Why are protective measures imposed on international trade?

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Abstract
International trade is one of the few subjects of economic science that has attracted a lot of attention and has triggered a great debate for very long time. The benefits of free international trade have been discussed and proved theoretically by the classical economists who had been inspired by the liberal principles of Enlightment. However, it has been only very later that substantial efforts to reduce tariffs and customs and remove all protective barriers in imports had been made. The most significant progress had been the bilateral and multilateral negotiations and their instutionalization through the General Agreement on Tariffs and Trade (GATT) and later by the World Trade Organisation (WTO).
Although its effectiveness has been well documented, there is still a considerable opposition to free trade which increases amidst the severe economic crisis which our world is experiencing. In addition, many people consider that international free trade leads to significantly higher inequality thus developed countries tend to exploit the less developed ones.
This paper explores the reasons why protective measures on trade still persist despite the proven benefits of free trading. The aim is to identify any major reason that hinders the removal of barriers on trade.
In this respect, we have carried out an extensive desk research by using data publicly available online and in libraries with the aim to obtain a better and deeper understanding of peoples' attitude towards free international trade. The analysis conducted showed some interesting findings regarding the overall attitude in favour of protectionism which is not always based on solid economic arguments.
We have examined the trends of some very relevant variables and we propose a coherent and robust indicator framework for facilitating the monitoring of the trends in peoples' attitude towards free international trade.

The classical model of international trade

Famous classical economists such as David Ricardo and Adam Smith laid down the foundations of free international trade in accordance to the spirit of laissez faire-laissez passé principle. Several theoretical models have been developed concluding that free trade bears benefits to all countries involved.

Each country gains when trading freely which can be formulated as follows:

> If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage (Smith, 1776).

People exchange goods because they have a mutual interest in the exchange. The basis for the existence of free trade derives from the fact that people have different productive capabilities and resources.

By exchanging goods, they can enjoy a higher level of consumption or enjoy goods that in the absence of trade could have been able to obtain.

By analogy, the same conclusion is valid for countries. In the case of countries, they can trade any surplus of goods domestically produced with products they do not have and have been produced in other countries. Therefore, producers in each country are specialized in the production of those goods in which they have a comparative advantage. As a result of this 'comparative advantage principle', a country will be specialized in exporting those products in which it can produce at relatively lower costs, as argued by the classical economists.

Benefits from the free international trade

It would be important to recall the benefits of free international trade which have been supported by the theoretical contributions of economists.

The main benefits of free international trade can be summarized as follows:

- It allows all countries to overcome the constraints put on them by their available limited resources and to consume goods and services in combinations outside their production possibility curve
- International trade maximizes global production, allowing each country to specialize in producing products that has a comparative advantage
- It promotes international and domestic equality of productivity yields by increasing the real income of countries involved in trade.

The path towards the liberalization of international trade

In this section, the main steps taken towards the liberalization of international trade are presented through the most significant milestones of the world's most developed economy that of the United States of America. It is worth mentioning that the first attempts have been followed by rounds of multilateral negotiations among countries with great differences in living standards and economic power.

Despite the progress made so far, there are still calls for further opening of markets which would lead to dissemination of the benefits of free international trade.

International trade policy prior to World War II

The liberalization of international trade has gone through many stages and is considered as a dynamic process. The 1930s Tariff Act provided particularly high protection to the US economy by an average level of 50% of duties.

At the same time, it triggered the increase of tariffs on imports by other countries. As a consequence, the world trade was decreased dramatically. Madsen (2001) argues that around 41% of the global trade decrease was attributed to the new barriers imposed while the remaining 59% was due to the lower available household income and the corresponding lower purchasing power

In 1934, the US Congress adopted the Reciprocal Trade Agreements Act aiming to reduce US tariffs. The Act enabled the US Congress Executive Branch to take part in bilateral negotiations with trading partners aiming at reducing tariffs. The enactment was renewed every three years until the end of the Second World War.

Its main feature was the "kind to kind" approach. This meant that tariff reductions were negotiated separately and not as a whole for a broad category of goods.

Developments in the post-World War II trade negotiations

Appleyard et al. (2006) reviewed critically the multilateral negotiations which began after the end of the Second World War. In 1947, the General Agreement on Tariffs and Trade (GATT) came into force foreseeing that countries were committed to engage into multilateral negotiations in order to facilitate international trade. Until 1962, five rounds of GATT negotiations led to reductions in the duties imposed.

The 1962 round of negotiations led by the United States lasted until 1967 and it is widely known as the Kennedy Round. The President of the United States was mandated by the Trade Expansion Act to negotiate the reduction of tariffs up to 50% through a new approach which was called 'across the board' approach.

According to this, the negotiations concerned large groups of goods and the agreed reduction in tariffs applied to the entire group of products. This approach is more flexible than the "kind to kind" approach saving time and cost. Overall, the Kennedy Round led to cut off the average tariff level by 35%.

