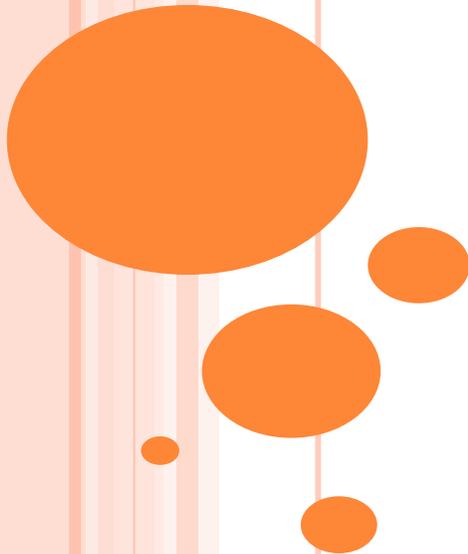


# THE NEW PROTECTIONISM/NATIONALISM/INWARD-LOOKING SOCIETY (NP): WHERE DOES IT COME FROM AND WHERE MAY IT GO?

Daniel Daianu

Presentation made at LUISS, Rome, 15 May, 2018



# CONTENTS

- Preliminary remarks on a changing (inward looking) western world
- History benchmarks
- Why a resurrection of protectionism/nationalism (New Protectionism/NP) nowadays?
- The analytics of a big trade-off
- National interests in Europe on the rise?
- NP whither?
- The future of the Liberal Order

- The US Commerce Secretary : the United States wish *fair trade*
- Jean Claude Juncker: “*The EU is not a naïve free trader*”
- **The fear of China, the new geopolitical rival...**
- US and EU screening of inward foreign investment...in strategic sectors
- In the US, a radical change of vision regarding foreign trade relations if compared with the thinking that prevailed after 1945; the denouncement of the Trans-Pacific Partnership, a new stance regarding NAFTA and TTIP –**bilateralism on the rise!**
- Bilateral trade agreements, using tariffs, US companies are encouraged to move operations back home and repatriate profits, doubts concerning the regulatory and supervision framework of finance.
- A “strategic” approach to international trade (Clyde Prestowitz’s name comes to one’s mind) were mostly marginal in public debate for decades
- What we are witnessing now should be judged in a much deeper sense and having possibly wide-ranging effects. It may also be puzzling as the unemployment rate in the US is below 4.5 percent

- In EU member states, national economic concerns are on the rise too (President Macron's decision to nationalize Saint Nazaire shipyards, but EU rules stipulate a free trade order; “economic emancipation” in CEE...
- Brexit can be judged in the logic of changes underway in the US though the UK is attached to a free markets vision –more pragmatic yet
- “the New Protectionism” (NP) involves more intervention in the economy/society; it has various forms and operates at different paces
- Juncker's speech in the EP talks about a protective EU –internal and external security
- NP undermines the economic order as it has evolved during the past half century

## A FEW HISTORICAL BENCHMARKS

- After WW2, the US were the champion of free trade as a reflection of a system based on free markets and a tool to promote their own interests.
- Liberal democracy in a symbiotic relationship with free trade and openness, with globalization
- The fall of the Berlin War heightened that vision; it matched the UK role in the second half of the XIX century
- IFIs supported globalization as an overriding principle in the functioning of the world economy.
- Dissenting voices: R. Wade, A. Amsden, L. Taylor; UNCTAD; Dani Rodrik pleaded for pragmatic policies that should pay attention to market imperfections and asymmetries; Stiglitz on global finance
- the economic success of Asian economies tested the “Washington Consensus”; lessons of the financial crisis episodes

- US economic emancipation from the British Crown was supported by protectionism (Alexander Hamilton, Abraham Lincoln...)
- Germany (Friedrich List), too, replicated this approach in its relationship with the UK, while Japan's response to the economic assault of Western powers was industrial development, which relied on protectionism too
- Protectionism was part of the toolkit for economic development , in ensuring economic security and changing an international balance of power
- The post-WW2 EU and world order were aimed at bringing peace in the relations between states, at preventing economic conflicts (Richard Cooper, 1968)
- This inference does not ignore the major geopolitical confrontation of the last century, military conflicts around the world

