



Trade freedom and protectionism of leading world economies in the global trade system

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Abstract

In the age of industrialization and globalization, countries around the world strengthen mutual exchange and cooperation. In this article, we will focus on understanding and clarifying the two most popular global trade trends today: the trend of freedom and trade protection. The objects of analysis are mainly the economies of the world's leading developed countries. The article will be divided into five specific sections as follows: first, introduction; second, the theoretical basis; the research methods; the research results (analysis of the world's leading economies under the impact of two global trade trends and policies) and finally conclusions and recommendations.

Keywords: technology and modernization, trade freedom, trade protection, global trade system

1. Introduction

Economic globalization can be understood as the trend towards forming a unified world on a global scale, including the participation of all countries in the world. The countries are closely linked, interdependent in the division and economic cooperation on a global scale, the circulation of sources of goods, services, capital, technology, human resources under the regulation of global principles (Bui Thi Ly, 2009) ^[2]. On a global scale, the most prominent is the WTO established in 1995, with an increasing number of participants. On the regional scale, the oil period of the 90s of the 20th century returned to mark the boom in the process of birth and development of regional organizations. Typical in Europe we have the continuous growth of the European Economic Union (EU). In Central and Eastern Europe a series of bilateral integration agreements on a free trade basis were signed. The process of linking between Asia and Europe through the establishment of Asia - Europe cooperation forum (ASEM) in 1996 with the participation of: EU, ASEAN, China, Japan, South Korea to help promote the development of economic globalization. Free trade agreements between ASEAN and Japan, China and South Korea are also signed and established in the future. (Bui Thi Ly, 2009) ^[2]

The world is becoming globalized so countries are aware that global integration and trade are indispensable and an important factor determining the development of countries. In order to ensure a sustainable economic development, governments of all countries have set up trade policies that are suitable for the country's goals and appropriate in certain periods. International trade policy is an important part of a country's economic policy, in line with its economic development goals. Economic goals over time are different. Therefore, international trade policy should be adjusted and changed to suit each period. (Bui Thi Ly, 2009) ^[2]. Facing current trend of openness and economic integration, countries' international trade policies are embraced mainly by two leading trends: free trade and trade protection. In this article, we will explore how these two trends are applied in the leading economies of the world's developed countries

such as the US, China, Britain and Germany.

2. Theoretical Framework

Trend of freedom of trade

Trade liberalization is the easing and softening of state or government intervention in international trade (Do Duc Binh and Nguyen Thi Thuy Hong, 2009). The reasons are following:

- The process of internationalizing the world economic life with the level of globalization and regionalization, the level of production forces growing beyond the borders of each nation.
- The international division of labor develops in both breadth and depth.
- The role of multinational companies is enhanced.
- Trade liberalization benefits all country despite different levels of development.
- Trade liberalization is in line with the general development trend of human civilization.

The state applies necessary measures to gradually reduce the lack of obstacles in tariff barriers and non-tariff barriers in international trade relations, in order to create favorable conditions for the development of international trade activities both in breadth and in depth. Naturally, trade liberalization firstly aims to expand the export scale of each country as well as to achieve more favorable conditions for import activities (Do Duc Binh and Nguyen Thi Thuy Hong, 2009). The result of trade liberalization is to facilitate the opening of the domestic market for foreign goods and technology as well as international service activities to be easily penetrated into the domestic market, while creating the favorable conditions for the export of goods and services abroad. That means a harmonization between export growth and import relaxation is needed (Do Duc Binh and Nguyen Thi Thuy Hong, 2009). Measures to implement trade liberalization are as following:

- Signing bilateral and multilateral trade agreements between countries for existing trade protection instruments in international trade relations.

- Participate in free trade area and WTO.
- Actively build a roadmap to cut tariffs and non-tariffs according to commitments.
- Adjusting policies to support import and export such as policies on investment and use in the direction of loosening the state's intervention.
- Complete trade institutions in line with international standards and practices.
- The process of liberalization is associated with reciprocal measures within the legal framework between countries.

