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# Theoretical Analysis and Comparison of Protectionist Policies, Foundations, Implementations, Objectives and Derived Results within the Member States of ASEAN+3 and the EU.

## Topic and Research Question

Regional trade organizations are an integral part of the world's economy and trade within these groups is flourishing. The EU's success has been a worldwide example of how to remove trade barriers between developed nations, whilst ASEAN has provided a model for developing countries. On the one hand regional trade blocs liberalize economic activities and integrate the region, on the other hand the term trade bloc also has a negative implication because it indicates an inward-looking and protectionist orientation. Regional trade organizations may have negative impacts on world welfare through using restrictive trade policies for non-member states, thus the objective of this research is to review and assess the implemented protectionist measures, compare the different strategies and investigate the contribution of protectionist measures to the arguments of restricting trade. Bearing these objectives in mind, the research question 'What are the protectionist strategies used by both trading blocs, what do they have in common and how do their strategies differ from each other' is being answered.

## State of the Art

Referenced existing literature analyses either the protectionist policies or the strategies of the two trading blocs, and consists mostly of Trade Policy Reviews from the WTO and materials provided by ASEAN and the EU. However, existing literature typically only mentions the information comprised in those strategies and does not interpret the main objectives of governments when using such protectionist measures.

Furthermore, major works from Paul Krugman, Avishan Dixit, Gene Grossman, Elhanan Helpman, Kyle Bagewell, Robert Staiger, James Brander and Barbara Spencer have been used in context with a theoretical framework – the New Trade Theory and the Strategic Trade Theory – to explain why nations promote trade restrictions and barriers rather than free trade.

## Methodology and Approach

The task of answering the research question has been approached by firstly analyzing the implemented policies of the EU and APT countries. Secondly, the different policies of the two trade blocs have been compared by considering arguments for restricting

trade. This comparison focuses on tariffs, as well as non-tariff barriers, thereby including import policy barriers, standards, testing, labelling and certification requirements, anti-dumping and countervailing measures, export policies and domestic support, as well as government procurement. Thirdly, arguments for restricting trade, such as national defence, income redistribution, optimum tariff, balancing the balance of trade, protection of jobs, infant industries and spillover effects have been discussed in order to analyze the various policies employed by the EU and the APT countries.

The New Trade Theory and Strategic Trade Theory form the theoretical foundation of the thesis. Both theories try to explain why countries decide to use strategic trade measures instead of enabling free trade. International trade theory used to be dominated by the concept of comparative advantage, however most of the trade growth in the decades after the Second World War took place in similar goods and countries. The New Trade Theory and the Strategic Trade Theory therefore explain trade based on imperfect competition, within similar economies and driven by economies of scale.

The analytical framework, which is composed of the New Trade Theory and the Strategic Trade Theory, shows that increasing returns to scale and imperfect competition are part of international trade, and that intervention by governments can therefore advance market results.

The method used for this thesis is a comparative and analytical approach. As such, the theoretical thesis investigates implemented policies according to arguments for restricting trade.

## Main Facts

The New Trade Theory implements the idea of Strategic Trade Policy, which states that interventionist policies by the government can reallocate excess returns from foreign to home enterprises, thus governments try to use trade policies in order to benefit their countries. Generally, one can state that nations protect weak industries and industries in decline, as well as large and politically important industries. Less protection is given to export industries, with one potential reason being that nations do not want to cause foreign retaliation.

On the issue of national defence, it is important to state that the EU uses high regulatory standards for food and

high subsidies for agriculture in order to maintain its independence from imports. The APT states focus their protectionist policies mainly on essential food items, fisheries, the defence industry and other important sectors, such as energy.

Various interventionist policies are also used in order to shift excess returns from foreign to domestic firms. In this case the EU mainly subsidises agriculture, structural operations and expenditure on research. The APT states primarily subsidise their agricultural sector, with a special focus on rice and sugar, as well as fisheries, transportation sector and SMEs. As government procurement is a very important issue within the EU, various restrictions support domestic companies. In particular the procurement of military equipment favours domestic producers. Foreign companies are generally only able to bid on tenders covered by the GPA. The policies of the APT states focus on fostering procurement from SMEs, and also on sustaining and creating jobs within their own economies.

As protection through tariffs shifts profits from foreign to domestic enterprises, or to the domestic treasury through tariff revenue, both trade blocs try to optimize their tariff rates. The EUs average MFN tariffs are lower than those used by the APT states. However, non-ad valorem duties, seasonal duties and the entry price system for fruit and vegetables provide substantial protection. Most of the APT states apply higher MFN tariffs, especially for the agricultural sector, including fisheries, wood and wood products, textiles and clothing, footwear, transportation and transportation equipment. Tariffs for fully processed goods are usually especially high, with tariffs rising for each processing stage.

AD measures and CVDs are also being used in order to restrict market access. Whilst the EU states, China and Korea are heavy AD measure users, some ASEAN member states do not even have laws and regulations concerning AD measures, CVDs and safeguard provisions.

The infant industry argument is more valid for developing nations, whereby nearly all APT governments focus their policies to promote industrial development and to aid SMEs.

Enhancing R&D activities can facilitate knowledge-spillover, which indirectly benefits the economy through job generation. However, the economic policies implemented by the two trade blocs to achieve this effect, do not limit market access for foreign companies.

## Results

The main reasons why the EU and the APT states make use of protectionist measures are national defence, balancing the balance of trade, job protection and income redistribution.

The main difference between the EU and APT states is that within the EU there is mainly a common trade policy, whilst the APT states can implement their own regulations. Despite this, both trade blocs have a high level of protection for their agricultural sectors, and both try to achieve self-sufficiency in meeting food and energy demand.

The levels of protection for agriculture, food products and beverages are extremely high in the EU, China, Korea and Japan.

Within the manufacturing sector, the ASEAN states and China have a high protection level for industries like paper, chemicals, machinery and transportation equipment.

The conclusion which can be drawn from the analysis is that every nation and trade bloc protects its crucial industries for reasons of national defence, as well as redistribution of income and job protection, in order to enhance national welfare.

## References

All references can be found in the full version of the MA thesis available at <http://ubdata.univie.ac.at/AC11077622>

## About the Author

I am currently employed as a Project Manager with a focus on the Asian Market and head of Purchasing Department by Kny Design GmbH, a family owned company which has successfully expanded its market share in Asia, gaining first projects in China and Brunei Darussalam in the year of 2013.

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