## WHY DOES PROTECTIONISM/INWARD-LOOKING TENDENCIES RETURN IN THE DEVELOPED WORLD?

- A significant erosion of US status in global balance of power; economic and industrial strength undergirds military and technological power
- The economic preeminence of the Western world seems to be at threat (“The Return of the Marco Polo World”, Robert Kaplan)
- New Technologies (the fourth Industrial revolution) are cutting jobs massively, but public policies are also responsible for *social strain*
- The financial Crisis has fragmented and divided societies more and turned them *inward-looking*...a crisis of liberal democracy?
- The financial crisis induced governments and central banks to adopt non-standard measures; these involve *hands on* policies
- Bad corporate governance, tax dodging (including profit-shifting) fuel anti-globalization reactions.
- External markets’ influence over national governmental policies; legitimacy of those who articulate public policies is at stake

- A reaction to unrestrained globalization (Paul Samuelson, JEP)
- Globalization is not an automatic, mechanical outcome of technological change. Reversals can happen following social and economic distress (Victorian Era)
- Concerns vis-a-vis the loss of economic status can combine with worries about increasing technological and military vulnerabilities, security menaces
- NP can signal a return of state economic intervention
- More authoritarian forms of governance...(see also the May-June issue of *Foreign Affairs: Is Democracy dying?*)

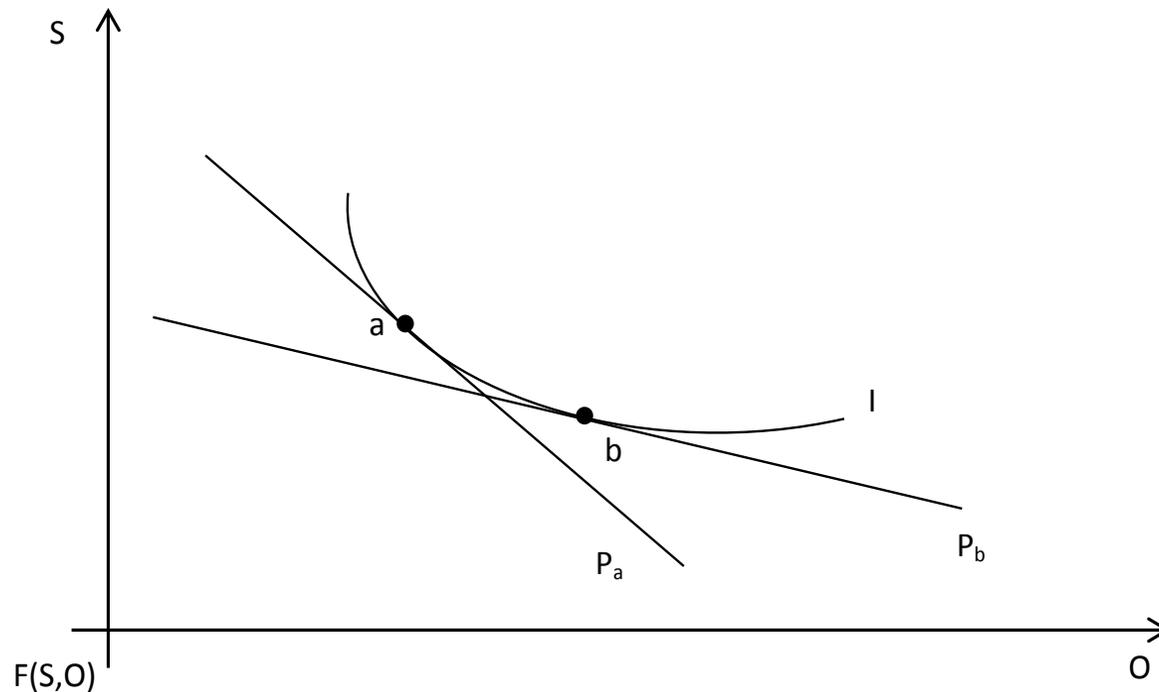
- **Security and protection of citizens, the role of the state as a guardian of public interests comes ever higher on public agenda**
- Terrorism, unconventional threats (cyber attacks, hybrid wars, etc), fear for the future, big uncertainties, are pushing many citizens to ask for firm measures from their national governments.
- How *open societies* can answer to such challenges is an open question; without balanced policies, outcomes can be much suboptimal.
- Authoritarian temptations come up in liberal democracies during hard times –(*war economy syndrome*). But isolation, exacerbated protectionism may act as a boomerang

