Lahden ammattikorkeakoulu
Lahti University of Applied Sciences

# RESTRICITIONS ON TRADE

What does it mean for the economy

LAHTI UNIVERSITY OF APPLIED SCIENCES
Bachelor of Business Administration
International business
Autumn 2019
Lauri Tuuri

**Abstract**

| Author(s) | Type of publication | Published |
|---|---|---|
| Tuuri Matias | Bachelor's thesis | Autumn 20019 |
| | Number of pages 39 | |

**Restrictions on trade**
What does it mean for the economy

Name of Degree

Bachelor of Business Administration

Abstract

This thesis studies the impact of restrictions on trade. It examines what protectionism and free trade mean, and how both have been implemented in the history and what is the situation today.

It used to be so that the big economies of today grew their economies behind protectionism. Up until the Second World War protectionism was favored by many countries, and international trade was restricted.

From 1940s onwards the global trade has been gradually liberated and the economies throughout the globe have become integrated. During this period barriers of trade have been lowered and the value of international trade has grown significantly. Yet, the actions of the president of the United States Donald Trump have shown a different path. Also, the glooming threat of hard-Brexit may throw United Kingdom back into a situation where trade barriers are re-erected.

Keywords

Protectionism, free trade, globalization, barriers of trade

CONTENTS

# 1 INTRODUCTION

## 1.1 Background

New era in international trade started in 1948 when General Agreement on Tariffs and Trade came into force (Walker 2017). It was signed in 1947 by 23 countries, and its primary goal was to cut tariff rates (WTO 2019A). In the end of 1994 128 countries had joined it, and on January 1995 it was replaced by World Trade Organization (WTO 2019B).

At the same time when the GATT was signed, the Cold War begun and Europe was divided by the Iron Curtain. The Western World was led by the United States and the Eastern by Soviet Union. In the West, globalization begun and countries started to move towards free trade. This meant significant growth in trade in the West. When the Iron Curtain fell in 1989, countries that were in the influential sphere of Soviet Union gradually joined the rest of the world in international trade. (Vanham 2019.)

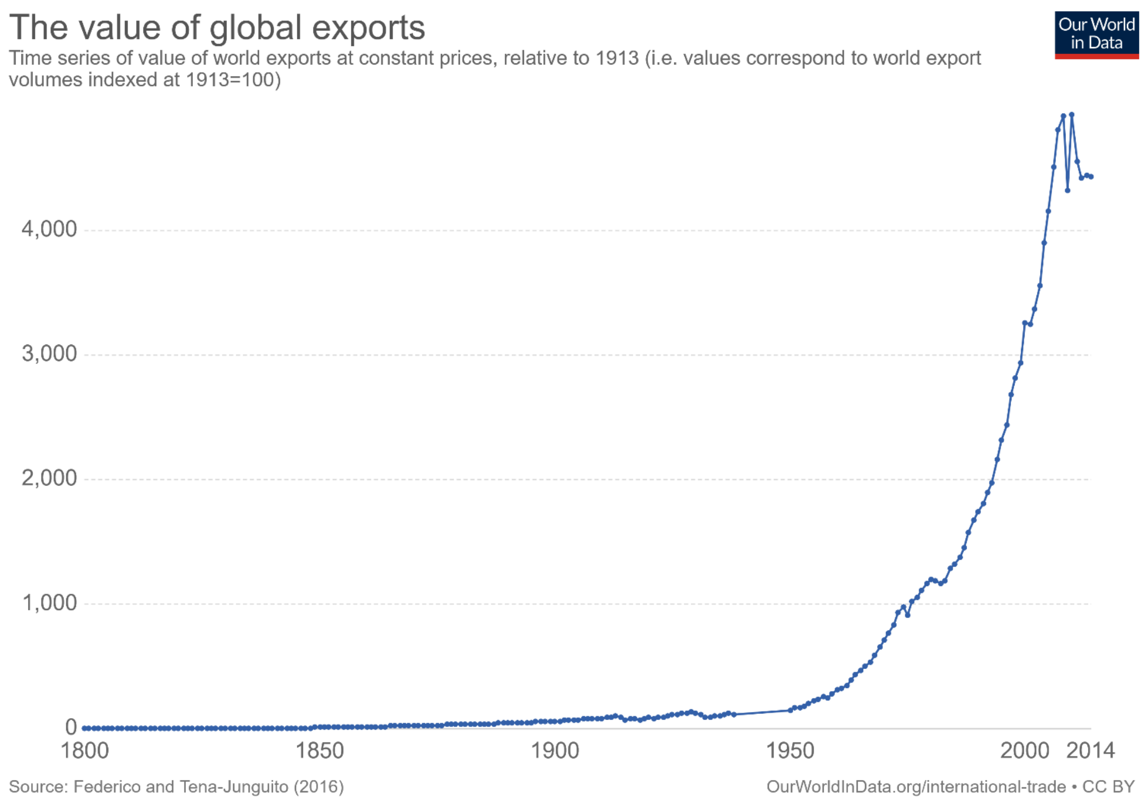


Figure 1 The Value of Global Exports (Our World in Data 2018)

United States was one of the countries that started the new era in international trade. It started in the 1930s in the aftermath of Smoot-Howley Tariff act that was enacted in 1930.

Cordell Hull, the Secretary of State of President Franklin Roosevelt was in favor for free trade, and wanted to reverse the high tariffs created by Smoot-Howley act. He was a democrat, as was President Roosevelt and Democrats had majority in both Congress and Senate, and Democrats were in favor for free trade in 1930s. This meant that a law to lower tariff rates could have been easily passed. But, Hull feared that in the future Congress would just rise the tariffs again. Instead he planned a new law: Reciprocal Trade Agreement Act. This law came into force in 1934. It allowed the President of the United States to negotiate lower tariff rates with those countries who also lowered their tariff rates. Once the tariffs had been lowered, the Congress couldn't rise them again. This was possible only through presidential announcement. (Destler 2016.)

With the Reciprocal Trade Act, the president of the United States was granted powers to negotiate bilateral trade agreements. This is the reason the United States started to lead the creation of GATT, because it allowed the President to create agreements to lower tariffs with more one than country simultaneously.  The average rate of tariffs rates decreased from 60 percent in 1930s to 5.7 percent in 1980 in the United States. (Destler 2016.)

The United States had economic and political reasons to shift towards free trade. Forming trade agreements and military alliances were part of the country's foreign policy. (Destler 2016.)

After the World War 2 the United States started the Marshal Plan. The plan was designed by William Clayton and George Kennan, but it was presented to the public by George Marshall. According to him, the mistakes made after World War 1 should not repeated, and American isolationism was one of them. Instead, the United States should give assistance to the countries who had suffered during the World War 2 and help them to rebuild their economies. The Marshall Plan was signed by President Truman on April 3 1948. The size of the aid package to Europe was $12.4 billion.

The Economic Cooperation Administration was founded to manage the funds. It was run by Paul Hoffman. From April 1948 the United States gave the money to those countries who had joined the Organization for European Economic Co-operation. (Provan 2019.)

In 1948 two significant events took place in West Germany: a new currency, Deutch Mark was established and the control of markets was abolished. The result was that a rapid recovery of the economy started. In 1952 the production levels of the region were even bigger than they were before the war. During the following decades tax rates grew and new economic regulations were installed, but barriers of trade continued to get lower. (Pietryzk 2000.)

In the beginning of the 21st century the total value of exports was one quarter of the world's total GDP. A vast amount of population has benefitted from the growing international traded, especially the middle class. (Vanham 2019.)

With globalization and growing international trade, the number of big devastating wars has been at the lowest throughout history. When countries are engaged together in doing business, they are more unlikely to go to war with each other. (Pietryzk 2000.)

This chart shows the average tariffs globally as of 2016.

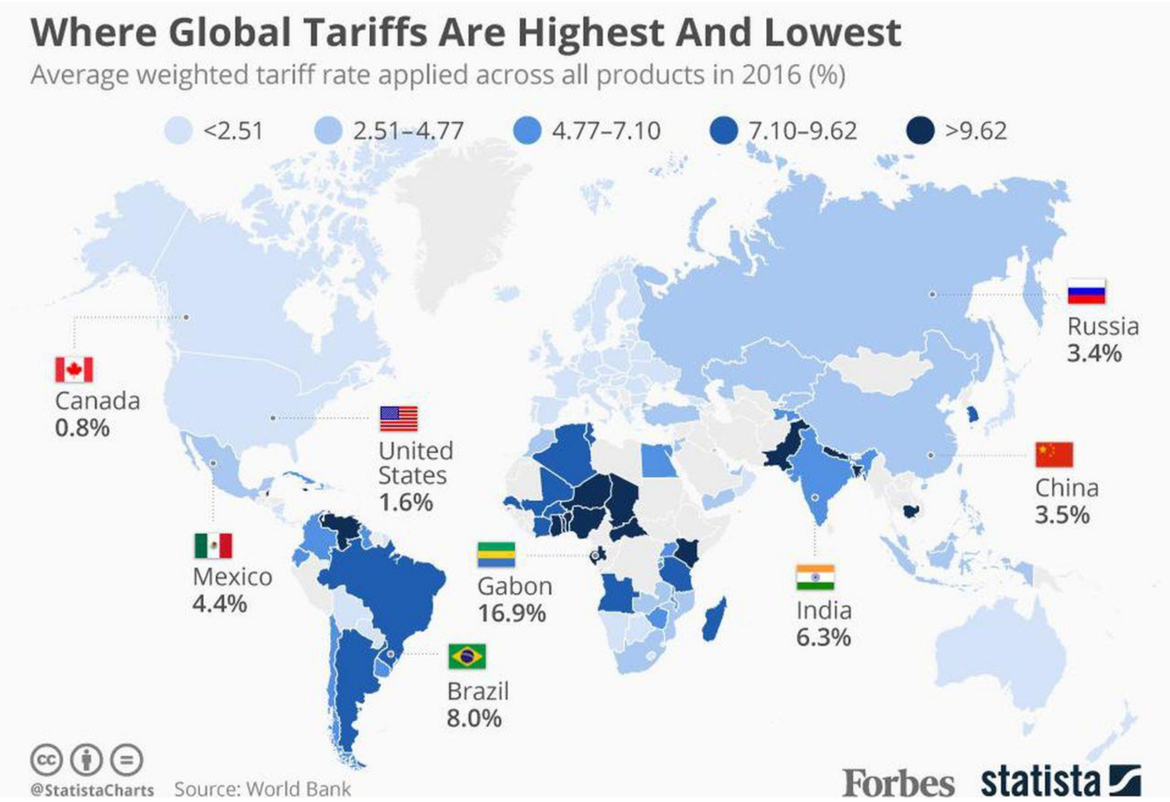


Figure 2 Where Global Tariffs Are Highest and Lowest (McCarthy 2018)

The world is changing. In a referendum in June 2016 United Kingdom decided to leave European Union (Valpola 2016), and in November of the same year Donald Trump was elected as the president of the United States (New York Times 2017). Even though the markets and the state have often been described as opponents, in reality that is not the case. The state wants the markets to work well so that they produce benefits like welfare and prosperity. The markets want stable environment in which to operate. Recently the balance has been disturbed. For a long period of time after World War 2 trade liberation has been a huge success story. First there was an integration between North Europe and Western Europe, and gradually other countries joined and it has lifted people out of poverty throughout the world. Promoting free trade has been a long and complicated process that requires deep commitment to mutual rules and solving problems together. This has put the political leaders in an important role: they are the ones who create and monitor these rules and make sure that the trade works. The current events in global politics, like the tariff policies of Donald Trump, are signaling a huge difference. It seems that now those who were supposed to bring stability to international trade are causing uncertainty. (Helsingin Sanomat 2019.)