The negotiations on international trade, known as the Tokyo Round, were completed in 1979. They reduced duties in a more complex way than the previous rounds of negotiation and introduced new tools to control the spread of non-tariff barriers as Krugman and Obstfeld (2003) pointed out.

The conclusion of the Uruguay Round negotiations in 1994 led to a revision of the GATT. At institutional level, the most important outcome of the negotiations was the establishment of the World Trade Organization that replaced the GATT. The final agreement was signed by 111 countries entering into force as from 1-1-1995.

The 2001 Doha Declaration has prompted negotiations and other several issues related to international trade. The negotiations concerned agricultural products and services. Decisions have also been made to support developing countries facing problems in the implementation of agreements within the World Trade Organization. The subsequent summits have been held in Cancun in 2003, in Geneva in 2004 and in Hong Kong in 2005.

Contemporary examples of on-going trade negotiations

We briefly present two cases of substantial efforts made to reach mutual agreements towards the further opening of markets to free international trade. These examples are the Transatlantic Trade and Investment Partnership (TTIP) and the Comprehensive Economic and Trade Agreement (CETA).

The Transatlantic Trade and Investment Partnership (TTIP) is a free trade agreement currently being negotiated between the European Union and the United States of America. The principle aim is to create growth and jobs on both sides by removing trade barriers.

The agreement has three main elements:

- Market access
- Improved regulatory coherence and cooperation
- Improved cooperation in relation to establishing international standards.

The trade agreement could have its biggest effect on growth in the area of standards and regulations. Despite the common goals on either side of the Atlantic, it is often the case that different regulatory structures and traditions exist. These bureaucratic hurdles alone are equivalent to customs duties of up to 20%. This particularly affects small and medium-sized companies which are unable to bear the extra costs.

Regarding the potential economic effects of the planned agreement, it is expected that the EU economy could grow by €119 billion per year and that the planned trade agreement will also bear many advantages to small and medium sized companies too. The EU and the United States have already agreed to include specific measures in the agreement so that smaller firms will be able to benefit from it in the same way as larger ones. The advantages will not just be limited to Europe. The planned agreement will also have effects on the global economy. The global economy is forecast to grow additionally by €100 billion as a result of the increase in transatlantic trade.

The Comprehensive Economic and Trade Agreement (CETA) is a trade agreement between the EU and Canada. CETA is a progressive trade agreement. It has some of the strongest commitments ever included in a trade deal to promote labour rights, environmental protection and sustainable development. CETA will benefit European companies by abolishing 99% of the duties they have to pay at Canadian customs. The same will apply to Canadian businesses exporting to the EU.

CETA entered into force provisionally on 21 September 2017. After seven years, all customs duties on industrial products will disappear. Areas that are not yet in force are the investment protection, the

investment market access for portfolio investment and the Investment Court System.

Protective measures imposed on international trade

The theoretical foundations of free international trade as well as the benefits which derive from it were briefly presented in a previous section of this paper.

There still exist a number of arguments in favour of maintaining protectionist measures on international trade despite the fact that great progress has been made in reducing tariffs and removing restrictive barriers to imports.

We have tried to categorize the main arguments against free international trade in this section. In essence, the arguments of the defendants of the protective measures are criticism to the underlying assumptions of the classical model of international trade.

Critic to the classical model of international trade

Like any other economic model, the classical model of international trade is based on a number of assumptions. In that case that at least one of these underlying assumptions is not valid in reality, then the fundamental conclusion on the benefits of free international trade can be put into question.

Todaro (1997) has summarised the assumptions of the classical model of international model in a concise way:

1. Full employment of productive resources
2. Technology is freely available and consumer preferences fixed
3. Perfect mobility of resources
4. The international prices are determined by the supply and demand forces rather than by national governments
5. The benefits of trade are equally distributed among the citizens of every country.

Economists in favour of protecting domestic industries claim that the above mentioned assumptions do not reflect the real world.

As a consequence, the classical international trade model is not valid and therefore protective barriers such as customs, tariffs and quotas should be applied in order to remedy certain cases.

Krugman and Obstfeld (2003) provided a list of such cases which indicatively include the following:

• Infant industry protection from international competition
• Protection of certain domestic key industries from international competition in an effort to safeguard jobs that are threatened by increased imports
• The country possesses monopoly power in the international markets and could benefit further by imposing tariffs on imports
• Existence of inadequacies in the domestic market
• Inequality of distributional impact of international trade
• Diversification of the economy in order to help develop new industries

- Raise public revenue for the government.

The influence of interest groups on trade policy

The arguments that have been brought forward in favour of protective trade policies are added to the concerns raised over recent years against globalization and the calls for ensuring a higher level of protection for domestic producers towards international competition.
The cases listed above by Krugman and Obstfeld (2003) can be attributed to economic reasons. Another factor to be considered is the relative negotiating power of social groups and their capability of influencing the political decision-making process on imposing trade-restrictive measures.

