

# Economic Liberalism or Protectionism in a Knowledge-Based Economy? Epistemological Approach

Alina-Petronela Haller\*

**Abstract** In this paper, we intend to demonstrate, from an epistemological standpoint, the fact that the economic liberalization is one of the main factors that made possible the beginning of a new era, an era of knowledge, and will ensure, in the future, the technical, scientific, innovative, economic, cultural and social dynamism, while protectionism keeps on playing a particularly important role, in spite of the efforts to eliminate the barriers standing in front of the trade exchanges.

Economic liberalization, a development factor of the knowledge-based economy, offers advantages to all the countries and especially ensures the developing countries' possibility to "burn" phases in their way to progress. Yet, a total opening in front of competition is not a recommendable measure, protectionism being necessary and desirable, between certain limits.

**Keywords:** knowledge-based society, economic liberalization, economic protectionism, economic growth, economic development

## I. ACKNOWLEDGEMENT

This paper was made within The Knowledge Based Society Project supported by the Sectoral Operational Programme Human Resources Development (SOP HRD), financed from the European Social Fund and by the Romanian Government under the contract number POSDRU ID 56815

## II. INTRODUCTION

This paper aims at analysing the extent to which economic liberalization and protectionism determine transformations at the economic and structural levels in the current society: the *knowledge-based society*.

Over the paper, we want to demonstrate that liberalization has had a major impact, being the primary factor of progress, not only at the economic, but also at the social level, by increasing the standard of life, of culture and of civilization, as a result of the access to the those products that are absolutely necessary to facilitate the work, and to varied and complex information, especially in the developing countries, while the protectionism comes to preserve and propose multiple advantages to the states with a high level of knowledge. Like any other processes, liberalization and protectionism have advantages and disadvantages, according to the perspective we adopt: that of a developed or that of a developing country.

At the end of the 20<sup>th</sup> century, most of the industrialized countries opted for a development based upon communicational and informational infrastructure, that was transposed into a dynamism of production that led to a saturation of the internal markets and to the rise of pressure upon the developing countries to open their frontiers for the great companies of the developed countries activating in the fields of telecommunications, communications and information technology, so that they could capitalize their surplus of production and maximize their profit, prolonging at the same time the life duration of the products. This combination of circumstances substantiated by the augmentation of the extent of economic liberalization and by the technical-scientific progress favoured the acceleration of the process of economic globalization, significantly increased the degree of dependency between countries (a not necessarily favourable aspect) and entailed significant changes and new challenges.

Within the framework of the knowledge society, the process of economic liberalization needs modifications of the ruling framework, with a view to increasing the market access for the capital, the goods, the services and the labour in everybody's advantage.

## III. THE ECONOMIC LIBERALIZATION – A FACTOR OF DEVELOPMENT OF THE KNOWLEDGE SOCIETY

*Knowledge* has become, over the last decades, the most important factor of production and of economic growth, and the reduction of the gap of knowledge between states is the

\*Alina-Petronela Haller, PhD senior researcher III, "Gh. Zane" ICES – Iasi Branch of the Romanian Academy  
The Knowledge-Based Society Project, POSDRU ID 56815

main path to progress, as poverty, in general, is sustained by the lack of knowledge and of productivity.

In a *knowledge society*, each country must capitalize, through exportation, the results of its own economic, scientific and technical activity, and benefit, through importation, from the results of the activities made in other countries, which cannot be obtained with the same effectiveness in the domestic society and economy, and this is possible due to economic liberalization. Liberalization is an intensely debated topic over the last decades of the 20<sup>th</sup> century and the beginning of the 21<sup>st</sup>, and all conclusions seem to converge on the same idea: the countries with a high degree of liberalization note higher rates of economic growth than the relatively closed ones, as they have access to knowledge and to the results of the research and innovation activities.

The *knowledge society* is a third stage in the evolution of humanity, after the agricultural and the industrial one, being the result of the economic and human research efforts, disseminated by means of educational and telecommunication systems, so that, at least at the theoretical level, everybody has access to information and knowledge as a natural consequence of the economic transparency and liberalization.

Innovations have become the main competitive advantage of the developed states, because they allow for the needs to be met in real time by offering products of high quality, a reason why the innovative states are also the states who get most of the gain, both at the level of their domestic production and from the exchanges with the exterior while, by reducing the commercial barriers and by promoting the measures of economic liberalization, the developing countries hope to benefit from the results of research and innovation activity of the developed countries.