**United Kingdom**

United Kingdom has decided to leave the single market of European Union. This has caused a discussion about the future of the trade, and both sides of the referendum have their own opinion. The ones who were in favor of leaving are saying that the future will be better because now the government can make bilateral agreements with other countries. The ones in favor of remaining are underlining the importance of the internal markets for the economy of the United Kingdom. They say that potential better trade deals would be undermined by the causes of losing the access to the European single markets, and it would be more beneficial for the economy to stay at least in the customs union. About 50 percent of the voters said that the country should start limiting imports to protect domestic economies. Still, only nine percent of those who voted for leave said the reason was better trade deals. (The Economist 2018.) But, if the country leaves without a deal with EU, it will be treated as a third-party country from the point of view of the Union. This raises the trade barriers in-between EU and UK. Also, all the trade deals that UK was part of as a member of EU will come to an end. Currently, EU has 40 trade deals with other countries, and in case of Brexit, the UK will lose the benefit of all these pacts. (Sandford 2019.)

**France**

A strong supporter of globalization and free markets, Emmanuel Macron, was elected as the president of France in 2017. In his speeches, he frequently reminds that political leaders tend to forget the losers in globalization. Despite that, one of the first things he did after the election was that he nationalized a French shipyard. This was done to prevent an overtake by an Italian company. It was a temporary act since the shipyard was privatized soon after, but it shows that the French have their own angle about foreign investments. In the elections of only 20 percent voted for candidates that were promoting protectionist policies, but surveys show that the French are more suspicious about free trade than the Germans for example. (The Economist 2018.)

Macron promotes trade agreements based on reciprocity, and that they are made in a way that the citizens feel protected. By this he means that the government should consider those who lose in globalization. For example, according to him Europeans have the right to decline food products that they find unsafe and that the Chinese investments in European soil should be screened, especially when they are made towards strategic sectors. (The Economist 2018.)

**China**

When the development of the international trade begun after World War 2, it was led by the United States. When Donald Trump took office in 2016, the country started to reverse the development and turn to more protectionist trade policies. Subsequently, China has taken the place as the leader of free trade. When it joined the WTO in 2001, its share of global exports was a mere four percent. In 2018, it was thirteen percent. (The Economist 2018.)

About 20 years ago, in the 1990s, the situation in China was rather different. General opinion in the country was less in favor for free trade, and especially the conservatives opposed strongly against the intentions of joining the WTO. But over time the attitude gradually changed. To some extent the government helped those who had been left behind, by investing in infrastructure and education. This gave the poor areas crumbles of the wealth generated by the international trade. In the coastal areas the wages have been on rise and the production has moved to the mainland, raising employment there. (The Economist 2018.)

But, China promotes only free trade in tangible products, not globalization. It has strict immigration and monetary policies and it restricts the flow of services. Consequently, it is difficult to move large amounts of money in or out of the country and foreign companies are kept in the margins. (The Economist 2018.)

As we can see from the chart below, the value of the exports of China accounted for over 20 percent of its GDP.


Figure 3 Value of exported goods as share of GDP (Our World in Data 2018)

## 1.2 Research problem

The research question of this thesis is “What is the impact of trade barriers on the economy.” It tries to find out what kind of effects trade restrictions like tariffs have on economy, what are the benefits and what are the disadvantages. It tries to give an answer to the question: is protectionism more advantageous for domestic economy than free trade or is it the other way around?

## 1.3 Limitations to the research

This thesis is based on historical narratives, current events and economic theory, not on hard numerical data. The historical examination of the influence of trade barriers is limited to four case countries, and the examination of present date influence to two countries.

## 1.4 Data gathering and type of research

This is a qualitative research with inductive approach: the conclusions are drawn out of particular situations. The data collection method is archival research, which means that all of the sources are secondary sources and have been credited to their original author.

## 1.5 Structure of the research

This research is divided into five parts:

- Chapter one introduces the research problem and the background.
- Chapter two is about the theory. In this chapter the theoretical framework will be explained: what is protectionism and what is free trade.
- Chapter three is divided into two parts. The first provides historical perspective on protectionism. It describes the history of protectionism in four countries: Japan, China, United Kingdom and United States. The second part is a description of protectionist policies in present date United States and a description of the situation of the United Kingdom in which the risk of rising trade barriers is growing.
- Chapter four is an analysis based on the historical and present date data and theory.
- Chapter five is a conclusion.

# 2 THEORY ABOUT INTERNATIONAL TRADE

## 2.1 Protectionism

Protectionism means protecting domestic producers from foreign competition (Pinomaa 2018). It is the opposite of free trade. In protectionism the government sets barriers for international trade to reduce foreign competition. (Longley 2018A.)

### 2.1.1 Protectionism and its most common tools

The most common tools of protectionism are tariffs, import quotas, government subsidizes abs product standardization (Britannica 2019.)

A tariff, also called an import duty, is a type of tax that is levied on the imported good, and is paid by the importer. There are two types of tariffs:

- A specific tariff is a fixed charge for one imported good. For example, a one-hundred-dollar tariff for each imported television.
- Ad valorem. The tariff is a percentage of the value of the imported good. For example, if a seven percent ad valorem tariff would be levied on imported cars, the import duty would be seven percent of the value of the car. If the value of the car would be €20 000, the import duty would be 1400. (Batabyal, Gosnell 2018.)

Import quotas are a way restrict imports more severely than the tariffs. When an import quota has been put on place, it means that there is a fixed quantity that can be imported to the country. Once this has been filled, no other imports are possible for that year. (Longley 2018A.)

Government subsides can be either direct or undirect. The state can either give money directly to the domestic companies to support their production or it can, for example, give eases on taxes or guarantee good loan deals. (Longley 2018A.)

In general, subsidizes come in two forms: direct and undirect. The first means that the government gives directly money to the producers and hence supports their production. The latter means that the government provides other kind of support for domestic companies, such as tax relieves or builds up infrastructure that is beneficial for the domestic company. (Gaffney 2019) They are used to give the producers the incentive to produce more, and thus enlarge the output (Tarver 2018.)

Subsidizes can help companies to cover to cover up financial losses as they are on their way to self-sufficiency. In the case of infant industries this is almost always the case alongside the other protective measures that keep the competition completely out or minimizes it, such as tariffs. (Gaffney 2019.)

By setting certain standards for products the country can restrict the amount of imports. These could include regulations concerning safety and quality. (Longley 2018A.)

Another measures of protectionism includes administrative trade policies, exchange rate controls and local content requirements (Guarino 2018).

Local content requirement means that when a certain product is being manufactured, certain percentage of the parts must be domestically produced. This is a way of protectionism because in this case the state specifically orders the producers to use local goods and not the foreign imported ones. (Guarino 2018.)

Administrative trade polices is a combination of laws and regulations and bureaucratic rules to create an environment where importing products into the country is made difficult. The products the exporter wishes to import may have to fulfill certain rules and regulations concerning healthy and safety for example, or there could be immense paperwork that one must go through when importing. (Guarino 2018.)

By depreciating the value of the country's currencies towards other currencies, the state creates an advantage for its own producers: the prices of the imports go higher at the same time as the exports become cheaper in the international markets. (Guarino 2018.)

Whereas the tariffs impose a tax on imported goods, imposing quotas restricts the amount of imports to an absolute figure which cannot be exceeded. It has a direct effect on the supply of the good in the domestic markets, and thus gives the incentive to domestic producers to produce more. As the supply reduces the price goes higher. This gives a benefit for domestic producers, because they can rise prices as the supply goes down if the demand stays the same. On the other hand, it could hurt the competitiveness of the company if depends on raw materials that are under import quotas. The effects are even more severe with quotas than tariffs; with tariffs foreign exporters can import keep on importing because there is demand and it will eventually be profitable, whereas in quotas the foreign supply will eventually run out. When already scarce resources become even more scarce, the company has no other choice but to lower its output. This is even more difficult position for smaller businesses, since they don't have the resources to prepare for the event of imports being completely cut off. (Riley 2019.)

### 2.1.2 Reasons for protectionism

Preventing dumping is a common reason for setting up barriers for trade. The country might set up rules for preventing other countries dumping cheap products for their markets by prohibiting the sale of certain commodities in the market below a certain price. (Guarino 2018) Dumping can be described as a predatory pricing policy. Exports are sold in lower prices than their real market value is, in order to play out the domestic competitors and thus claim their market shares. (Riley 2019.)

National security is an argument widely proposed by those in favor for restrictions on trade. Even Adam Smith wrote in his book The Wealth of Nations that when some particular branch of industry is crucial for the country to maintain its capability of self-defense, these branches should be under protection. (Lemieux, Henderson, Sumner & Klein 2018.) The fallacy of this argument is however, that it is hard to draw a line to which branches of industry are really essential for national defense and which are not (Abboushi 2010.)

Some advocates of protectionism state product safety as the reason for imposing barriers of trade. They claim that the foreign imports are not as safe as the domestic ones because they don’t meet same the rules and regulations and should therefore be prohibited from entering the markets. The domestic producers usually lobby in favor by saying that if they have to follow the rules imposed by their government, the foreign competitors ought to do so too. (Guarino 2018.)