As long as an interest group or some groups are in a position to be favourably affected by protective measures on imports and the political process can satisfy the needs of these groups, it is not surprising that free trade is being criticized so severely.
It may be the case that a country as a whole benefits from freely trading at international level; however, this does not necessarily and automatically apply to all social groups within the country. An anticipated consequence of this is the reaction by these groups and their attempt to manipulate the political process in order to promote their interests.

Politicians in every country are primarily occupied with maximizing the possibility of being re-elected. That's the reason why they legislate in a way that they serve certain interests.
Stakeholders often employ legitimate or even less transparent means to achieve their goals. These means include fundraising for candidates' election campaigns to offering bribes.

Relevant previous research work concerning the existence of protective measures in international trade

The findings of empirical research concerning the existence of protective measures are of particular interest. Administrative import restricting mechanisms are used to hinder the free exchange of goods and service worldwide. They are often resulting from the views, efforts or even complaints raised by social groups concerned about the impact of imports on the domestic economy.

Finger et al. (1982) examined the main import regulation tools in the United States of America which included the anti-dumping and countervailing taxes as well as an exemption clause during the period 1975-1979 when the Trade Act of 1974 was into force.

Finger et al. (1982) examined two instruments of administrative regulation of trade:

- Prices which are below fair prices showing how fair the business practices were used by the foreign importers in the US market
- Exemption clause which related to the losses suffered by the domestic US producers from imports.

In their work, the key in the analysis made was the level at which trade policy is shaped. When decisions are made at high political level, they are transparent and made during daylight. Policies that

can be easily perceived by the public may become controversial and therefore their promotion will be difficult. On the contrary, the policies decided at a lower political level may attract less attention and controversy because stakeholder have imperfect information leading to less transparency and greater room for exercising influence on trade policy.

The social group favoured by the administrative mechanism in place when making public its view of the "unfair" effects caused by foreign competition, aims at creating a basis for political support. The ultimate goal is to achieve a favourable decision at national level.

The main conclusion is that the more open and transparent the political system is, the less distortion is caused by the administrative mechanisms.

Brainard and Verdier (1994) interpreted the persistence of protection measures in terms of cost. The owners of resources have the following options:

- Either adapt to new situation that involves high costs or
- Influence the trade policy in order to establish protective measures in favour of them.

Their choice would primarily depend on the comparison of relative returns from adaptation to lobbying.

The actual level of protection is an increasing function of past protection. The time required for declining industries to conclude agreements with politicians who have been influenced by lobbying is increasing.

Many researchers support the view that previous protectionist measures play an important role in the interpretation of current levels of protection.

Brainard and Verdier (1994) studied the interaction of industry adaptation, lobbying and the protection of domestic industries. According to their model there is a fixed and a variable cost of lobbying for each period. The stakeholder group will lobby up to the point where the fixed cost of these actions equals the lobbying performance. After this point, the stakeholder group will not engage themselves with lobbying and domestic protection will be abolished.

The model that has significant influence on empirical research is the one proposed by Grossman and Helpman (1994) on supply and demand of protective measures which is called Protection for Sale (PFS) model. The PFS model abstracts from electoral politics, assuming instead that the government is entrenched or at least that every elected government will respond to lobbying in the same way. It also assumes preferences of all factor owners are identical and that preferences are separable sector-by-sector.

Imai and Katayama (2005) employed the Grossman-Helpman model to study the demand for protective measures. They produced fictitious data assuming that the government imposes the same quota on all industries. The coefficients they calculated are consistent with the Grossman-Helpman model. However, when using a simpler model, Imai and Katayama

(2005) found that the results are due to the use of the coverage ratio of non-tariff barriers. In such a case, the Grossman - Helpman model is reduced to a specific case while the approach by Imai and Katayama (2005) is more general. It is concluded that the imposition of quotas benefits only the sectors of the economy in which there is a political organization. If the political organization is absent from the industrial sectors, there will not be any protective measures.

Another strand of research has considered protectionism as endogenously created rather than an exogenous factor. The duty imposed on imports is the outcome of the political process and it is strictly private asset in terms of specialized resources in an industry. This implies that the benefits of participating in the political process are fully exploited by the participating group according to this theory.

According to the theory of endogenous protection, the higher the penetration levels of imports are, the greater the protection is. Trefler (1993) estimated that the restrictive effect of imports is 10 times higher when protectionism is considered endogenous than exogenous. According to Trefler (1993), US firms have a much greater influence than US workers' associations on US import policy. Thus, the more necessary protective measures are for private business interests, the higher the level of protectionism will be.

Hall and Nelson (1992) concluded that any attempts to increase the impact of protection in one sector will benefit all competitive import industries. In a short-term neoclassical trade model without intermediate goods, there is a political issue of "free riders" which does not exist with the regulated tariffs.