## ANALYTICS OF A BIG TRADE-OFF

- **Protection/security vs. openness (economic freedom)** as public goods: a social utility function which includes protection/security (**S**) and economic freedom (**O**) as an expression of economic openness, as public goods.
- A function  $F = F(S, O)$  would indicate levels of citizens' comfort in terms of these public goods; it could look like  $F = ((1 - a) \times S + a \times O)$ , where (**a**) would be a variable in consonance with people's attitude toward the two public goods
- **Substitution between protection measures and economic openness has limits.** These two public goods are not independent of each other; from a certain level, protection/restrictions distort *open society* exceedingly. And a total openness of the economy/society, with no rules and protection measures, may cause enormous costs, social anomia.

# THE RELATION BETWEEN PROTECTION (S) AND ECONOMIC OPENNESS (O)

Graph: The relation between protection (S) and economic openness (O)



I – Social curve  
a – initial level of economic freedom  
P<sub>a</sub> – People feel safer; high demand for Openness (O)

P<sub>b</sub> – Higher need for Protection (S)

- Combinations of (S) and (O) may be imagined so as to ensure a degree of citizens ' acceptance that would minimize discomfort in given conditions.
- An optimal combination is where the price line (S, O) is tangent to the preference (social choice) curve (I). Point (a) refers to an initial level of economic freedom –as flows of capital, workforce, investment, and the range and scope of regulations.
- At point (a) things are relatively good, calm, and this is revealed by the price line between (S) and (O); a steeper slope,  $P_a$ , shows that (S) is regarded as being sufficient (people feel safe) and economic openness as a public good is in high demand
- When times worsen a more **inward looking society** emerges and a change in preferences in favor of (S); the change is reflected by a less steep slope of the relative price,  $P_b$ , between (S) and economic openness (O); this may involve protectionism and other restrictive measures and their combination is indicated by point (b) on the indifference (utility) curve.

- How decisions are made brings politics into the limelight, as citizens may have different options and political views, values; a community may be made up of different ethnical groups and religions, a large part of the population could be made up of immigrants, etc.
- In a democracy, one is tempted to say that the social collective option (social) is given by the majority vote (nota bene: Arrow). **But things are much more complicated if society is profoundly divided and various values are guiding people' choices**
- Economic interdependencies between states may be very strong.
- **The way people value protection vs. openness may vary over time.** What is abnormal, unpalatable today, may be termed differently at another moment in time; it may be that people adjust to different circumstances, their habits change.
- Protection measures can trigger similar responses from partners --and trade wars will likely lead to damages for all parties involved.
- **Beggar your neighbor policies can easily backfire.** It is worth recalling that the globalism of the XIX century Victorian Era was followed by commercial and “hot” conflicts.

## A RESURRECTION OF NATIONAL INTERESTS

- **The global economy gets multipolar**
- **The EU is fragmented by centrifugal forces** and weakened by Brexit.
- But Brexit could stir up the appetite for deeper integration amid growing dangers in the global space....Juncker's speech in the EP (September 2017)
- **Euroarea' pains** (its flawed design)
- **The post WWII institutional economic arrangements (“Bretton Woods’s arrangements”)** are under siege due to alternative accords and institutions
- unrestrained globalization has brought benefits, but it has also damaged social cohesion by neglecting distributional effects
- **“Realpolitik”**, as a way to articulate foreign policies