Protectionism may occur when a country wishes to protect jobs. When an industry is still in its infant state, it is not ready to face international competition. This means that the businesses working under that sector are most likely to go under and consequently jobs are lost. The problem is that even if the protection is allocated correctly, other sectors of industries may suffer from the protectionist policies. This means that even if jobs are saved in one sector of industry, others might suffer and the attempt to save jobs domestically ends up being futile; it may even occur so that more jobs were lost than saved. (Abboushi 2010.)

The infant industry argument is a theory created by Alexander Hamilton and made famous by Friedrich List (Chang 2016, 135.). According to this theory developing nations have the potential and the means for obtaining comparative advantage, but they can’t compete with existing international competition. Hence the government ought to support them so that they can grow and eventually acquire enough strength for competing in the international markets. (Krugman 2012, 258.)

Senile industry argument is closely related to the infant industry argument. It refers to the declining industries whose production has been reduced and need a large amount of support to make them profitable again. (Fouda 2012, 359.)

The argumentation in favor for infant industry protection lies within the lead the more developed countries have achieved. Their production is much more efficient because of the know-how they have had time to gather and create, they are much more experienced and have had the time to build economies of scale. This means that they can not only produce more efficiently but are also able to sell their products in much lower prices and thus kill off their competitors who are lagging. (Suranovic 2002.)

Many countries have developed their industry behind trade barriers, USA for example (Chang 2016, 75). Even though the United States is the biggest economy in 21st century it doesn’t necessarily mean that the infant industry argument works every time. The protection may not be allocated correctly towards the right sectors of industry and thus the whole project may end up futile. (Krugman 2012, 258.) Another problem that underlies within infant industry argument is that when the business can grow safely under the protection of the state without competition from abroad, it benefits financially and with money comes the power and because the protectionist policies are beneficial to it, the company may and usually will start lobbying in favor of them. Also, under the protection there is a chance that the company may not grow to efficient enough to face competition. (Ferrini 2012.)

One major issue regarding restricting trade is about the scarcity of goods. When some resources are abundant in others, the very same resources could be very scarce in others. Sometimes the situation could be that the country has more than enough of resources and has the needed technology for utilizing them, but the domestic production of the raw materials is just too low and thus there is a need for importing them. (Fouda 2012, 352.)

### 2.1.3 Consequences of protectionism

When the foreign imports have been put under tariffs, this makes the prices go higher relatively to domestic products. This gives an advantage to domestic operators because the price of the product is an essential factor that drives the consumer towards the purchasing decision. With even larger market share and thus higher revenue the domestic operator can expand its business, and create more jobs. The downside is that when the government imposes tariffs from other countries, usually these countries retaliate by imposing counter tariffs. As a result, the domestic company may lose potential market areas overseas for the same reason it had gained more market share in its home country. (Randle 2017.)

Tariffs may have a negative side effect on domestic companies by doing collateral damage. It could be so that the tariffs put on effect don't influence the performance of domestic companies directly but indirectly. The company could be producing final goods for consumers and is dependable on foreign imports of raw materials. When tariffs are imposed, the price of imported raw materials go up. (Kucik 2018.)

Other problems are linked to the global value chains. The nature of international trade is not as simple as one might think; it is not just about exchanging goods and services across the borders between two nations. 70 percent of the international trade is about different parts of global value chains. Parts and raw materials as well as services and components move internationally, sometimes more than once. In other words, production doesn't take place in one specific country or location anymore but rather in several different places. (OECD 2019.) .)

## 2.2 Free trade

Free trade is the opposite of protectionism. It means that the barriers of trade are either abolished all together, or at least diminished. In the present-day free trade is based on bi- and multilateral trade agreements. (Longley 2018B.) Free trade is closely related to globalization. That term is much wider umbrella term which referrers to the growing interaction between the world's nations in economics, politics, culture and information. It is usually mentioned when discussed about international trade. (Kolb 2019.)

Throughout the history the economists have argued over the case of international trade, and presently there are two theories which have acquired a dominant status: mercantilist approach and comparative advantage (Longley 2018B.)

**Mercantilism**

In short, mercantilists believe that exports are good, and imports are bad and hence the government should go for policies in which the first is supported and the latter restricted. These policies could include for example high rates of tariffs on manufactured goods. The supporters of this theory argue that this is the best way to tackle the trade deficit. (Longley 2018B.)

**Comparative advantage**

The comparative advantage is a theory in which it is believed that everybody benefits from the international trade. It is a theory created by English economist David Ricardo at the beginning of 19th century. (Longley 2018B.) Comparative advantage means that a country can produce certain commodities with a lower opportunity cost than the other, in other words, it can produce them relatively cheaper than the other countries. Thus, when the country specializes in those products and the other countries specialize on the products in which they have the lower opportunity cost, it generates more benefits for each other. It is crucial to point out that the comparative advantage is not the same as the absolute advantage: in the latter the country is capable of producing single unit of a certain product more cheaply than the other. (Pettinger 2017.)

According to the classical liberal economists, maximum benefits are obtained through free trade. When trade is not restricted on one specific country but is working internationally, everybody is better off. When markets are vast enough, economies of scale are more easily achievable and so is the economic growth. (Ferrini 2012.) This helps customers because the prices get lower and the variety from where to choose gets wider. It also reduces government spending, if the government has made subsidizes previously but after the beginning of free trade has now discarded them. Additional benefit from the free trade is the improvement in innovation and efficiency: in open trade technological innovations are exchanged more openly amongst the multinational corporations (Mounib 2019.)

The downside of trade liberalization is the loss of jobs and rising unemployment rates. When there are no trade restrictions from countries where labor costs are low, it is easier to move production there and import the goods back to home country. With trade restrictions this may not be possible, for example with tariffs the price of the good in domestic markets may become too high. For customers this is good because of the lower prices but for local business, especially for the small and medium sized it can be bad and lead to reductions in the workforce. It also reduces the revenue of the country: when there are no tariffs or if the tariffs are at very low rate, the state doesn’t get gain revenue. (Longley 2018B.)

# 3 EXAMPLES OF PROTECTIONIST POLICIES

## 3.1 Historical examples

### 3.1.1 The United States

The United states has a long history of protectionism. The first revenue law was crafted at the dawn of the nation in 1789 by Hamilton. It imposed only 8.5 % tariffs on imported goods; his idea was that these would be lifted as soon as the domestic industries had grown strong enough to compete. He was in favor of national level policies and projects such as national bank and tariffs towards imports to protect domestic producers and financial sector. He also saw the tariffs as a mean to gain revenue for the government to fund the expansions of industrialization and building up infrastructure. (Merry 2016.)

The national bank was created, and during the office of President John Quincy Adams enormous tariffs were levied on syrups, iron, condensed spirits, flax and some other miscellaneous final goods. The more industrialized north flourished under this protection but the agrarian South suffered; the prices of the supplies that weren't produced in the south soared and their export of cotton to UK suffered. This was because of the retaliation from the UK. (Merry 2016.)

This caused severe retaliation within the country; South Carolina called these tariffs abomination. The following president, Jackson's administration made some changes to the tariff rates and the average was around 35 percent, whereas during the time of Adams they were as high as 50 percent on average. (Merry 2016.)

James Polka, the incumbent of Jackson, made then some drastic changes to the tariffs. His idea was firstly that the tariff rates should be formulated as the revenue was needed for running the government and secondly that the tariffs should only be levied when some sector of industry needed protection. During his period as the President, the tariff rates were between 20 and 28 %. (Merry 2016.)

At 1859, two house members Whig Justin Morril and Republican John Sherman drafted a legislation to raise the level of tariff enormously. The rise of tariffs was accepted largely because the Civil War had broken out and the government needed extra revenue, but eventually that didn't happen. The government was in huge debt and desperately needed money. For decades the average of tariffs was commonly 40 % or more. (Merry 2016.)

Grover Cleveland took office in 1885, and as a Democrat he intended to reduce the rate of the tariffs. With Roger Mill as his ally, he sought to reduce import duties. He passed on bills which promoted the idea that all raw materials should be under no-tariff and that the tariffs of the manufactured goods should be lowered drastically. When the election of 1888 came, Cleveland lost and Benjamin Harrison became the president. This was a win for protectionist policies. Soon after the infamous McKinley tariff was put in action. (Merry 2016.)

**The McKinley Tariff**

William McKinley was the new chairman of the House Ways and Means committee, and he was the one who drafted this infamous bill which bears his name. (Merry 2016.) This tariff was put in action in the October 1890. The objective was to protect the agriculture sector but the attempt backfired. Imported garment faced 50% and cutlery 75% tariffs and the food products as much as 100%; this resulted in the soaring of the consumer prices and eventually the trade was diverted away from the United States. Canadian imports were halved towards the USA but quadrupled towards England. During the time period when this tariff was in act, 1890-1894, the GDP went down by 2 % and the unemployment tripled. (Chittooran 2016.)

Even though McKinley was known as a hardline protectionist, he eventually adopted a doctrine to support international trade, but only when domestic manufacturers were not harmed. He aimed for bilateral reduction of tariff deals with other countries. These trade negations took place with several countries, like France. This was by no means a coincidence because at that time, at the end of the 19th century, American industry was blooming and there were surpluses in production. Also, at the same time was the Spanish-American war which was the start of the expansionism of the country. (Merry 2016.)

These bilateral deals were abandoned by his replacement, Theodor Roosevelt. It took until the presidency of Woodrow Wilson for the tariffs to go down again. He also promoted the sixteenth amendment to the constitution, which created the federal income tax. This eased the country’s dependency on the revenue gained from tariffs. (Merry 2016.)

During the interwar peridos, two well-known tariff bills were passed on:

**Fordney-McCumber Tariff**

After the tremendous rise in demand post World War 1, the government wanted to protect domestic industries and the average rate of the tariffs rose to 38.5%. This was faced by retaliation by the trade partners who put forth counter tariffs: Spain levied a 40 % tariff on American goods, France 45 % tariff on cars and Italy and Germany put the American wheat under heavy tariffs. This caused American farmers $300 million losses. The bottom line of this tariff was to promote employment but the unemployment rate remained the same. (Chittooran 2016.)