Another stream of recent empirical research focuses on qualitative rather than quantitative factors in order to capture peoples' attitudes towards protectionist measures on international trade. Mayda and Rodrik (2001) carried out a systematic analysis of individual preferences by using data covering 20.000 people in 23 different countries. As a dependent variable, they raised the question of whether people are in favour of restricting international trade. The independent variables were based on demographics and the socio-economic position of individuals. Their aim was to examine two models based on peoples' preferences, i.e. the endowment model and the model of specialized resources. The results of Mayda and Rodrik (2001) research confirmed the validity of the endowment model and provided partial support for the model of specialized resources.

This means that people have different perceptions about mobility among the sectors of economy. The factors affecting the shaping of peoples' preferences are the following:

- Social status
- Relative income and
- Personal values.

The conclusion is that peoples' attitude towards trade is closely linked to the position of the individual on the income scale. Supporters of protectionism are more closely connected with their neighbourhood, local community and society also having a relatively high degree of national pride.

People with confidence in democracy and in their country's economic achievements are less likely to oppose free international trade. The fundamental finding is that, apart from financial and quantitative data, qualitative factors must also be taken into consideration in order to interpret the attitude of individuals towards free international trade.

Empirical investigation of the factors leading to the non-abolition of protective measures on trade

In the present section, we try to identify further key factors that appear to play a crucial role in the non-abolition of protectionism imposed on international trade. It is highly important the fact that the existing literature is rather extensive. However, it mostly focuses on quantitative aspects of international trade in an effort to evidence and justify the benefits that arise for nations that trade freely.

As a starting point, we have considered the basic mechanism of how international trade works. The mechanism can be summarised as follows:

- Trade changes the relative prices among sectors
- Lower prices put competitive pressure on workers, firms, regions and sectors
- As a result, their income may shrink although free international trade is beneficial on aggregate level.

We have shifted our interest from the quantitative data to qualitative indicators in an effort to identify which could be the key factor that hinders the further open up of markets to international trade.

Methodology and description of data used

We explore the possibility to propose suitable indicators which could provide us with a better and deeper understanding of the trends of peoples' attitudes towards international trade.

Concretely, our aim is to establish a consistent set of indicators which when observed either on an individual basis or taken altogether provide supplementary information on the trends of peoples' views on protectionism versus free international trade.

The indicators which will be established should have certain key characteristics in order to be reliable and robust. These key characteristics include the following:

- Transparent
- Easy and cost-effective to collect
- Easy to measurement
- Low administrative burden to collect or to update.

The fragmented access to such data or in some cases the non-availability of them for research purposes drove our efforts to online internet sources. In particular, we have looked in data on Google books and searches on internet. Apparently, the term international

trade appears less and less whereas terms like unemployment or inequality seem to gain importance overtime.

Building a robust indicator framework

In order to carry out the empirical part of our research, we have used the Google Trends software. Google Trends is a data source from non-biased samples of searches on Google machine. In particular, it shows the popularity of a term or subject individually or in relation to other terms and subjects for a given area or areas and certain time span. Therefore, it enables researchers to observe the trend or the change of peoples' attitude towards a certain direction.

Only a part of the searches is used to feed Google Trends tool. The real time data are based on a sample derived from the last seven days prior to the search made. The non-real time data are based on a sample which is derived from 2004 up to 36 hours prior to the search. The search is made for terms or subjects which are a group of terms in any language.

The results obtained are represented on a scale from zero to 100 according to the share of the term (or subject) of searches for all terms or (subjects). As regards the comparison of terms, it has to be noted:

- In relation to the timing and the different terms, the same time span is used for every search term
- In relation to the timing per area, the same area is selected for all terms.

Results

We have examined the weekly popularity of international trade in the United States of America as subject during the period of 30 October 2016 until 30 October 2017. The results are shown in diagram 1.


Diagram 1
Popularity of subject "International trade"in USA
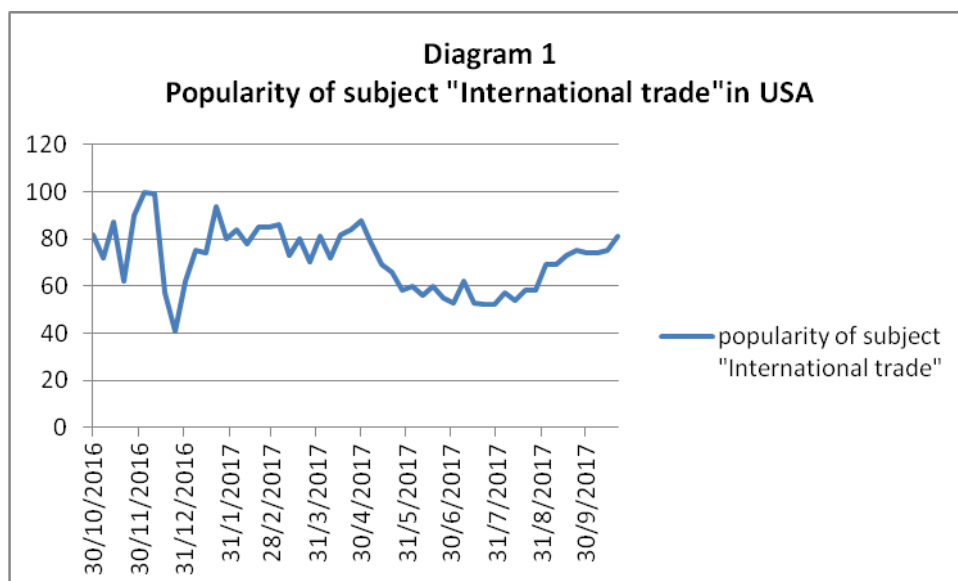
According to diagram 1, the people of US were concerned by international trade primarily during the period of October-November 2016. This period coincided with the negotiations and the signing of CETA trading agreement. The popularity of international trade in the US per week was examined for the same period as well. The results are illustrated in diagram 2.