## CAN THE OPEN INTERNATIONAL SYSTEM BE SAVED?

- Are there international arrangements that can address and redress flaws of unrestrained globalization?
- Is it possible to reinvent the EU, to make it fit the new conditions in the global economy?
- Can the Eurozone be turned into a genuine monetary union, with proper fiscal arrangements? For this to happen the German-France nexus is vital –fiscal arrangements (EZ budget), both public and private risk-sharing, collective deposit insurance scheme, etc
- Can the EU get safer security arrangements? This involves its relations with the US and NATO, with Russia, the US-Russia relations.
- How should military conflicts, in different areas of the globe, be tackled?
- How would the new big rivals in the world (the US and China) cooperate on issues of interest for the whole world in a systematic way?

## RESURRECTION OF NATIONAL INTERESTS IN EUROPE

- Theresa May's industrial policy measures do not see eye to eye with the vision promoted Margaret Thatcher decades ago
- France has always been attracted by the mirage of its perceived national interests (Thierry de Montbrial, Le Figaro [2017] in which he underscores the significance of national interests in nowadays world)
- Germany has been a strong supporter of economic globalization over the past decades given its over-performing industrial structure. But what would happen were this economic situation to change significantly with ensuing high unemployment?
- In several emerging economies from Central and eastern Europe, national prerogatives are strengthened despite EU membership
- NP is also be related to the wave of immigrants of recent years
- In some developed EU member states there is growing discontent over the free movement of labor from Central and eastern Europe, even though that human capital inflow was positive for host countries.

## NP WHITHER?

- NP can be interpreted in a narrow sense, along the lines of trade/economic relations and in a broader sense, when it covers a vast array of measures targeting national security
- In both cases, the liberal order, as it was set following the WWII, is questioned.
- A liberal order is not synonymous with *market fundamentalism*.
- The world shows signs of fragmentation, with societies more polarized.
- Not a few developed states feel threatened and seek self-protection
- A corrosion of international, global institutional arrangements. ..a precarious balance, a bad equilibrium in international relations.
- Terrorism, other unconventional threats, increase citizens' needs for protection; safety is more valuable in peoples' preferences and this could lead to restraints on economic openness. It remains to be seen how such a possible evolution will impact open societies.
- The New protectionism may be tied to tides of economic openness in the inter-state system, with secular cycles ( Kondratieff and Schumpeter).

## NP (II)

- Global trade slowdown can be a proof in this regard, although some may say that it was only a matter of time before reaching a peak
- Currency wars may heighten
- Big uncertainties and exacerbated volatility are features of the new international environment
- Such a bad equilibrium is worrisome for those who believe in the virtues of multilateralism, of rules. Europeans know from their own history where unrestrained rivalries may lead to
- If exclusion gets deeper tensions will rise and conflicts will intensify
- Inter-ethnic and religious conflicts add to the social and political picture. The New Industrial Revolution does not make efforts to adapt to shocks easier

- If national security reasons, geopolitical rivalries, are brought into the picture one understands why global optimizations (similar to the logic of global supply chains and win-win games) may have weaker relevance; and competition may turn into a win-lose game.
- This is likely to occur especially when economic growth is quite feeble and income distribution becomes an acute social and political issue
- Central and East European countries would suffer a double blow: via global arrangements that are cracking down because of protectionist measures; via what may happen in in the EU
- Dismantling the EU would be dramatic for Europeans if we consider what the Union meant for economic recovery and peace after 1945

## FINAL REMARKS

- What will be the new economic order this is a big question, *eine Grosse Frage*. Will multilateralism survive as a basic principle?
- What will happen with the institutional arrangement created after the WWII? What will be the rules and norms in the future world?
- It seems we are in a transition towards a new international regime, a new order; it is vital that big conflicts and large damages be avoided
- The EU is a public good in itself; it has to be saved despite phenomena that undermine and break the traditional order in the international system
- But the EU needs reforms; it has to be reinvented. And the Five Presidents Report offers an inspiring perspective
- Europe needs also security arrangements adapted to the new reality



Thank You