More or less surprisingly, most of the economists regard the trade exchanges as a factor with a major positive impact, because trade, at the local, national and international level is the condition for the modern economies to exist. Free exchanges between states do not only offer the possibility of international specialization, but also that of effective allocation of resources. Within the framework of the *knowledge society*, each country produces what it knows best, so that the results are high quality products meant for the domestic and foreign markets. The effective capitalization of the national products on the international markets is transposed into substantial gains: the rise of incomes, the absorption of unemployment, the correct allocation of resources, the economic growth, the augmentation of the standard of life, etc.

Generally, the economic liberalization plays different roles for the developed and the developing states, as these two distinct groups of countries obviously have different goals. The analyses made by *The Heritage Foundation* reached the conclusion that between the degree of liberalization and the rate of economic growth there is a direct relation of

proportionality<sup>1</sup>. Thus, the first ten states in the hierarchy of the world states according to the degree of economic liberalization recorded an average GDP/inhabitant growth rate, over the last five years, of 4.5%, while the GDP/inhabitant growth rate of the last ten states of the hierarchy, counted for the same period, was of 3%<sup>2</sup>. Due to the fact that between the level of development and the level of liberalization there is a strong interdependency, it is important for the world states to reduce commercial barriers so that they could benefit, on a wide scale and in the optimal mode, from the advantages of the access to knowledge.

In order to benefit from the advantages of economic liberalization, the developed countries have reduced their taxes, on an average, from 40% in 1948 (the first year of GATT functioning<sup>3</sup>) to 4% now, while the developing countries reduced their taxes with 21% in the 1983-2003 period<sup>4</sup>.

Compared to the 23 founding members of GATT, at the beginning of the 21<sup>st</sup> century, GATT/WTO counts 173 members. In 1995 only, the number of agreements tripled, reaching the amount of 225<sup>5</sup>; thus, the quasi-general interest in liberalization shows, while the current international situation becomes somehow confuse. On the one hand, all countries wish to benefit from the advantages of knowledge at a world scale level, on the other hand, they want to protect their economy and their competitive advantages. With the world economy entering a significant crisis, liberalization had also reached a turning point, clearly illustrated by the failure of negotiations in the *Doha Round*.

#### IV. ECONOMIC PROTECTIONISM – A FACTOR OF DEVELOPMENT OF THE KNOWLEDGE SOCIETY

---

<sup>1</sup> Miller T., Holmes K., Kim A., Markheim D., Roberts J., Walsh C., (2010), *2010 Index of Economic Freedom*, Edited by The Heritage Foundation and The Wall Street Journal

<sup>2</sup> The states with the highest degree of economic liberalization (the first ten in the hierarchy of commercial liberalization) are: *Hong Kong* (90), *Macau* (90), *Singapore* (90), *Switzerland* (90), *Norway* (89,2), *Georgia* (89,1), *Canada* (88,1), *Chile* (88,0), *Island* (87,9), *Croatia* (87,8), and the countries with the lowest degree of liberalization (the last ten in the hierarchy of commercial liberalization) are: *Liberia* (53,8), *Tunisia* (53,5), *Bhutan* (52,0), *Iran* (50,2), *Zimbabwe* (44,8), *Maldives* (44,5), *Bahamas* (42,2), *Seychelles* (33,4), *Djibouti* (31,9), *North Korea* (0,0). *The Heritage Foundation* annually counts the degree of economic liberalization on the basis of the following indicators: *Business Freedom*, *Trade Freedom*, *Fiscal Freedom*, *Government Spending*, *Monetary Freedom*, *Investment Freedom*, *Financial Freedom*, *Property Rights*, *Freedom From Corruption*, *Labour Freedom*.

<sup>3</sup> GATT - General Agreement on Tariffs and Trade, from 1995 WTO - World Trade Organization

<sup>4</sup> Ikenson D., (2007), *Is Trade Liberalization a Product of Domestic or International Processes? Lessons for Doha*, 4 July, [www.cato.org](http://www.cato.org)

<sup>5</sup> Ikenson D., (2007), *Is Trade Liberalization a Product of Domestic or International Processes? Lessons for Doha*, 4 July, [www.cato.org](http://www.cato.org)

Protectionism has a long history; it implies State efforts made to protect domestic producers from the foreign competition, in order to achieve certain interests, and it sometimes reflects inflexibility to change.