**Smoot-Hawley Tariff**

This notorious tariff was put on effect during the Great Depression in 1932. It covered over 20 000 goods and effectively raised the average level of the tariffs to 59.1 percent. Even before this tariff was put on effect, other countries complained and said that they would retaliate if this tariff would be put on effect. Canada put 16 different products under tariff, an amount which accounted for 30 % of the exports of the USA to Canada. During the period from 1929 to 1933 the value of the US exports went down from $5.2 to $1.7 billion. This means that the imports and exports were reduced by half. At the same time the GDP plumed by 40 % and the unemployment rate tripled. (Chittooran 2016.)

After the World War 2, the United States started to move towards free trade. The General Agreement on Tariffs and Trade, GATT, was created in 1947 to remove barriers of trade in international commerce. This organization is now known as the World Trade Organization, WTO, as it was reshaped in 1995. (Merry 2016.)

During the 1970s and 1980s domestic industries were in trouble because of the international competition. Especially the car industry faced severe competition from Japanese importers. President Ronald Reagan did not raise tariffs against them, but chose another way of protectionism: voluntary import restrictions. Eventually this did not work to protect the US car industry as intended, because the Japanese car producers simply moved their factories to U.S soil. (Merry 2016.)

In 1987 the Canada-USA free trade agreement was made and soon after in 1994 North American Free Trade agreement.  (Merry 2016.)

### 3.1.2 Japan

The protectionism is not a new thing in Japan. The country had closed its borders almost completely for two centuries 1653-1853. The trade to outside world was opened by force by the United states in 1853 and this created a new element for the authoritarian society of Japan: need for economic system and adequate technology for maintaining the status of an independent state. “Rich country equal strong army” was a slogan coined at the end of 19th century, which meant that the driving force of the economy was not the interest of private citizens but of the state. (Fletcher, Ferry 2011.)

In 1945 the country was bankrupt because of the war. It was far behind the United States economically, and it seemed that it had comparative advantage only in low value industries. It had comparative advantage in tuna producing whereas the USA had in car industry. But Japan didn't intend to become a nation of fishers; it chose protectionism to protect its infant industries, car manufacturing for example. They closed the domestic markets from foreign competition except for those who helped to build the country's own economy. They altered the finance systems and stock exchange to provide funding to the industry. The car industry was protected in 1950s by imposing an import quota for cars: only $500 000 worth of cars were allowed to import. This was replaced in the 1960s by a tariff. (Fletcher, Ferry 2011)

By the 1970s, the immense growth Japan was slowing down as the country was catching up with the US and the European countries; it was about to reach its maturity.  (Ohno 2005; 184) Alongside with the saturation of the economy two other events happened during that time: two oil crises in 1973-1974 and 1979 and 1980. In the fall of 1973, the price of oil went from $2 per barrel to $11 and OPEC reduced its exports. In 1979-1980 the price rose up to $30 per barrel. Japan didn't have oil production of its own and was thus completely dependable on imported oil. It resulted in rising prices. (Ohno 2005; 186.)

In the 1960s Japan started trade liberalization. It was a gradual process with elaborate plans, where the lowering of tariffs was planned so that they would improve the competitiveness of the domestic ones. (Ohno 2005; 175.)

### 3.1.3 Great Britain

UK, England to be more precise, has a long history with protectionism. During the reign of Oliver Cromwell from 1649 to1658 England pursued towards policy where they tried to maximize exports and minimize imports. This policy was a form of mercantilism. The country handed rewards for manufactured exports and levied high tariffs on imports. These policies were designed by wealthy upper-class merchants; they did not have large support amongst the common people. (Siméon 2019.)

United Kingdom was the first to country to start to industrialize, and it was also the first country to start to move towards free trade. One major event was the abolishment of the Corn Laws. In 1838 the Anti-Corn Laws was founded in Manchester. It attracted several hundred thousand supporters nationwide, and it arranged large demonstration. These events led to the abolishment of the Corn Laws in 1846. Another set of laws that gained wide unpopularity amongst the people were the Navigation Acts, which were abolished in 1849.  (Phillips 2007.)

| **Corn laws** |
|---|
| The Corn Laws were a combination of bills that were put on action 1815-1846. The term corn didn't apply to the actual plant called corn but to all kinds of grain. The reason for these laws was to protect the English farmers from imported grain. What it eventually did was is that it made the prices soar.  (Phillips 2007.) |

| **Navigation Acts** |
|---|
| Navigation acts were a series of laws which stated that only English owned and English made ships were allowed to conduct the exports and imports in England. They were first enacted in the 17th century. These laws made the harbor cities of England true hotspots of commerce since no foreign ships were allowed. It also helped to create the mighty Royal Navy which ensured the dominance of the British Empire in the world of that day. (Wigington 2018.) |

After 1890 the public opinion towards free trade started to decline. The competition from abroad, from USA and recently unified Germany were undermining the market shares of British producers both domestically and internationally. When US, Germany and France increased their tariffs during 1860s-1880s, England put forth counter tariffs to replace free trade with fair trade. (Siméon 2019.)

This didn't mean the end of free trade in Great Britain, it went on until 1914 when the First World War broke out. The country was largely dependent on imports by now: quarter of its food supply, including half of the wheat it consumed, were imported. Also, it was dependent on imports from Germany in airplane engines, medicine, timing devices and accuracy devises. This resulted in intervention by the government: it helped domestic producers to cover up the loss caused by loss of imports. Rationing was enacted, and substitute imports were imported throughout the British Empire and the US. This helped the state to survive but it also encouraged to move back towards protectionism. (Boyce 2010.)

After the war the trade within the British Empire remained high. Eventually the imperial protectionism diminished. The dyestuff remained under an import quota and some industries that were considered essential for national defense were put under protection in the Safeguarding of Industries Act. Among these industries were chemicals, precision and wireless valves. Imports from within the Empire received a preferential status. (Boyce 2010.)

The war changed the position of the UK as the world leader in trade. When the country was in war, other countries like the United States and Japan were able to replace the UK in some sectors; it had had the first-mover advantage but when it was busy with the war, other countries were able to step in and steal its market shares. (Crafts 2014.)

In the 1930s the Great Depression hit the world and UK faced its share of it. It led to the rise of unemployment and caused severe widespread of poverty especially in the industrial areas. (Crafts 2014.) This also meant that the UK abandoned the free trade policy and the protectionist policies were reintroduced. In 1932 the Import Duties Act was enacted, and 10 % tariffs were levied on manufactured goods. Later it was doubled to 20 %, and afterwards they were increased fragmentary; steel got a 50 percent tariff in 1935. (National Archives 2008.)

### 3.1.4 China

China is the second biggest economy in the world (Turunen 2019). In 1978 it abandoned the state controlled, state-planned economical system and started to move towards the market economy. This liberalization movement has had a significant effect in the economy of China. (Bhogal 2017.) In the mid-1970s its share of the world trade was only for 0.5 percent, but now it is the biggest exporter in the world (Mishra 2018). When China entered the world markets, it adopted a version of mercantilism. It started to promote exports by giving subsidizes to export industries in a form of not imposing tariff duties on imported raw materials. The government also provided both long- and short-term loans to the domestic companies. Foreign investors were given incentives to establish their manufacturing facilities on the Chinese soil; special exporting zones were established and there the foreign investors where encouraged to build their factories. By doing this China gained a lot of benefit: the employment rate grew, the salaries grew and their productivity rose as they got technology and know-how and capital from foreign investors. (Bhogal 2017.)

The liberalization plan for the economy was elaborate and selective: the sectors in which the growth was important for the economy were opened for the foreign investors. These were labor-intensive manufacturing and those that required the latest technology and infrastructure. The state had a complex bureaucratic system that foreign investors had to go through if they wished to invest in the country; this worked as an excellent protectionist measure. This policy went on until mid-1990s. (Bhogal 2017.)

During the 1990s China allowed foreign investors into the service sector and the average of tariffs was cut down from 40.6 percent in 1992 to 9.1 percent in 2001. Also import quotas were lifted. This was done because the country wanted to join the WTO. By 2014 the average of tariffs was 4.5 %. This doesn't mean that China has abolished the protectionist policies because subsidizes still take place. (Bhogal 2017.)

Even though China has moved towards the global integration, the process has been cautious and has happened gradually. It still protects domestic production and producers over foreign and it only collaborates with countries when this co-operation benefits its own interests. The foreign investors are allowed to enter the country, but they are allowed to do so only if they bring in technology. (Bhogal 2017.)

## 3.2 Examples from 21st century

### 3.2.1 The United States

**Steel and aluminum tariffs**

In January of 2018 the administration of Donald Trump imposed temporary tariff hikes on imported washing machines and solar panels from China. By March this was extended to include also aluminum and steel. The countermeasure taken by the Chinese government was to create counter tariffs on 106 exported American goods, including soybeans and cars which were key exports of the country. The following action by Donald Trump was to announce a list of 1333 Chinese goods that could face a tariff up to 25 percent. The reason for USA to impose these tariffs is to reduce it trade deficit with China. (Mohamad 2019.) This was faced by a reprisal in a form of a quota by trading partners Argentina, Brazil and South Korea. What Trump tried to do was to make imported steel much more expensive than imported ones, and thus allowing the domestic producers to raise their prices too. The consequence was that the price of steel products rose by 9 percent and the revenues of the producers by $2.4 billion in 2018. But what it also did was is that it made the expenses of the steel users to rise by $5.6 billion. This maneuver created 8700 new jobs in the steel industry and simultaneously by each job created the producers made $270 000. This was paid by the users of the steel producers who paid $650,000 for each of these newly created jobs. (Jung, Hufbauer 2018.)

When these tariffs were put on effect, there were already anti-dumping restrictions that had taken place before and which had restricted the imports. By imposing the tariffs on steel products Trump did improve the revenue of the steel producers, he did create new jobs, but at the same time he also created an immense loss for the domestic steel users. In other words, the gain of the steel producers was achieved through the suffering of the steel producers. (Jung, Hufbauer 2018.)

Former president of the United States, George W Bush, tried imposing duties on steel imports in 2002. The officials who worked in his administration now say that it was a huge mistake and they should have never been levied. The tariffs were put on action in March 2002, and the intention was to keep them intact for three years, but they were lifted on December 2003. The tariffs created jobs in the raw steel production, but other industries suffered, especially those that used raw steel. Also trading partners like the European Union threatened to put forth counter tariffs on American goods. According to a study conducted by Peterson Institute for International Economics, the price for one saved job was $400 000.  (Long 2018.)