Diagram2
**Popularity of term "international trade"in USA**
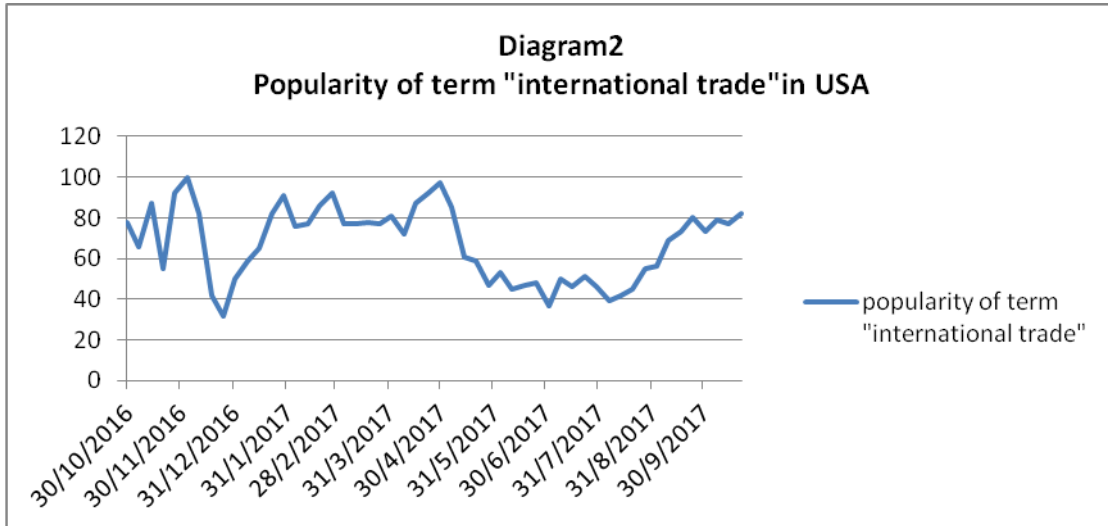
In diagram 2, we observe that the popularity of international trade as term in the US followed almost the same pattern including the critical period of October-November 2016.

Diagram 2b shows the popularity of term CETA per week in the US and Canada during the last year.

Diagram 2b
**Popularity of term "CETA"in USA and in CANADA**
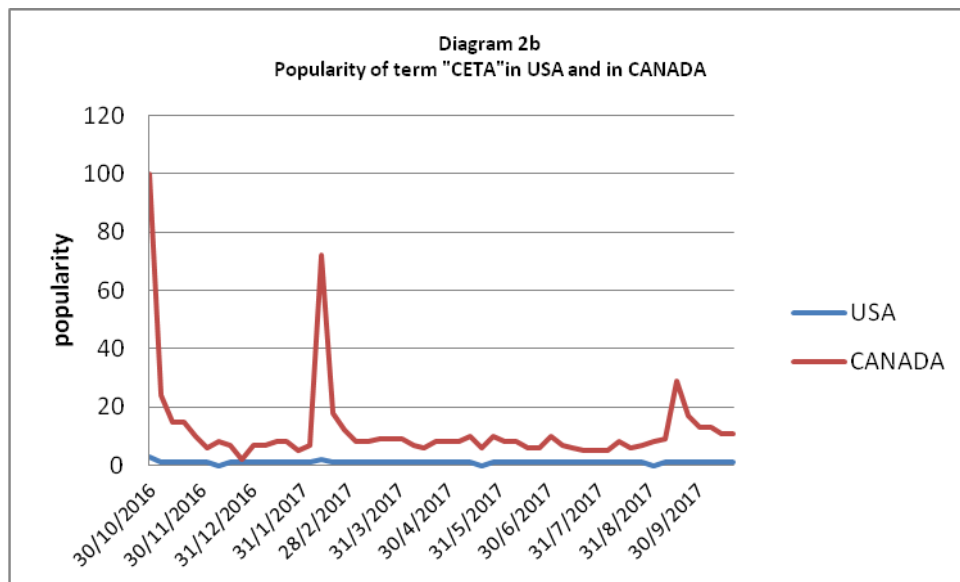
It appears that CETA popularity in Canada dropped sharply and remained very low during the reference period. The only exemption is the week in February 2017 during which the agreement was discussed and adopted by the European Parliament. CETA was even less popular in the US evidencing the little interest of people about the trade agreements.