The bigger the weight of *knowledge* as factor of economic growth and development, the more manifest the tendency to defend it, as much as possible, by means of protectionist measures (especially on the side of the industrialized countries) referring to the rights of intellectual property, in the disadvantage of the developing countries.

Moreover, the *local knowledge* is better absorbed by the great multinational corporations whose generally originate in the industrialized countries that own networks of production and sale all over the world, including the developing countries. Actually, the great beneficiaries of the process of *knowledge*, regardless of its sources, are still the developed countries.

If economic liberalization is a process ruled within a bilateral and multilateral framework, protectionism exclusively pertains to the domestic economic policy of each country apart.

The State's intervention takes different shapes, *subventions* granted with a view to maintaining on the market companies that are uncompetitive, most of the times, unable to meet the requirements imposed by the technological progress or external competition, *the custom taxes* on imports or export, *the quality standard*, *the environment standards*, *safeguards*, etc., while effects are arguable.

The protectionist measures, regardless of their orientation (towards the exterior or the interior) represents barriers in the way of free exchange between countries; they can be tariff or non-tariff ones. Whether we speak about custom taxes, antidumping taxes, compensatory taxes, quota, import licenses, voluntary export restraints, variable import levies, mandatory minimal and maximal price limits, border tax adjustment, safeguards, standards, campaigns to support consumption of domestic production or other types of prohibitive barriers, it is possible for the State to reach the goals established by its trade policy, those of sustaining the domestic economy or just some fragile or uncompetitive branches, at the risk of violating multilateral trade agreements; it is equally possible for this to lead to a cost and implicitly to a price rise, directly affecting the consumers and the producers, the effectiveness and the rate of the economic growth.

Protectionism narrows the market and obliges the economic agents to acquire more expensive and sometimes less qualitative domestic products, it diminishes employment, as there is no surplus of production (normally channelled, through export, towards the foreign exports), and some of the importing companies are forced to leave the market; but maybe, among others, it *retains*, temporarily at least, on the national territory, innovative local products, it sustains the young industrial branches, not yet competitive on the foreign markets, it defends production from the sometimes disloyal external competition.

Not all protectionist measures are prejudicial. Most of the States resort to different forms of protectionism that do not conflict with the engagements assumed within the multilateral framework and do not distort trade exchanges. Yet, an uncontrolled rise of the commercial barriers could lead to the isolation of the countries that apply them and could destabilize the whole multilateral commercial system. The international trade exchanges are associated with major risks, because of the imposed protectionist measures that contravene the international commercial norms, and which are often a reason for commercial wars between countries.

Protectionism also means controlling the fluxes of capital, and implicitly of the investments, as well as keeping monopoly of the services, which impedes the access to knowledge and diminish the possibilities of development. Protectionism is a process that does not only have disadvantages, as we have outlined, just like liberalization does not have only advantages. Some of the protectionist measures are quite justified.

The supporters of globalization and of liberalization promote the idea that the great winners, as a result of the frontiers opening, are the developing states, as long as they accept to reduce barriers in the way of the free circulation of goods, services and capitals. These promises determined the developing countries to direct their attention and resources the wrong way<sup>6</sup>; instead of being preoccupied by innovations in the domestic strategic branches, necessary in order to stimulate the economic growth, they become preoccupied by the reduction of protectionism, sometimes with really big prices. Actually, the integration into the regional and world structures replaced the domestic development strategies, and the financial, human, administrative resources, necessary for some priority fields like education, health, industry, social protection, etc. are channelled toward objectivity whose results are ambiguous. It is recommendable for the developing states to benefit, as much as possible, from the opportunities that liberalization offers, especially in the field of innovations and technologies, but they must understand that liberalization does not always honour the promises it made, which fully motivates the maintenance of a certain degree of protectionism.

## V. CONCLUSIONS

Liberalisation allows the dissemination of knowledge and products at an unprecedented level, being the engine of economic development and growth, a support for the economic and especially social evolution, at all levels, while protectionism comes to support domestic economy. Both processes have their advantages and disadvantages, especially for the developing countries, extremely vulnerable from an economic and social point of view.