**Trade deals**

During his presidential campaign in 2016 Donald Trump started promoting for policies that would limit immigration and international commerce. (Noland 2019.) In January 2017 he pulled the USA out from the Trans-Pacific Partnership, abbreviated TTP (Lobosco 2018). TTP was planned to create one of the largest free trade areas in the world; if it had happen as intended with USA aboard, it would have covered 40 percent of the global trade (McBride, Chatzky 2019). Barrack Obama's administration had planned this deal as a measure to reduce the influence of China (Lobosco 2018).

A vast economic growth was expected from TPP. It was estimated that by 2030 $492 billion would have been added to the global GDP. The share of the USA was calculated to be $131 billion, which means about 0.5 percent growth. Japan would have gained $125 billion, Vietnam $41 and Malaysia $52 billion. It was planned that once TTP would have been in effect 75 percent of all tariffs would have been removed. Eventually 99 percent of all tariffs would have been abolished, including 350 percent tariff on American tobacco products.  Exports within TPP nations were expected to grow by 11.5 percent by 2030. In the United States that would have meant $357 billion-dollar increase. It means 9 percent growth. The agricultural and mining sectors would have gained substantial gains alongside advanced manufacturing and services. (Chow, Sheldon & McGuire 2018, 63-65.)

When President Donald Trump withdrew United States from TPP, the country lost its opportunity for these economical gains. Membership in TPP would have created opportunities that are hard to find elsewhere. United States also lost a chance to lead the development of a free trade are in Asia, leaving more room for China to enlarge its impact. (Chow, Sheldon & McGuire 2018, 74-75.)

Another promise made by during the presidential campaign of Donald Trump was to renegotiate the North American Free Trade Agreement, the NAFTA. In his speech in 2019 he claimed that the manufacturing jobs would come back, that the American agricultural sector would expand and that there will be protection for intellectual property. (Greenberg 2019.) The new NAFTA deal was negotiated on 30th of September and it was signed two months later on 30th of November 2018. Because it has to be ratified by each country's parliament, it hasn't taken effect yet. (Amadeo 2019) The new NAFTA, now called the United States-Mexico-Canada Agreement, or USMCA, didn't change the original trade agreement very much, but Trump did achieve two of his goals, to some extent at least:

- In the new deal US gained access to the Canadian dairy markets. This is good for American farmers.
- Intellectual property gained wider protection. The copyrights are now valid for 70 years after the author has passed, while in the old agreement it was 50 years. Also, duties were banned on music and e-books and medicines got protected from generic copies. (Kirby 2019.)

If the United States would withdraw from the NAFTA, it could mean a 0.22 percent loss in household incomes. US exports $33 billion worth of goods to Canada and $17 billion to Mexico, and the exports to other countries couldn't cover this loss. The imports from these countries is worth $110 billion and buying elsewhere could only cover $29 billion. (Felbermayr, Steininger & Yalcin 2017.)

**Agriculture**

In retaliation for Trump's tariffs, China has stopped buying American soybeans. Being the biggest crop buyer in the world, this spells some serious trouble for the farmers of the USA. The demand for meat has been on the rise in China, and soybeans are being used for feeding livestock. In 2012 the meat production was stunning 250% higher than in 1986 and it is expected to rise even as much as 30 percent by the end of the decade. China is not able to produce enough food for all the livestock and that is why it has to import them from abroad. USA and Brazil were the biggest producers and exporters of the soybean in 2017, exporting $21.5 billion and $25.7 billion worth of soybeans respectively. China was the biggest importer, $39.6 billion, more than neither of these countries produced. China bought soybeans $13.9 billion, which made the product the second most valuable export of the US. In 2015-2018 the average amount of imported soybeans was about 29 million metric tons, but by 2019 it was reduced to mere 5.9 million. The counter tariffs imposed by China really hit the US farmers. (Sheldon 2019.)

The agricultural sector of Russia took a serious hit after the annexation of Crimea in 2014. The United States and the European Union imposed sanctions against Russia because of that event, and in retaliation Russia enacted counted measures: it put forth restrictions on importation of agricultural goods. In five years, from 2014 to 2019 the cost of food soared and an extra $6.9 billion was spent on food. This meant an increase of 3000 rubles in food expenditure. For low income families this means a five percent increase. At first Russian officials claimed that it wasn't a protectionist measure, but later they admitted that this was the case. Yet, only a slight improvement in domestic production has occurred, and the consumers must settle for lower quality goods. (Quinn 2019.)

**Examples of companies that have suffered**

The Trump administration also targeted the imports of solar panels, which led the companies in the renewable energy sectors halt or cancel investments worth more than $2.5 billion. According to the U.S. Energy Information Industry the solar industry in the USA has over 250 000 workers. The import duty is 30 percent and it is supposed to last for four years, decreasing by five percent per annum. Cypress Creek Renewable LLC had to put on hold or totally cancel projects worth of $1.5 billion because the tariffs made the expenses too big to be competitive anymore. Southern Current ended up with the same decision, with projects worth more than $1 billion. (Groom 2018.)

Elberta Crate & Box makes wooden crates for fruits and vegetables in rural Georgia. Steve Williams, the company's manager stated that the new tariffs towards Canadian lumber and Chinese wires have already resulted in 40 percent loss in profits. Yet Trump's administration is going ahead with plans on putting one of the Elberta's key raw material – soft ply wood – under tariff too. This could have such severe effect on the company's compatibility that they may be forced to be looking for other options like outsourcing the production out of the US. (Politi 2018.)

Rayonier Advanced Materials is a cellulose manufacturing company. The outputs of the company are being used in wide section of different industries such as computers and pharmaceuticals. It has three plants and 1 200 employees in the United States, but its revenue comes from abroad: it sells its commodities to 35 different countries and in total this accounts for 60 percent of the company's sales.  It is a relatively small company playing in the big international field of commerce. In 2013 China enacted an anti-dumping tariff of 17 percent for the Rayonier's products, effectively paying it off from that market. (Digital Initiative 2017.)

Because the risk of rising import duties is present Rayonier has taken countermeasures. These include diversification of the product portfolio so that even if certain products fall under the tariffs, there are still some products to be exported. The company has also acquired other companies from abroad to avert the possible import duties. If the isolationism goes on and gets deeper, the company can keep on developing new products and thus deepen and wider the portfolio, and one really potential option is to move the production overseas. (Digital Initiative 2017.)

Jagemann Stamping is a producer of car parts, fridges and miscellaneous house products. Overall it has 400 employees. Because the tariffs Bush administration imposed, the price of steel went up too and so did the price of their products. This meant that big companies imported the parts from abroad instead of purchasing locally. The impact for Jagermann Stamping's company was that it had to hold on with expanding because the price of the raw materials went up but he wasn't able to pass it on to the final price of products. (Long 2018.)

**Situation in the October 2019**

In June 2019 alone, the cost of Trump's tariffs was $3.4 billion to American enterprises (Dhue 2019).

While announcing new tariffs towards China, Donald Trump claimed that it was going to reduce the trade deficit of the United States. Yet, the deficit is higher in 2019 than it was when he took office. They didn't reduce imports; they shifted the source of the imports to other countries and the costs were passed to the American customers. Almost 18 percent of American exports are at risk because of an increased fear of retaliation tariffs. China has an average of seven percent tariff rate with other WTO members, but with the United States its twenty. The imports from the US to China have diminished by 12 percent. It has a population of over one billion and it buys food throughout the world expect from the US. The US has drafted compensation schemes for its farmers which have been costly, insufficient and unevenly distributed. (Kotlikoff 2019.)

While the administration of Donald Trump has been abandoning trade deals, the rest of the world has moved forward with them. The European Union has sealed deals with Japan, Canada and Mexico and is closing a deal with Mecrosur. TPP was signed by 11 countries. Several countries, Italy for example, have joined the Belt and Road Initiative, a global infrastructure and trade scheme orchestrated by China. (Kotlikoff 2019.)

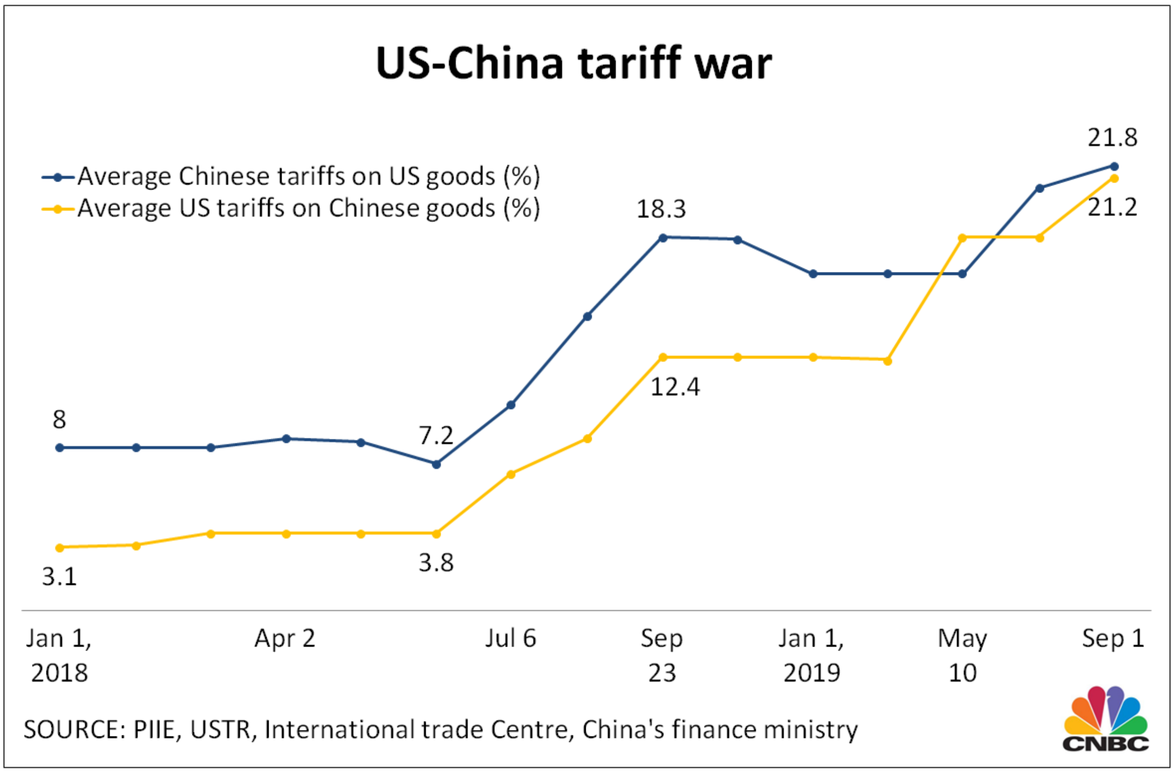


Figure 4 US-China tariff war (Lee 2019)

The total cost of Donald Trump's tariffs is estimated to be as high as $105 billion per year. This sum is levied upon the consumers, who are the one who pay the tariffs in the end. As of October 2019, six countries had responded to the US tariffs by retaliation. These retaliatory tariffs affect $112 billion worth of US exports, and have increased the average of tariffs to 70 percent. (Varas 2019.)