The most popular searches of terms related to international trade are shown in diagrams 3 and 3.1 both as subject and as term respectively.
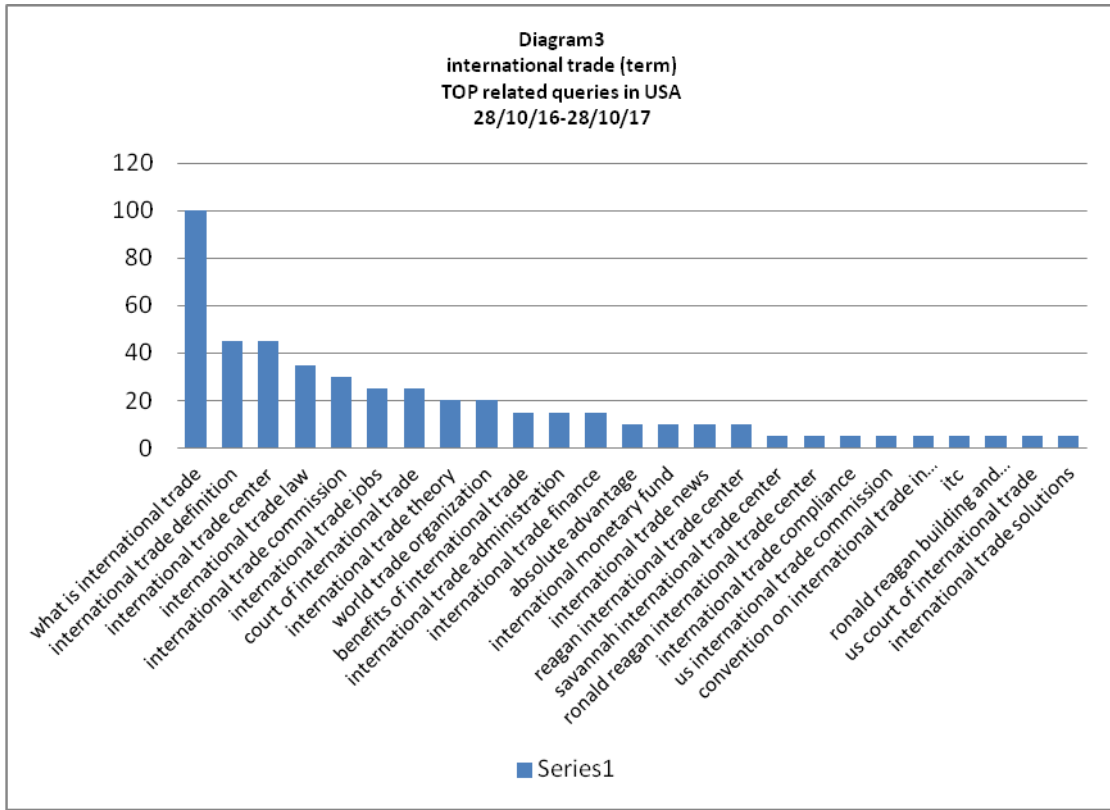

Diagram 3.1: International trade (subject, TOP related queries in USA, October 2016 – October 2017
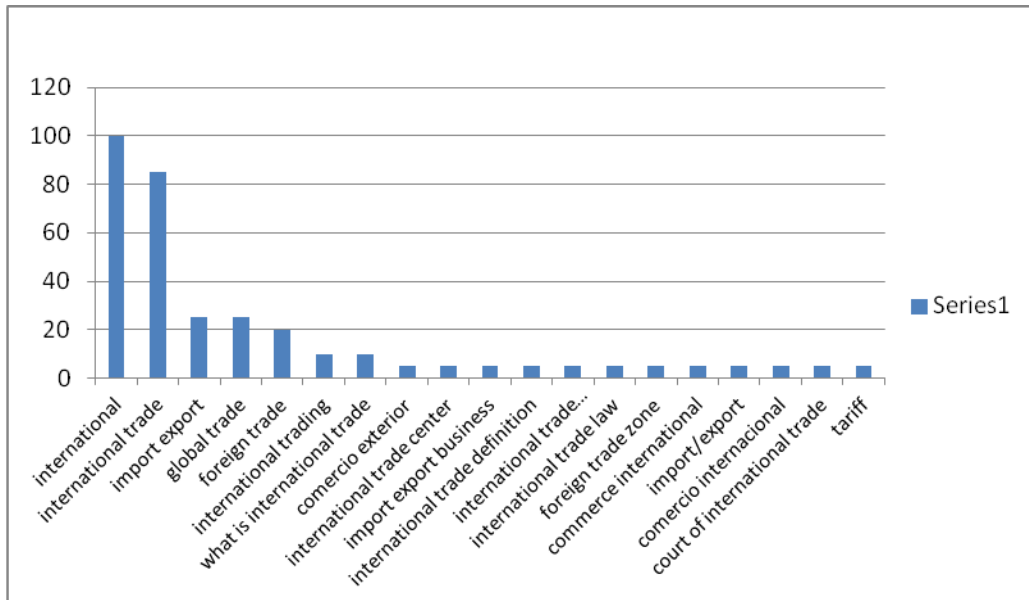