---

<sup>6</sup> Rodrik D., (2001), *Trading in Illusions*, in Foreign Relations magazine, April

In the present paper, I succinctly presented, from an epistemological point of view, the processes of liberalization and economic protectionism, with their advantages and disadvantages as much as possible, to see whether in this new development stage we have entered, that of the knowledge-based economy and, possibly, of the *knowledge society*, the world countries have to choose between the total opening towards the exterior and isolation. The extremes are not liked nor recommended, a reason why we propose a “middle course”; this does not at all mean combining 50% openness and 50% protectionism, but a mixture of measures of economic liberalization and of protectionist measures, particularized for each economy, so that the goals of growth and development could be reached, and the opportunities and advantages of knowledge and economic liberalization could be used in such way that the economic-social purposes could be adequately achieved.

The best example of gradual liberalization is offered by the Asian countries, Japan and subsequently the NICs (New Industrialized Countries) and China, who opted for a combination between their own policies oriented towards the exterior and the policies strongly oriented towards the domestic market, liberalizing their trade step by step, over several decades, and not years<sup>7</sup>. The Asian states lowered their import barriers only after a sustained period of economic growth, which offered their economies safety and diminished the risks associated with the process of liberalization. The theory at the basis of the *Asian miracle* of development was that of the *flying geese*<sup>8</sup> consisting of three stages<sup>9</sup>:

1. Economy is based upon the import of products that are necessary to the domestic development;
2. Domestic production augments and import is replaced with domestic similar products;
3. Domestic market becomes saturated, and the excess of production is exported.

The Asian pattern of liberalization is not recent one and does not exclude protectionism, though at the basis of the impressive rates of growth and development (*the Asian miracle*) lied, first of all, exportation. Japan needed two decades, after the Second World War in order to succeed in competing as a world commercial leader and in convincing the whole world that its model of development is an effective one, in spite of its inconveniences, as this is not a perfect, but a

perfectible model, with much better results if we compare it to the models that other countries accredited. The Japanese economy has faced, for a long time, crises and problems of different natures, some of them as a result of the excess of the balance of trade and payments, but it was able to administer them at the local and regional levels. Japan is one of the countries whose economies and societies are characterized, for decades, by *knowledge*, being a promoter in many fields, like the technological, innovative or robotics one, and an example, for the whole humanity, of the *knowledge-based* progress. The investments in the strategic sectors, knowledge, the orientation towards a competitive export and the confinement between certain limits of the protectionist measures at import, transformed Japan, from a poor country, deprived of significant natural resources, into one of the main pillars of the world economy, being a seminal country in the *knowledge society* and a model that the developing countries should analyse in order to be able, in the *knowledge era*, to reduce the discrepancies with the industrialized countries and to offer their population a high standard of life and civilization.

## VI. REFERENCES

- [1] Amartya S., (2004), *Dezvoltarea ca libertate* [Development as Freedom], București: Editura Economică;
- [2] Balcerowicz L., (2001), *Libertatea și dezvoltare. Economia pieței libere* [Freedom and Development], Iași: Editura Multiprint;
- [3] Bauman Zygmunt, (1999), *Globalizarea și efectele ei sociale* [Globalization: The Human Consequences], București: Editura Antet;
- [4] Haller A.P., (2008), *Exportul - factor de dezvoltare și creștere economică* [Export – a factor of economic development and growth], Iași: Editura Performantica
- [5] Ikenson D., (2007), *Is Trade Liberalization a Product of Domestic or International Processes? Lessons for Doha*, 4 July, [www.cato.org](http://www.cato.org)
- [6] Miller T., Holmes K., Kim A., Markheim D., Roberts J., Walsh C., (2010), *Index of Economic Freedom*, Edited by The Heritage Foundation and The Wall Street Journal
- [7] Rodrik D., (2001), *Trading in Illusions*, in *Foreign Relations magazine*, April

<sup>7</sup> Rodrik D., (2001), *Trading in Illusions*, in *Foreign Relations magazine*, April

<sup>8</sup> The *Flying Geese Paradigm* was elaborated by *Kaname Akamatsu* in 1930, starting from Japan's effort and experience to reduce the discrepancies of development in relation to the western countries. The essence of this theory is that the trade exchanges between the developed and the developing countries can be mutually advantageous, while production, import and export are basic components in the process of industrialization.

<sup>9</sup> Haller A.P., (2008), *Exportul - factor de dezvoltare și creștere economică* [Export – a factor of economic growth and development], Iași: Editura Performantica, p. 87