Trend of trade protectionism

Trade protection is an increase in government intervention in international trade. In the current conditions of the world economy, the state's intervention is selective and minimized in the scope, scale of intervention, improving the effectiveness of the intervention. (Do Duc Binh and Nguyen Thi Thuy Hong, 2009). Objective bases for trade protection are mentioned as followed:

- Uneven development and differences in reproductive conditions among countries.
- Differences in competitiveness between domestic companies and foreign companies.
- There are political and social reasons that also lead to the requirement of trade protection.

The characteristic of this trend is that the state uses tax and non-tax measures to limit imported goods and support domestic production. The state will apply this policy when it sees the greater negative impact of imports of goods than benefits from it.

Advantages of trade protectionism are:

- Reduce the competitiveness of imported goods.
- Protect domestic manufacturers and businesses, helping them strengthen their strength in the domestic market.
- Help exporters increase their competitiveness to penetrate foreign markets.
- Help regulate the nation's payment balance, rational use of foreign currency payment of each country.

Disadvantages in case the domestic market protection is too tight are:

- Hurting the development of international trade will lead to the isolation of a country's economy against the trend of internationalization of the global economic life.
- Facilitate the development of conservatism and stagnation in domestic businesses, resulting in an increasingly high level of economic protection, making the competitiveness of the industries no longer flexible and early private and business are not effective. This will be a risk for future bankruptcy of domestic producers if the country is subject to competitive pressures in the world market and requires reduction of tariff barriers when joining the WTO or regional free trade areas.
- Damage consumers' interest such as poorly diversified goods and models, poor quality goods, expensive commodity prices.

The goal is to protect the domestic market against the increasingly strong penetration of goods flows from outside as also to protect national interests. So far there are many different arguments to protect trade protection.

First, the argument for protecting the fledgling industry, fledgling enterprises are subject to higher initial costs and cannot compete in the first few years with seasoned foreign competitors' experience. A form of temporary tariffs on imports will allow them to mature and be protected against foreign competition. However, it is argued that it may be possible to help a fledgling enterprise by allowing additional loans with appropriate interest rates, or subsidies that should not be used for import duties. (Do Duc Binh and Nguyen Thi Thuy Hong, 2009)

Secondly, the argument of creating the source of public finance, under this argument, import taxes are needed to ensure that revenues for the government meet the costs of providing public goods, to conduct repayment and to resolve other costs. (Do Duc Binh and Nguyen Thi Thuy Hong, 2009)

Third, the reason for partially overcoming unemployment, according to this argument, import taxes on imported substitutes will facilitate further production of products and job creation for foreign workers. However, it is argued that import tax is a kind of employment subsidy and that it only takes place in import-substituting industries. (Do Duc Binh and Nguyen Thi Thuy Hong, 2009)

Fourth, the argument on implementing redistribution of income, according to this argument, import taxes will shift a portion of the wealthier consumers' income to those producing local goods corresponding to imported goods. That will be socially beneficial. However, it is argued that import tariffs are not necessarily satisfactory, as in the case of Japan and other countries in the EU imposing import duties on agricultural products leading to the fact that many farmers are not necessarily poor and many agricultural consumers are not necessarily rich. (Do Duc Binh and Nguyen Thi Thuy Hong, 2009)

3. Research Methodology

The article uses a combination of research methods. First, the article uses the method of collecting information to gather data related to the article's subject and objective of research through various sources of information such as books, textbooks, newspapers, national scientific journals, online open access international journals. In this article, information and data will be collected according to different sources. The author mainly collects information and data concerning the United States, China, Britain and Germany international trade policy through different periods of development. Next, the article uses synthesis and presentation methods. This method is mainly based on the data and information collected to be presented into specific, understandable forms. Specifically, the collected theoretical background related to the article will be synthesized and presented as a theoretical basis and framework of the article. Information and economic data of countries such as the US, China, UK and Germany after being collected will be aggregated into main ideas and presented in the research results. Finally, from the all gathered information, the article uses analytical methods to assess the economic performance of above mentioned countries in terms of what has been achieved after the period of global commercialization.