According to Moody's Analytics, the tariff policies of Donald Trump have eliminated 300 000 jobs in the US, compared to what the job rates could be without the trade war. By the end of 2019 the loss would be 450 000 and by the end of 2020 900 000. The hardest hit will be upon manufacturing, retail, distribution and warehousing. At the September of 2019 1.3 million new jobs were created, whereas in September 2018 the amount was 1.9 million. One of the main reasons is the higher prices caused by the tariffs, which hurts especially the manufacturing sector. (Newman 2019.)

Among the direct consequences of Trump's tariffs, such as price rises, they also generate efficiency losses. Because of the tariffs, the consumers and businesses are switching away from the imported goods that were put under them. These substitutes can be less suitable, meaning that they don't meet the needs and wants desired. And even if they are cheaper than the ones under import duties, they can still be more expensive than they used to be. This could even lead to the situation were the user of that good may end up deciding to buy less of that good or not buying that good at all. These wider effects of tariffs are also called deadweight loss, and they can be much vaster than the direct consequence of the import duties. The total burden of the tariffs imposed in 2018 and at the beginning of 2019 are on American household is estimated to be around $800 per year. (Russ 2019.)

The tariffs for Chinese goods imposed in 2018 meant a straight price rise in the imports; the Chinese exporters didn't lower their prices. This means that a 10 percent tariff would increase the price by 10 percent directly. Deadweight losses don't rise by this logic, rather they tend to rise more drastically. The domestic companies of the United States have been switching to other suppliers for the intermediate goods, which are more expensive but still cheaper than Chinese products under tariffs. This results in higher costs but not a single extra dollar is received by the Government in the form of tariffs. (Amiti, Redding & Weinstein 2019.)

What Trump's trade policies are really causing is uncertainty about the future. His decisions tend to be rather impulsive, and the true impact of his tariff hikes is yet to be discovered. This affects the company's decisions on spending like investments and hiring, and when these decisions are halted, the economy slows down. Companies are afraid of investing money because they can't be certain what the price of their raw materials and intermediate goods will be in the future. Another thing rising worries is how will the export chances be in the future. Without these, the economic growth in the US could as much as one percent higher, and the economic deadweight could rise as high as $1700 per household in 2020. (Amiti, Redding & Weinstein 2019.)

### 3.2.2 United Kingdom

As can be seen in the chart below, seven out of ten top trading partners of the UK are from the EU area. In the case of no-deal Brexit, imports from these countries will fall under the tariffs and other fees such as customs checks, and value added taxes. The same works the other way and because imports and exports become more expensive, it may reduce the overall level trade. (Rodgers, Hills and Bailey 2019.) With the new restrictions on trade, doing business between UK and EU more expensive and difficult, and this has severe consequences, especially for the smaller companies (Menon 2019).

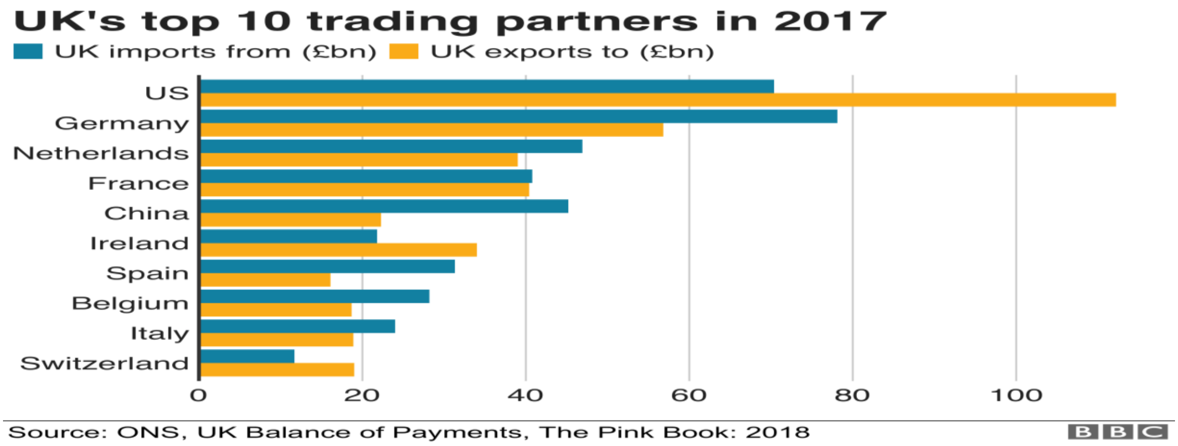


Figure 4 UK top trading partners in 2017 (Edgington 2019)

The car industry in the United Kingdom is in danger because of the chance of a no-deal Brexit. Investments into car industry were £589 million. It was 46.5 percent less than in 2017. In 2015, a year before the Brexit referendum, the global investment in the UK's car industry was £2.5 billion, so the drop is significant. The possibility of new tariffs in case of no-deal Brexit would make the vehicle exports more expensive. (The Week 2019.) Ford has announced that if no-deal Brexit happens, it will take the necessary actions to maintain its competitiveness in European markets. This means, that if UK would leave the EU without a deal, it will move its production to continental Europe. The company has engine factories in Essex and Bridgend. These plants employ 13 000 people in total. Nissan has halted its plan of making its new model in Sunderland because of the uncertainty caused by the Brexit. (Rojas 2019.)

The food supply of United Kingdom will be affected in case of no-deal Brexit. Shortage of food is unlikely to happen, but the range of choice will be reduced, and the prices will go up. (Wilson 2019.) Nearly 30 percent of the food sold in the United Kingdom are from continental Europe (Rodgers, Hills and Bailey 2019). The medical supply will be impaired too, and shortages on drugs like insulin may occur. Also, operations may be delayed because of this. (Wilson 2019.) The National Healthcare System uses over 12 000 different drugs, and 7000 of these comes from EU, either directly or through it.  If the access to EU energy market is cut out, it could result in higher prices in utilities like electricity or gas. Only 46 percent of the gas used in UK is domestically produced, and 45 percent comes from European pipelines. (Rodgers, Hills and Bailey 2019).

If the United Kingdom would leave the European Union without a deal, it would mean large troubles for the country's financial sector. The banking industry located in the City of London is one of the largest in the world. In between £40-£50 billion worth of the deals made there are related to EU markets. This is almost 50 percent of all the deals made.

So, if the country would leave the European Union without a deal, it would lose the benefit of free movement of capital. This would then mean that the investment banks situated in London would be put under different sorts of regulations and restrictions, and in the long run it could cause serious trouble for the financial sector. (Fouskas, Roy-Mukherejee 2019.)

The top management in the companies of the United Kingdom have been preparing for Brexit. They have spent about two hundred hours a week for preparations, but the problem is that they are not sure what they are getting ready for. Even though it has been over three years since the people voted for leave, there is still no certainty about the future. When a firm faces times of uncertainty, it tends to halt it's investments, and that is precisely what has happened in the UK from June 2016 onwards: a significant slow period in investments resulting in substantial harm for the economy. As a member of the European Union the United Kingdom is part of the economic are and a variety of different trading agreements made between the EU and third parties. Once these cease to exist, nobody knows what happens next. If the hard Brexit happens, the country will be thrown out and start building trade deals from the very beginning. If a Brexit deal is concluded, this may not be the scenario, but the contents of the deal remain unknown. (Frick 2019.)

The wallowing uncertainty of Brexit has occurred in 11 percent loss in investments (Frick 2019). The situation of investments in the United Kingdom is now as worse as it was in the financial crisis of 2008. It is estimated that in 2020 the economic growth of the country will be the smallest in the Europe. (Partington 2018.)

# 4 ANALYSIS

In the economic history of 19th and 20th century protectionism was very common. USA, UK, China and Japan are in top 10 of the biggest economies in the world measured by GDP (World Population Review 2019). What is similar to all these countries is that they all used protectionism as a tool to protect and nurture their industries. Eventually, all these countries opened their economies and lowered the barriers of trade, at least until recently, and what is common for all is that this was the point when their economic output was so big that the domestic markets were not enough.

United Kingdom was the first country in the world to start to industrialize, and it was also the first country to start the trade liberalization process in the middle of the 19th century. United States pushed for strong protectionist policies throughout 19th century and for the first half of the 20th century, when after the World War 2 it started to pursue for globalization and world markets. They both had time to develop their industries in peace before exposing them to the international competition, and as their economies matured and the output of the producers grew, domestic markets weren't enough anymore; they eventually needed the markets of other countries. As we can see in the US, when in the 1920s and 1930s new tariffs were erected, the consequences were unintended and made the situation even worse.

In China and Japan, the protectionist measures took place much later than in the west. From the end of 1940s till the end of 1970s China wasn't a market economy but central governed central planned economy. But when it switched it economy system into market economy, it did use protectionist tools in the beginning but not for that long; they were lifted much faster than in the US for example. In Japan the lifting of protectionist measures and lowering tariffs was even faster. They used protectionist measures in the 1950s but in the 1960s trade liberalization was already taking place.

In all these four cases the infant industry argument has been proven to work. But, it is important to consider the duration of protectionist period and the era in which it took place. United Kingdom and the United States started to develop their industries and economies in time in which the industrialization was a new thing and there was not that much competition. This means that they had the first mover advantage here alongside the other western countries that began industrialization in the 19th century. China and Japan entered there later, even though Japan had started to industrialize earlier but was in ruins after the war. They used the protectionist measures as a kick-off, and they were lifted as quickly as it was possible to enter the global markets.

