copland and Taylor, 1995: 716 – 737; Corden, 1996). On the other hand, when some government find itself in a difficult situation, the trade reforms will be much more advantageous for that government than the actions in the environmental protection area (Bhagwati and Srinivisan, 1996). That is why the pressure groups connected with the environmental protection are against the international trade liberalisation.

The actions of those groups on WTO forum, and their regional activity against the reduction of trade barriers, have three reasons: 1) free trade means the growth of production and income, which, in turn, leads to the degradation of the environment, 2) free trade and growing investments cause the growth of transport activity and encourage companies to transfer the production to the countries with low ecological standards, which from the environmental point of view is wrong, 3) freedom for foreign investments discourage local companies to develop the technologies favourable for environmental protection (Anderson, 1997: 319). The question of reaching some form of an agreement between the problems of international trade liberalisation and the protection of natural environment became an important task for the WTO. The program of WTO activities included:

- the relations between the means used in trade and in environmental protection
- the relations between multilateral trade systems and the environmental protection means, applied for protection of the environment
- the influence of the effects of environmental protection on the liberalisation of international trade
- the relations between the mechanisms leading to compromises within WTO and within the multilateral agreements on environmental protection (Martin and Winters, 1995, 1-3).

Reaching the effective agreements on the international trade liberalisation and on environmental protection is considered to be both very difficult and very delicate question. The problems of environmental protection have become most important issues. Therefore, it is evident that the international market has to take them into account. The key problem is to make a proper choice: is the introduction of restrictions on international trade the best solution, or will the benefits from environmental protection (as applied by a multilateral trade system) be higher than the costs?

It is necessary also to emphasize that if the rules of international trade are clear – and if they are perceived to be supportive of important environmental values – then their legitimacy will be much greater. Over the long term, public support for the WTO depends on a perception that it is balanced and fair (Esty, 1998: 123). Efforts to address the issues identified above could greatly enhance the WTO's reputation. Competing trade and environmental principles could best be balanced through creation of an interpretive statement that focuses on how the "exceptions" spelled out in Article XX would be implemented, rather than through full-blown renegotiation of the environmental elements of the trading system (Esty, 2000: 250-251).

Finding ways to address the environmental issues that inescapably arise in the context of deeper economic integration must be seen as an important trade policy priority, as a matter of WTO commitment to undergirding the trade regime with sound economic theory, and as a matter of political necessity.

Building a trading system that is more sensitive to pollution control and natural resources management issues is mandated by the growing degree to which these realms intersect with trade and environmental policies mutually reinforcing are also advisable to the extent that the presence of trade rules that internalize externalities will prove to be more economically efficient over time. Institutionalizing the links from the trade regime to environmental actors and other elements of civil society will also pay dividends. A culture of openness within the WTO is likely to generate policies that the public accepts and that therefore become more useful and durable (Esty, 2000: 250-251).

Concluding Remarks

The international trade has been strongly affected by the force of globalization. The changes are evident in the growing importance of international trade to national economies and to domestic groups within those economies, in the closer linkages between trade and other international issues, and in the increased membership of countries in WTO (Cohn, 2001: 432). Internationalist firms have a major stake in an open trading system today because of their reliance on multinational operations, exports, imports and intrafirm trade. The WTO today is addressing a wide range of nontrade issues such as foreign investment, intellectual property, labor standards, and the environments, which have become closely intertwined with trade issues. Foreign direct investment and trade, for example, are highly complementary because about one-third of trade today is conducted among affiliates of international firms (Cohn, 2001: 432).

Both liberals and realistic points are important trends in the global trade regime. On the one hand, trade interdependence has been increasing, and there are strong pressures for further trade liberalization. On the other hand, this growing interdependence and the decline of USA trade hegemony have led to increased competitiveness and greater temptations to resort to strategic trade policy. Nevertheless, if one considers the role of domestic and transnational (i.e., nongovernment) actors today, it would seem that the forces for trade liberalization are inexorable. As globalization has increased, a growing proportion of domestic firms in the advanced industrial states have become reliant on multinational operations, imports, exports, and intrafirm trade. These internationalist firms have played a major role in pressuring for trade liberalisation at both the global and regional levels (Cohn, 2001: 432).

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