It is worth noticing that international trade as a term in diagram 3 is related with many more searches as a subject as shown in diagram 3.1.

Diagram 4 illustrates the comparison of weekly popularity among three key terms namely imports, unemployment and protectionism in the US during the last year.

Diagram 4
Comparison of popularities of imports, unemployment, protectionism in USA
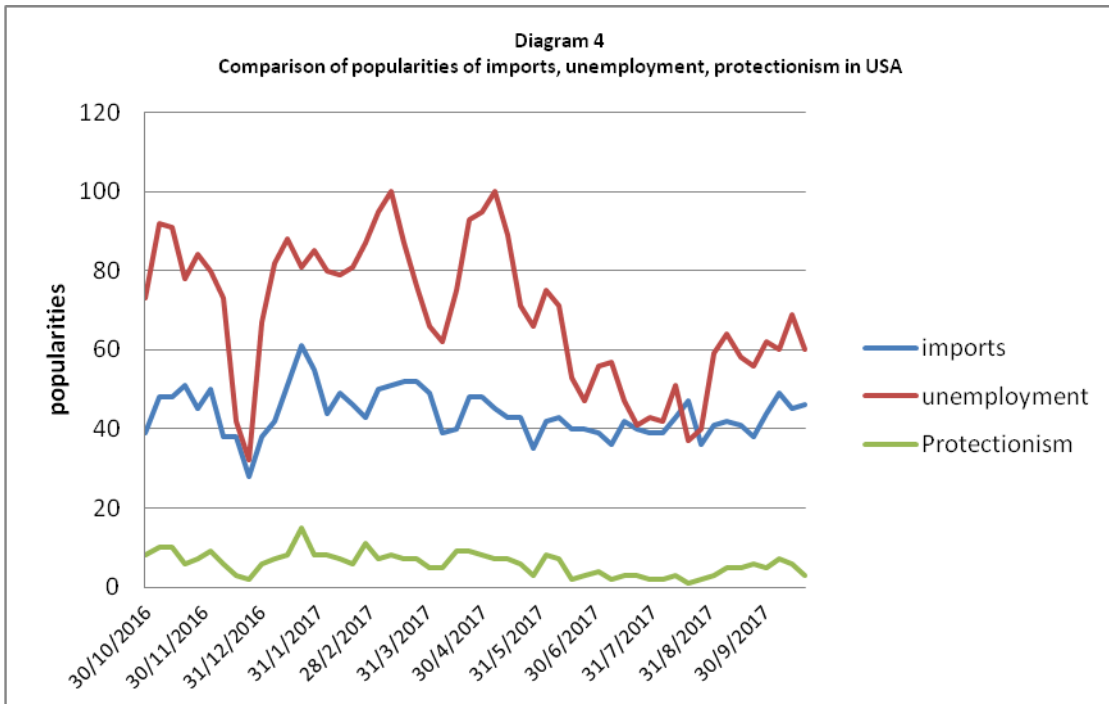
It is clear that US people are concerned much more by unemployment and its related consequences rather than protectionism and imports. The same conclusion is reached when examining the popularity of these three terms worldwide as shown in diagram 4.

