
Executive Summary

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Towards the end of 2009 the very welcome news was received that many of the world's larger economies had begun to recover - and that others had bottomed out. Coming soon after the fast rates of descent in many indicators of economic activity (including international trade) witnessed in the first two quarters of the year, the gloomiest expectations - including fears of a re-run of a 1930s style Great Depression - appear in many quarters to have given way to various forms of cautious optimism. Should this optimism carry over into likely future protectionist dynamics?

In addition to reversing the general trend towards freer international commerce - a trend to which developing and industrialised countries have contributed to varying degrees over the past 25 years - protectionist measures taken during the global economic downturn of the past year can have the following three consequences:

- By closing markets, compromising the viability of internationally-active firms, revoking visas for migrant workers and the like, protectionism could have exacerbated the initial downturns in national economies, threatening jobs and living standards.¹
- Protectionism can limit the contribution of exports to economic recovery.
- As economic historians have repeatedly warned us, once protectionist tendencies enter the body politic of nations they can take decades before the associated government interventions are reversed.²

Therefore, there are cyclical as well as longer-term reasons why continued monitoring and discussions makes sense. These considerations may be of particular relevance to the nations of the Asia-Pacific region, many of whose governments have actively pursued export-led and investment-led growth strategies and appear determined to continue doing so in the future.

Global Trade Alert (GTA) has always operated on the assumption that, under current circumstances, the most practical approach to resisting protectionism is to combine peer pressure with high-quality, current information about state measures and their actual or potential effects on foreign commercial interests. Governments, the media, and civil society are the key sources of the former; the job of Global Trade Alert and other monitoring exercises is to provide the latter.

1 In this regard experts have debated the impact of crisis-era protectionism on international trade flows. See Baldwin (2009) for a wide range of contributions on this matter.

2 See, for example, O'Rourke's observations about the durability of the protectionism imposed in the 1930s in the Republic of Ireland.

How GTA built its extensive database on contemporary protectionism

Since GTA was launched on 8 June 2009 over 600 state initiatives have been investigated by our independent team of trade policy analysts located around the globe. These initiatives vary from packages of wide-ranging public measures, with many implications for trade and investment policy instruments, to temporary tariff increases on single product lines. GTA's goal is to provide the most comprehensive online database of state measures taken since the first crisis-related G20 summit in November 2008 that might affect foreign commercial interests. The latter are broadly conceived by the GTA team to include not just trade flows and foreign investments but also intellectual property rights and migrant workers deployed abroad. It is through careful, multi-faceted investigations of these initiatives that a rich evidential base was built, from which the contours of contemporary protectionism can be discerned. Users can access this evidence at the website: www.globaltradealert.org

One of the most important steps in a GTA investigation is to establish whether the implementation of a state initiative has, or is likely to, alter the relative treatment of domestic and foreign commercial interests in the markets where the initiative's effects will be felt. In common parlance, GTA checks whether a state initiative tilts the playing field against foreign firms. GTA, therefore, does not opine on the WTO legality of a measure or whether a measure is "appropriate," "fair," "reasonable" or "crisis-related" (there being no agreed definitions of these terms.)

State initiatives that almost certainly (or certainly) introduce or change asymmetries of treatment to the detriment of some foreign commercial interests are deemed by Global Trade Alert to be contrary to the no-protectionism pledges made at the November 2008 G20 summit in Washington, DC, and elsewhere. In this Executive Summary, the phrases discriminatory and protectionist are used synonymously.

Without attempts to carefully enumerate the different types of state measures used and their various effects, any assessment of contemporary protectionism is likely to overlook key trends and is of diminished value to policymakers. That is why GTA goes beyond providing an assessment of the discriminatory impact of state initiatives. Examination of the tariff lines, sectors, and trading partners that are likely to be affected by each state initiative are carefully conducted so as to provide some indication of a public initiative's impact in what is still a relatively interdependent global economy even though, strictly speaking, there may be some circumstances where some form of discrimination is needed to attain a non-protectionist government objective.

No doubt purists will argue that a complete understanding of the consequences of crisis-era protectionism requires a detailed economic analysis of each state initiative. Such analyses could indeed be very useful; indeed the GTA team would gladly cooperate with experts interested in conducting such studies. But, leaving aside the question of resources and the availability of all the necessary data, quite frankly it is utopian to believe that over 600 such analyses could be conducted in the timeframe necessary to influence policymaking. In short, we should not make the perfect the enemy of the very good. GTA's investigations go a long way towards indicating the scale of an initiative's effects by making extensive use of publicly available trade, investment, migration, and other data. Still, the GTA team welcomes suggestions that will result in further improvements in the coverage and assessment of state initiatives.

Note: See Evenett (2009a) for an overview of the GTA's methodology and Evenett (2009b) for a discussion of the concerns some have raised about the GTA's approach

This Report, GTA's third, is published in December 2009, six months after this independent monitoring initiative began to investigate state measures that might affect foreign commercial interests. State measures announced and implemented from November 2008 fall within the remit of GTA. Consequently, this Report sheds light on the extent, nature, and possible harm done by discriminatory state measures taken since global financial markets and subsequently the global economy went into free-fall. Particular attention is given in this Report to developments in the Asia-Pacific region, the most populous region on Earth.

This Report also provides an assessment of the extent and changes over time in protectionist dynamics, by considering not just the quarter-by-quarter changes in the numbers of protectionist measures implemented, but also the number of pending measures that have been announced and are expected to be implemented in the future. Information on the pending measures provides policymakers with an "early warning" of what is to come, a feature unique to GTA's monitoring initiative.