4. Research Results and Discussion

In this study, the article will focus on presenting and analyzing the economy of major countries (USA, UK, Germany and China), their in free trade and trade protection

policies. Referring to the US economy, people will immediately think of the leading world economy, a mixed economy with a high level of development. The main destinations of the US import and export activities include: Europe, Canada, China and Japan. US economy is developed mainly thanks to large natural resources, infrastructure and high productivity of labor force. Besides, the US also attracts many talents from other countries to improve the quality of current labor force. After becoming president, Donald Trump has changed policies in global commercialization with new slogan "Put America first to mark the turning point in US foreign and trade policy:

- The US withdrew from the Trans-Pacific Partnership (TPP): On January 23, 2017, the US President signed a decree to withdraw the US from TPP. Currently, according to statistics, the US accounts for 50% of the 12 TPP countries' GDP, if the US does not continue now, the remaining 11 TPP countries must restart a new round of negotiations to continue to grow steadily. According to the US President, the signing of the TPP will cause that many American will lose their jobs. Therefore, withdrawing from TPP is for the purpose of ensuring and stabilizing employment situation for many Americans.
- The US applies tariff and non-tariff policies, making trade wars tense. Accordingly, President Donald Trump announced that he would adopt new tariffs on imported steel and aluminum (25% for steel and 10% for aluminum) to promote US protection policy. This policy initiated a trade war between the US and China, Europe and Canada. With the increase in tariffs on imports, the US will also have to suffer from retaliation from other countries and that will affect the US economy. Typically, China has announced it will impose a tax on the amount of US imports worth USD 60 billion. This retaliation is in response to US' raising taxes on Chinese goods by 10% from September 24 and 25% by the end of the 2018.

The United States and China are the world's two economic powers. If the trade war continues to prolong, it will greatly affect the economy of the two countries and the consequence is rising for the world's economy. First, with a high tax rate, consumers will suffer first when buying goods. Next, businesses will be subject to higher taxes that reduce their profits generated. Finally, the corollary is the later US-China cooperation and the global economy. The US-China trade war will affect global trade and small countries. Particularly for the US economy when trade wars occur, high tariffs will reduce imports. Besides, China's increase in import tax will also make the export situation in the US seriously decreasing, affecting the trade balance and GDP of the United States. Not only that, the US' increase in tariffs with neighboring countries also caused the US economy to be affected. For example, the State of Wisconsin, the dairy industry is struggling with a tax of 15-25%, imposed by Mexico on \$ 387 million of US avocado products in Phoenix, Vintage Industrial caves that specialize in steel products. 25% tax rate on steel makes high material costs and must increase selling prices. Thus, the increase in US tariffs will be a double-edged sword affecting also the US economy.

China's economy has grown strongly behind only the US. China is also an attractive free trade market for countries. If

the US is implementing a strong trade protectionist trend with increasing tariff barriers, China will support a strong free trade trend. According to many experts, China is further integrating into the global trading system. Accordingly, China is trading with most countries in the world with leading trading partners such as Japan, Korea, Singapore, Russia, etc. In addition, China is a member of the WTO, APEC and China imports from partners such as the US (16.9%), Hong Kong (15.5%), Japan (6.4%); South Korea (4.3%); exports to South Korea (9.7%); Japan (8.3%).

Besides free trade policy, China also has some trade protection measures. On April 20, 2018, the Chinese Ministry of Commerce applied anti-dumping tax laws on synthetic rubber products imported from the US, EU and Singapore. This action has both protected domestic rubber goods, and is also a retaliatory response in the US-China trade war. Recently, China has filed a lawsuit against the US because of its dumping on the WTO. Specifically, China proposes to impose new sanctions on the US because it does not comply with the dumping decision. This petition may make the US-China trade war more intense. According to the Ministry of Commerce, China will apply anti-dumping on chicken meat from Brazil. Specifically, Chinese enterprises importing chicken from Brazil must deposit from 18.8-38.4% of the value of imported goods from 09/6/2018. Timely measures of the Chinese Ministry of Commerce help China's economy both in economic integration and global commercialization while also protecting the domestic economy.

In the global economy, Germany is the largest exporter, as the leading economy in Europe and the fourth largest in the world. Because internal source of materials are limited, Germany's economy mainly develops industry and services. Germany is member state of the EU, WTO and OECD. Import and export of Germany are mainly carried out with European countries (within the EU) and some other countries such as the United States, China. Specifically, export partners include: France (9.8%), UK (7.4%), Netherlands (6.9%), US (6.4%), China (5.4%); import partners include: Netherlands (14.2%), France (7.7%), Belgium (6.4%), China (6.4%). Germany is one of the EU members and is subject to many economic integration policies of the EU. In recent years, the EU is promoting international cooperation and free trade areas. On May 22, 2018, the EU adopted a new measure in ratifying international trade agreements between the EU and its partners. The goal of proposing this option is to speed up the negotiation process and sign FTAs, depending on which EU can ignore the ratification in the National Assembly of the member states.