Diagram 5
Comparison of popularities of imports, unemployment, protectionism worldwide
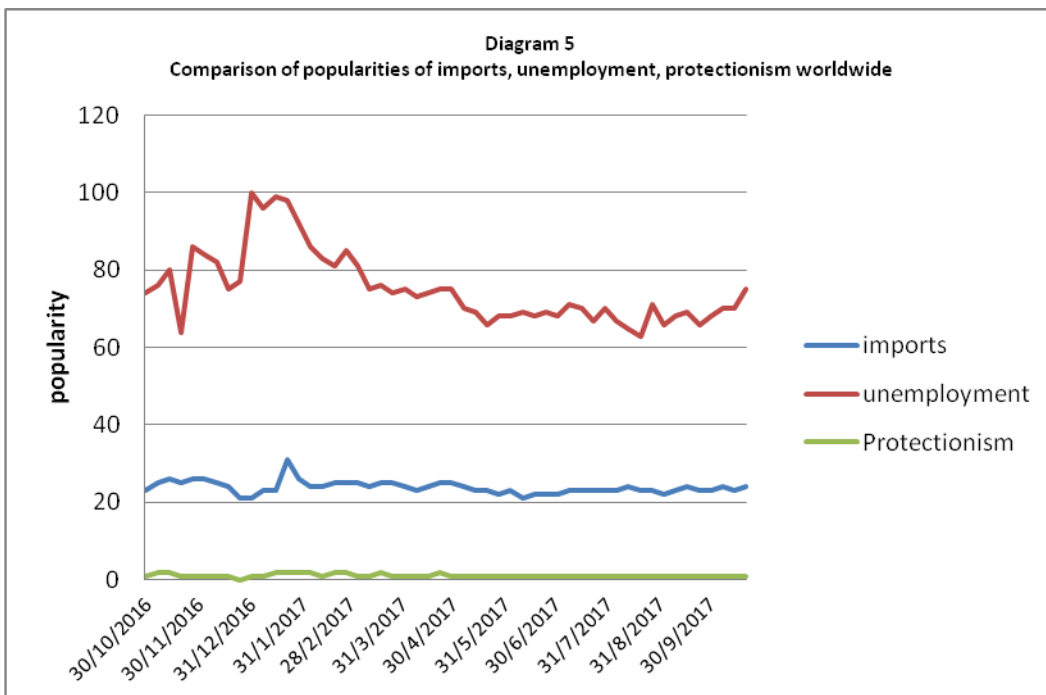
It has also to be noted that there are countries that during the same time period, imports have higher popularity like New Zealand and

protectionism has almost no popularity like in the case of Ukraine. These cases are part of the results in diagram 5.

We conclude that despite the almost universal consensus among economists that countries gain when they open up to international trade, there is still an issue of how the benefits are distributed among stakeholders and society.

As mentioned above, peoples' attitude towards trade is determined by their personal preferences and beliefs. Following Mayda and Rodrik (2001), we can observe that 55% of respondents from several countries agree or strongly agree that it is necessary to limit imports in order to protect national economy.

These findings are consistent with the view that an export sector cannot expand without an import sector shrinking, given the amount of resources in the economy. Similarly, large productive firms cannot grow without the small unproductive firms shrinking.

The question would be how fast and easy would be for workers to adapt to the new circumstances. In case that the time and the costs to achieve this are negligible, we would expect that they would not be so negative about free international trade.

We complemented our research above by looking into a sample of representative recent studies to obtain an understanding of the magnitude of the associated costs when workers switch sectors. The representativeness of the studies is due to the fact that they examined the effect of international trade on developed economies like the United States of America and emerging ones like Brazil. It is also true that the working conditions and labour market in these countries significantly differ allowing to make meaningful comparisons or identify similar patterns.

Following the work of Dix - Carneiro (2014), we could observe that the median costs of mobility range from 1.4 to 2.7 times annual average wages with a high dispersion of these costs across the Brazilian population. In turn, these would lead to significantly reduced potential aggregate welfare gains due to the adjustment and to a lengthy transition which may even take several years.

Similar findings were reported by Artuç et.al. (2010) who reached the conclusion that costs of switching for US workers are high thus implying slow adjustment of the economy and sharp movements in wages in response to trade shocks.

Conclusions

Few issues have sparked so much controversy and for so long time as international trade. It has been theoretically demonstrated that free international trade benefits traders and societies.

Substantial efforts have been made to reduce tariffs and to remove protective barriers to imports. The most important progress is the negotiations at bilateral and multilateral context and their institutionalization initially through the GATT and later on with the establishment of the World Trade Organization.

At the same time, calls against free international trade are multiplying because it is considered it exacerbates inequality thus developed countries exploit the less developed ones.

Arguments like the non-validity of the classical trade model, the protection of domestic infant industries, and the protection of workers' wages in declining industries as well as political pressure by lobbying are employed to support this view.

Our main conclusion is that the redistributive effects of opening of the markets are not secondary to the aggregate gains from trade. The adoption of protective measures on international trade is not due to a single factor but often it is the result of several and conflicting interests and social groups within countries. Therefore, it is equally important to take into consideration qualitative data apart from quantitative figures when trying to explain the peoples' negative attitude towards free international trade.

Since trade always redistributes income meaning that some industries, firms and workers will gain, while others will lose at the same time. This is a robust finding across many theories. It has been an implicit assumption that the relocation of workers is or is almost frictionless. The workers that lose their job in shrinking sectors will instantaneously find a new job in expanding sectors. Recent research work evidences that this is not the case.

Finally, free international trade although beneficial, it should also be compatible with broader social objectives such as fair distribution of income not excluding other goals like environmental protection and human rights.

In such a way, the advocates against free international trade will no longer easily support the introduction of tariffs and other barriers to trade.

Our suggestion for future research should be on the quantitative assessments of the redistributive effects of trade that remain limited at present. Also, expanding the focus on qualitative aspects and employing microdata from individuals and firms could provide us with more thorough insights.

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