It is very difficult to assess which branch of industry needs to be protected, and when the decisions have been made, what are the actual consequences of that decision. As we can see from the example of the examples of steel tariffs in the United States, the collateral damage overshadowed the benefits gained. The intention was to preserve American steel production, but the costs of the protection fell on the users of their products. Another problem is that when trade barriers are erected for protection, the other countries tend to retaliate with countermeasures. The tariffs of Donald Trump were intended to protect American steel industry, but it backfired as China stopped buying soybeans from the United States and American farmers fell victims. This has now escalated into a trade war.

Tariffs are taxes, extra fees imposed on products. The government collects this money but the consumer pays for it. Donald Trump said that China will pay the tariffs he erected but that is not case; the exporter doesn't pay, the importer does. Eventually, the value of the tariff ends up absorbed into the final price of the good, paid by the consumer. And tariffs don't just raise the prices but they also limit the variation of goods available for customers. When domestic companies don't face foreign competition, there are no incentives for product development or maintaining high quality. The customers have to pay higher prices and face narrow selection with lower quality. The companies will face problems when the production costs rise and the output reduces, and that added to lower purchase power of the customers results in lower profits.

Globalization and international economic integration have shaped the world to the point where companies are more or less dependent on foreign counterparts. Free trade areas and trade agreements have become normality, and companies have adjusted themselves to work in this type of environment. This is clearly visible in Great Britain, where the chance of losing the access to single market of the European Union is at risk and companies are now either being stacking up their inventories to ensure the continuity of their production or they are moving their business elsewhere.

The ongoing date liberalization has provided continuity and safety. This has offered businesses a sense of security and certainty about the future, which has then fueled the investments and growth. Now investors are no longer sure what is going to happen in the United States, or in the United Kingdom, and that has weakened the level of investments. Trade barriers, and threat of them, are a major source for growing uncertainty which will make companies think twice before invest.

# 5 CONCLUSIONS

One thing seems to be certain: sudden rise of trade barriers for an economy that is well integrated into $21^{st}$ international trade system has devastating results. Even if the infant industry protection did work in the past, it doesn't work anymore. The results of Donald Trump's trade policies have caused retaliation from former trade partners, chaos and uncertainty. His goal is to 'Make America Great Again', yet the results are showing the opposite. Once a country has entered international trade it is not easy to withdraw without consequences. As the globalization has intensified, the value and supply chains have become more and more international. This means that in the $21^{st}$ century there is not many products that are produced in just one place. Hence, erecting trade barriers makes the production planning more complex and more expensive.

The current system of the world trade is a complex entity of rules and regulations and different trade agreements. It is a result of 70 years' worth of negotiations and deals, and most of the modern societies are built to operate in that environment. By discarding it the country throws itself into an abyss. Nobody is nowadays forcing anybody to participate in international trade, but by association it is mandatory if the country wants to maintain its economic sustainability and thus certain living standards.

The immense growth of free trade on global scale has generated immense amount of wealth. It is rather hard to believe that by isolating oneself from it would generate something better.  While it is true that globalization has caused problems, the answer is not to throw it away. It needs to be fixed, that is true, and that is why organizations like WTO exists. The forthcoming years will show how the international trade and globalization will develop now that China is leading it instead of the United States. ´

# REFERENCES


Abboushi, S. (October 2010) Trade protectionism: Reasons and outcomes [accessed on August 10, 2019] from https://www.researchgate.net/publication/235283803_Trade_protectionism_Reasons_and_outcomes.

Amadeo, K. (2019, September 23). 6 Ways Trump Changed NAFTA. [accessed on October 5, 2019] from https://www.thebalance.com/donald-trump-nafta-4111368.

Amiti, M., Redding, S., & Weinstein, D. (2019, May 23). New China Tariffs Increase Costs to U.S. Households. [accessed on November 10, 2019] from https://libertystreeteconomics.newyorkfed.org/2019/05/new-china-tariffs-increase-costs-to-us-households.html.

Batabyal, A. A., & Gosnell, A. J. (2019, October 15). What is a tariff? An economist explains. [accessed on October 19, 2019] from https://theconversation.com/what-is-a-tariff-an-economist-explains-93392.

Bhogal, P. (2017, March 22). China's protectionist tendencies will continue. [accessed on September 17, 2019] from https://www.orfonline.org/expert-speak/china-protectionist-tendencies-continue/.

Boyce, R. (2010). Continuity and discontinuity in British interwar history. [accessed on September 30, 2019] from https://www.cairn.info/revue-histoire-politique-2010-2-page-8.htm# .

Britannica, T. E. of E. (2019). Protectionism. [accessed on August 11, 2019] from https://www.britannica.com/topic/protectionism.

Chang, Ha-Joon. 23 Tosiasiaa Kapitalismista. 3rd ed., Into, 2016.

Chittooran, J. (2016, September 12). History Says Trade Protectionism Has Never Worked – Third Way. [accessed on September 25, 2019] from https://www.thirdway.org/memo/history-says-trade-protectionism-has-never-worked.

Crafts, N. (2014, August 27). Walking wounded: The British economy in the aftermath of World War I. [accessed on September 30, 2019] from https://voxeu.org/article/walking-wounded-british-economy-aftermath-world-war-i.

Destler, I. M. “America's Uneasy History with Free Trade.” *Harvard Business Review*, 26 Sept. 2016 [accessed on 7.11.2019]. Available at: https://hbr.org/2016/04/americas-uneasy-history-with-free-trade.

Dhue, Stephanie. “Trump's Tariffs Cost US Businesses $3.4 Billion in June, Trade Advocacy Group Says.” *CNBC*, CNBC, 7 Aug. 2019, [accessed on 7.11.2019]. Available at: https://www.cnbc.com/2019/08/06/trumps-tariffs-cost-us-businesses-3point4-billion-in-june.html.

Digital Initiative. (2019). The Impact of Isolationism on Small US Businesses... Does Protectionism Protect Them? [accessed on October 20, 2019] from https://digital.hbs.edu/platform-rctom/submission/the-impact-of-isolationism-on-small-us-businesses-does-protectionism-protect-them/.

Economist. (2018, June 27). What is the future of free trade? [accessed on October 5, 2019] from https://www.economist.com/open-future/2018/06/27/what-is-the-future-of-free-trade.

Edgington, T. (2019, October 28). Brexit: What trade deals has the UK done so far? [accessed November 11, 2019] from https://www.bbc.com/news/uk-47213842.

Felbermayr, G., Steininger, M., & Yalcin, E. (2017, November 22). Economic implications of a protectionist US trade policy. [accessed on November 3, 2019] from https://voxeu.org/article/economic-implications-protectionist-us-trade-policy.

Ferrini, L. (2012, August 28). What are the Main Causes and Effects of Economic Protectionism? [accessed on August 5, 2019] from https://www.e-ir.info/2012/08/28/the-causes-and-effects-of-economic-protectionism/.

Fletcher, I., & Ferry, J. (2011, June 17). Japan, the Forgotten Protectionist Threat. [accessed on October 1, 2019] from https://www.huffpost.com/entry/japan-the-forgotten-prote_b_850269.

Fouda, R. A. N. “Protectionism and Free Trade: A Country‘s Glory or Doom?” International Journal of Trade, Economics and Finance, Oct. 2012.

Fouskas, V. K., Roy-Mukherjee, S. (2019, October 15). A no-deal Brexit won't end the uncertainty for business. [accessed on November 3, 2019] from http://theconversation.com/a-no-deal-brexit-wont-end-the-uncertainty-for-business-123217

Frick, W. (2019, October 16). Research: Quantifying the Cost of Brexit Uncertainty. [accessed on November 10, 2019] from https://hbr.org/2019/09/research-quantifying-the-cost-of-brexit-uncertainty.

Gaffney, C. (2019, April 2). The Effects of Subsidies on the Supply & Demand Curve. [accessed on October 10, 2019], from https://smallbusiness.chron.com/effects-subsidies-supply-demand-curve-33921.html.

Greenberg, S. (2019, April 10). Opinion | Trump promised a new trade policy. But his new NAFTA might be worse than the old one. [accessed on September 14, 2019] from https://www.washingtonpost.com/opinions/2019/04/10/trump-promised-new-trade-policy-his-new-nafta-might-be-worse-than-old-one/.

Groom, N. (2018, June 7). Billions in U.S. solar projects shelved after Trump panel tariff. [accessed on September 11, 2019] from https://www.reuters.com/article/us-trump-effect-solar-insight/billions-in-u-s-solar-projects-shelved-after-trump-panel-tariff-idUSKCN1J30CT.

Guarino, A. (n.d.). The Economic Effects of Trade Protectionism: FocusEconomics. [accessed on September 10, 2019] from https://www.focus-economics.com/blog/effects-of-trade-protectionism-on-economy.

Helsingin Sanomat. (2019, August 6). Pääkirjoitus: Aiemmin valtiot toivat vakautta talouteen, mutta nyt niistä on itse tullut riskien lähde. [accessed on August 7, 2019] from https://www.hs.fi/paakirjoitukset/art-2000006196507.html.

Jung, E., & Hufbauer, G. (2019, January 15). Steel Profits Gain, but Steel Users Pay, under Trump's Protectionism. [accessed on October 20, 2019] from https://www.piie.com/blogs/trade-investment-policy-watch/steel-profits-gain-steel-users-pay-under-trumps-protectionism.

Kirby, J. (2019, June 20). USMCA, Trump's new NAFTA deal, explained in 500 words. [accessed on October 29, 2019] from https://www.vox.com/2018/10/3/17930092/usmca-mexico-nafta-trump-trade-deal-explained.

Krugman, Paul International Economics: Theory & Policy. 9th ed., Pearson Education, 2012.

Kucik, J. (2019, October 6). How Trump's trade war affects working-class Americans. [accessed on October 20, 2019] from https://theconversation.com/how-trumps-trade-war-affects-working-class-americans-100702.

Lemieux, P., Henderson, D., Sumner, S., & Klein, D. (2018, June 13). The National-Security Argument for Protectionism. [accessed on August 30, 2019] from https://www.econlib.org/archives/2018/03/the_national-se.html.

Lobosco, K. (2018, December 30). Trump ditched the TPP. Now it's going into effect without the US. [accessed on September 14, 2019] from https://edition.cnn.com/2018/12/29/politics/tpp-trade-trump/index.html.