In addition to free trade, EU countries, including Germany, also provide trade protection through anti-dumping of commodities.

- The EU has decided to strengthen anti-dumping duties as a commercial sanction against imported goods in the domestic market.
- Recently, the EU applied anti-dumping to Chinese steel products, specifically the previous rate of about 17.2-28.5% to about 17.2-27.9% and this tax rate will be applied for five years.

UK has the fifth largest economy in the world and is the second largest economy in Europe after Germany. In particular, the UK is a country with a high globalization

index, ranked fourth in a recent survey. Along with New York, Tokyo, London is the largest financial center in the world. The main UK trading partners in recent years are as follows. Import partners include: Germany (14.8%); China (9.8%); US (9.2%); Netherlands (7.5%). Export partners include: US (14.6%); Germany (10.1%); Switzerland (7%); China (6%).

UK is one of the countries with highest globalization. After leaving the EU, the UK strengthened cooperation with many countries around the world, expanded FTAs and paid special attention and interest to the TPP (now a comprehensive partnership agreement and progress across the Pacific

(CPTPP) On January 31, 2018, British Prime Minister Theresa May revealed that the country will continue its efforts to successfully negotiate free trade deal with China. The remaining 11 countries of TPP, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam also welcome UK to this club. If so, the power of TPP (now CPTPP) is more powerful and spread across 4 continents, opening up opportunities for the UK get an access to many different economies.

The table below will present free trade and protectionism measures of the fourth largest economies in the world.

Table 1: Comparison of the free and trade protection trends of the four countries

	USA	China	UK	Germany
Free trade	- Before President Donald Trump was expensive, the US was an open market, free of trade and cooperation with many countries around the world. - After President Donald Trump was elected, with the goal of "America first", that is why trade freedom in the US is also more limited than before. -	Maximize the policy of free trade with countries around the world.	Expanding cooperation and free trade with Asian countries.	- Free trade primarily with European countries.
Protectionism	- Implementing the policy of "America is first", enhancing the application of tariffs and non-tariffs on imported goods.	- Anti-dumping with a number of items and implement a policy of "retaliation" with the US.	- Has not implemented many trade protection policies.	- Applying policies to strengthen anti-dumping.

Source: Own development

5. Conclusion and Recommendation

In general, all developed countries in the world such as the US, China, UK and Germany apply both trends of liberalization and trade protection in global trade. The trend of trade freedom will help big countries boost foreign trade relations; expand markets to promote economic development. If liberalization is applied in addition to trade protection, it will protect the domestic economy, especially the fledgling economy that is not fiercely competitive by imported goods. However, the application of a policy of strict and prolonged trade protection will affect production due to lack of competitiveness, affecting relations between countries. The US, China, UK and Germany are applying both trends and are gradually leading the world economy. In addition, there must be a more appropriate policy between the US and China in order to reduce trade tension, to avoid affecting the economy of the two countries in particular and the world in general.

From analyzing and synthesizing the effects of two trends, the free trade and trade protection for the world's leading four economies, the recommendations are set out as follows: In the trend of global commercialization as of now, the import and export and cooperation among countries are being put on top, to take advantage of this. Countries around the world should strengthen international cooperation; increase the friendship between regions, nations and organizations. It is possible to strongly promote the exchange of goods in which a given country has the advantage to seek more markets and to increase economic development. However, in addition to strengthening cooperative exchanges, countries must have policies to protect domestic products, avoid excessive trade deficit, causing domestic production to stagnate. At the same time, trade protection measures should not be too stressful, causing trade conflicts between countries, leading to retaliation in foreign trade that will affect the world economy. Particularly for small, developing countries, there

should be a reasonable trade policy, on the one hand seeking cooperation, on the one hand, to protect the domestic economy, avoiding too much dependence on biggest countries as on imported goods.

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