Long, H. (2018, March 6). Analysis | Remember Bush's 2002 steel tariffs? His chief of staff warns Trump not to do the same. [accessed on October 15, 2019] from https://www.washingtonpost.com/news/wonk/wp/2018/03/06/remember-bushs-2002-steel-tariffs-his-chief-of-staff-warns-trump-not-to-do-the-same/.

Longley, R. B (2018, December 5). What Is Free Trade? Definition, Theories, Pros, and Cons. [accessed on September 1, 2019] from https://www.thoughtco.com/free-trade-definition-theories-4571024.

Longley, R.A (2018, December 3). What Is Protectionism? Definition and Examples. [accessed on August 30, 2019] from https://www.thoughtco.com/protectionism-definition-and-examples-4571027.

McBride, J., & Chatzky, A. (2019, January 4). What Is the Trans-Pacific Partnership (TPP)? [accessed on September 14, 2019] from https://www.cfr.org/backgrounder/what-trans-pacific-partnership-tpp.

McCarthy, N. "Where Tariffs Are Highest And Lowest Around The World [Infographic]." Forbes, Forbes Magazine, 23 Mar. 2018, [accessed on 30.8.2019]. Available at : https://www.forbes.com/sites/niallmccarthy/2018/03/23/where-global-tariffs-are-highest-and-lowest-infographic/#23f533b77f26.

Menon, A. (2019, September 3). Don't buy the bluff. Here's the truth about no-deal Brexit | Anand Menon. [accessed on October 29, 2019] from https://www.theguardian.com/commentisfree/2019/sep/03/no-deal-brexit-crashing-out-uk-europe.

Merry, R. W. (2016, October 19). America's History of Protectionism. [accessed on October 21, 2019] from https://nationalinterest.org/feature/americas-history-protectionism-18093.

Mishra, P. (2018, February 7). The Rise of China and the Fall of the 'Free Trade' Myth. [accessed on September 13, 2019] from https://www.nytimes.com/2018/02/07/magazine/the-rise-of-china-and-the-fall-of-the-free-trade-myth.html.

Mohamad, J. (2019, February 18). The unintended impact of protectionism. [accessed on October 20, 2019] from https://www.nst.com.my/opinion/columnists/2019/02/461393/unintended-impact-protectionism.

National Archives. (2008, December 30). Policy, protectionism and imperial preference. Retrieved September 9, 2019, from https://www.nationalarchives.gov.uk/cabinetpapers/themes/policy-protectionism-imperial-preference.htm.

Newman, Rick. “Trump's Trade War Has Killed 300,000 Jobs.” *Yahoo! Finance*, Yahoo!, 10 Sept. 2019, [accessed on 7.11.2019]. Available at: https://finance.yahoo.com/news/trumps-trade-war-has-killed-300000-jobs-194717808.html.

Noland, M. (2019, July 2). Protectionism under Trump: Policy, Identity, and Anxiety. [accessed on October 5, 2019] from https://www.piie.com/blogs/trade-investment-policy-watch/protectionism-under-trump-policy-identity-and-anxiety.

OECD. “Global Value Chains and Trade.” OECD, 2019, [accessed on 25.10.2019]. Available at : https://www.oecd.org/trade/topics/global-value-chains-and-trade/.

Ohno, K. The Economic Development of Japan. GIRPIS Development Forum, 2005.

Ortiz-Ospina, Esteban, et al. “Trade and Globalization.” Our World in Data, 29 Oct. 2018, [accessed on 30.8.2019]. Available at https://ourworldindata.org/trade-and-globalization

Our World in Data. “Value of Exported Goods as Share of GDP.” Our World in Data, 2019, [accessed on 30.8.2019]. Available at: https://ourworldindata.org/grapher/merchandise-exports-gdp-cepii?time=1947..2014&country=GBR+USA+CHN+JPN.

Partington, R. (2018, November 21). Business investment in UK enters worst period since financial crisis. [accessed on November 10, 2019] from https://www.theguardian.com/business/2018/nov/21/business-investment-in-uk-enters-worst-period-since-financial-crisis.

Pettinger, T. (2017, August 28). Definition of comparative advantage. [accessed on August 5, 2019] from https://www.economicshelp.org/blog/glossary/comparative-advantage/.

Phillips. E. (2007, June 1). What Crushed the Corn Laws?:. [accessed on October 20, 2019] from https://mises.org/library/what-crushed-corn-laws.

Pietryzk, M. (2000, May 1). Free Trade and the Long Post-World War Two Peace: Winning Essay. [accessed on October 5, 2019] from https://www.independent.org/students/essay/essay.asp?id=1457.

Pinomaa, S. (2018, June 6). Viikon kysymys: Mitä tarkoittaa protektionismi? [accessed on August 11, 2019] from https://ek.fi/ajankohtaista/uutiset/2018/06/06/viikon-kysymys-mita-tarkoittaa-protektionismi/.

Politi, J. (2018, August 24). US tariffs see small businesses plead for mercy as trade war bites. [accessed on October 5, 2019] from https://www.ft.com/content/3b4785d0-a68c-11e8-8ecf-a7ae1beff35b.

Provan, J. “The Marshall Plan and Its Consequences.” *George*, 2019, [accessed on 7.11.2019]. Available at: https://www.george-marshall-society.org/george-c-marshall/the-marshall-plan-and-its-consequences/.

Randle, J. (2017, January 27). Tariffs Help Domestic Producers but Can Hurt Consumers. [accessed on August 20, 2019] from https://www.voanews.com/usa/tariffs-help-domestic-producers-can-hurt-consumers.

Riley, B. (2019, April 23). Tariffs Are Bad. Import Quotas Are Worse. [accessed on August 30, 2019] from https://www.ntu.org/foundation/detail/tariffs-are-bad-import-quotas-are-worse.

Riley, J. (2019). Protectionism and Open Trade: Business. [accessed on August 11, 2019] from https://www.tutor2u.net/business/reference/what-is-protectionism.

Rodgers, L., Hills, M., & Bailey, D. (2019, October 11). No-deal Brexit: 10 ways it could affect you. [accessed on October 29, 2019] from https://www.bbc.com/news/uk-politics-47470864.

Rojas, J. (2019, February 13). Brexit: Ford 'steps up preparations to move production abroad'. [accessed on October 29, 2019] from https://news.sky.com/story/ford-reportedly-steps-up-preparations-to-move-production-out-of-uk-11636480.

Russ, K. (2019, October 11). What Trump's tariffs have cost the U.S. economy. [accessed on November 10, 2019] from https://www.pbs.org/newshour/economy/making-sense/what-trumps-tariffs-have-cost-the-u-s-economy.

Sandford, A. (2019, November 5). No-deal Brexit: what would 'WTO terms' mean for UK-EU trade? [accessed on November 11, 2019] from https://www.euronews.com/2018/12/19/how-would-uk-eu-trade-be-affected-by-a-no-deal-brexit.

Sheldon, I. (2019, August 28). How soybeans became China's most powerful weapon in Trump's trade war. [accessed on September 29, 2019] from http://theconversation.com/how-soybeans-became-chinas-most-powerful-weapon-in-trumps-trade-war-118088.

Siméon, O. (2019, May 9). British Protectionism Through the Ages. [accessed on September 25, 2019] from https://booksandideas.net/British-Protectionism-Through-the-Ages.html.

Suranovic, P. 2002. International trade and policy [accessed on 30.8.2019]. Available at : http://internationalecon.com/Trade/Tch100/T100-4.php

Tarver, E. (2019, September 29). How do government subsidies help an industry? [accessed on October 3, 2019] from https://www.investopedia.com/ask/answers/060215/how-do-government-sub

The New York Times. (2017, August 9). Presidential Election Results: Donald J. Trump Wins. [accessed on October 29, 2019] from https://www.nytimes.com/elections/2016/results/president.

The Week. (2019, January 31). Is Brexit destroying the UK car industry? [accessed on October 29, 2019] from https://www.theweek.co.uk/brexit/99322/is-brexit-destroying-the-uk-car-industry.

Turunen, J. (2019, October 18). Kiinan tuoreimmat talousluvut huolestuttavat: talous kasvoi hitaimmalla tahdilla 30 vuoteen. [accessed on October 20, 2019] from https://www.hs.fi/talous/art-2000006276935.html.

Valpola, A. (2016, June 24). Tulos on vahvistettu: Brexit 51,9%. [accessed on October 29, 2019] from https://www.talouselama.fi/uutiset/tulos-on-vahvistettu-brexit-51-9/68e6c60c-b9b1-3f08-8405-1c791860bb58.

Vanham, P. (2019, January 17). A brief history of globalization. [accessed on August 30, 2019] from https://www.weforum.org/agenda/2019/01/how-globalization-4-0-fits-into-the-history-of-globalization/.

Varas, Jacqueline. "The Total Cost of Trump's Tariffs." *AAF*, 25 Oct. 2019, [accessed on 7.11.2019]. Available at: https://www.americanactionforum.org/research/the-total-cost-of-trumps-new-tariffs/.

Walker, A. (2017, January 18). Is free trade good or bad? [accessed on October 5, 2019] from https://www.bbc.com/news/business-38209407.

Wigington, P. (2018, November 30). What Were the Navigation Acts? [accessed on October 20, 2019] from https://www.thoughtco.com/navigation-acts-4177756.

Wilson, C. (2019, September 12). Report reveals no-deal Brexit impact – here's what you need to know. [accessed on October 29, 2019] from https://www.newscientist.com/article/2216311-report-reveals-no-deal-brexit-impact-heres-what-you-need-to-know/.

Woodbridge, G., Gould, D., & Ruffin, R. (2019). The Theory and Practice of Free Trade. [accessed on August 10, 2019] from https://www.researchgate.net/publication/5029899_The_Theory_and_Practice_of_Free_Trade.

World Trade Organization. (2019). WORLD TRADE ORGANIZATION. [accessed on October 29, 2019], from https://www.wto.org/english/theWTO_e/gattmem_e.htm.

World Trade Organization. B (2019). PRESS BRIEF [accessed on October 29, 2019] from https://www.wto.org/english/theWTO_e/minist_e/min96_e/chrono.htm.

Lee YenNee. "These 4 Charts Show How US-China Trade Has Changed during the Tariff Dispute." CNBC, CNBC, 18 Sept. 2019, [accessed on 30.9.2019]. Available at: https://www.cnbc.com/2019/09/18/what-us-china-trade-war-means-for-imports-exports-and-soybeans.html.