Protectionism has not relented during the past 12 months

In the last GTA report, published in September 2009, it was argued that a **protectionist juggernaut** was underway (Evenett 2009c). The evidence received over the past three months has, if anything, reinforced this conclusion. Moreover, as reported recently in Evenett (2009b), the proportion of products affected by beggar-thy-neighbour policies exceeds pre-crisis trends for several leading industrialised countries (specifically, Japan, the UK, and the USA) and for many of the larger emerging markets (specifically, China, Mexico, India, Indonesia, and the Russian Federation). Characterising the protectionist impulse in many of the world's largest trade over the past twelve months as "business as usual" is wildly misleading. Still, few governments have introduced anything like across-the-board discrimination against foreign commercial interests; in this respect, the world economy is still far away from a 1930's-style protectionist outcome.

Since the first G20 crisis-related summit in November 2008, the governments of the world have together implemented 297 beggar-thy-neighbour policy measures; that is, more than one for every working day of the year. Add in another 56 implemented measures that are likely to have harmed some foreign commercial interests, and the total reaches 353. Moreover, since the GTA's last report was published in September 2009, the number of beggar-thy-neighbour measures discovered (105) was more than **eight times** the number of benign or liberalising measures (12). Looking back on all of the measures implemented since November 2008, the ratio of blatantly discriminatory measures to liberalising measures stands at nearly six to one.

When examining quarter-by-quarter changes in protectionism, it is important to take into account the fact that some beggar-thy-neighbour acts only come to light with a lag. This fact alone has had an important impact on the number of discriminatory measures reported in the GTA database in the last quarter of 2008 and first two quarters of 2009. For example, in GTA's second report it was estimated that in the first half of this year approximately 70 measures likely to harm foreign commercial interests were imposed by governments. **This estimate is now revised upwards by 20-25 percent; governments tended to impose 85 protectionist measures per quarter dur-**

ing the first half of 2009. In the light of this finding, the reported number of discriminatory measures implemented in the third quarter of 2009 (78) is not far short of this quarterly average, especially when one bears in mind that this figure will almost certainly be revised upwards as more information about protectionist acts comes to light.

Particular caution is needed in interpreting the reported figure of 38 harmful measures imposed in the fourth quarter of 2009. First of all, this figure refers only to measures implemented in October and November 2009. Moreover, prior experience suggests that information on the most recent discriminatory measures taken by governments is not yet in the public domain. In short, **the very recent fall-off in the number of discriminatory measures is more apparent than real.**

Other key findings about contemporary protectionist dynamics found in this Report are:³

- During the past three months the number of state measures announced which - if implemented would likely harm foreign commercial interests - has expanded from 134 to 188. **The protectionism in the pipeline keeps growing - there is no respite here.**
- Since the last G20 Report was published in September 2009, every one of the top 10 countries targeted for protectionism has been hit by at least another 20 beggar-thy-neighbour policies. China has been hit by 47 more measures (the most), followed by the USA (32 more measures) and Germany (21 extra hits.) **Many nations retain a strong interest in monitoring and discouraging foreign protectionism, even if the economic recovery takes hold.**
- On GTA's four indicators of harm done by a nation's commercial policy, **the Russian Federation is always in the top 5 worst offending nations.** Meanwhile, **China and Indonesia** are always in the top 10 worst offenders. If the measures taken by each EU member state were aggregated, then the **EU27** would always appear in the list of top 10 worst offenders.
- Since the last GTA report was published, **bailouts and trade defence measures account for the overwhelming majority of new discriminatory state measures** that GTA has uncovered. Recently, it seems, the action is in these two policy instruments, with tariff increases running a poor third. Tariff increases account for only **one in seven** of the total number of discriminatory state measures imposed in the current global economic downturn. This calls into question how representative of contemporary protectionism the much-studied, easy-to-measure, and typically transparent tariff increase actually is.
- Looking ahead, the **basic metals and basic chemical sectors could be affected by over 30 pending measures.** Should this come to pass then over the next year or so, both sectors will eclipse the **financial sector** as the principal sectors most affected by contemporary era protectionism.

3 For further details see Evenett's Global Overview in the next section of this Report.

Other insights from two empirical analyses in the GTA report

This report contains two distinct empirical analyses: one concerning the impact of domestic and foreign discrimination on Japanese sectoral export performance during the recent year; the other examining whether the types of anti-dumping cases brought during the first three quarters of 2009 (that is, during the crisis era) differed markedly from the pre-crisis era (as taken by the comparable three quarters of 2007). The main findings of these studies are summarised below.

With respect to Japanese sectoral economic performance, using monthly export data for 12 Japanese export sectors, from November 2008 until September 2008, and stripping out export variation due to changing demand levels at home and abroad, and relative export prices, Anirudh Shingal (University of Sussex) found:

- Other than subsidies, foreign beggar-thy-neighbour measures reduced Japanese sectoral exports during the crisis. A twenty percent increase in the amount of discrimination faced by a Japanese sector is estimated to have reduced exports by approximately six percent.
- Japanese protection in favour of a given sector reduced that sector's exports during the crisis; suggesting that resources are reallocated by Japanese firms towards supplying the more secure domestic market from the export market. This finding has an important policy implication, according to Shingal: "Japanese policymakers should be under no illusion that discriminating against foreign commercial interests can proceed without harm being done to Japanese export interests - not through subsequent foreign retaliation as is often supposed, but through shifting resources in Japan away from exporting."
- Discriminatory foreign subsidies have limited the contraction of Japanese exports during the crisis. Shingal offers the following explanation for this finding: "Suppose the foreign bailout or subsidy limits the output reductions of the beneficiaries of the foreign state's largess. If Japanese firms seek to preserve their share of the foreign market in question (perhaps because brand strength, which has intangible value, is associated with market presence or share), then Japanese firms may respond by limiting their export reductions more than would otherwise be the case."
- Shingal's study highlights the importance of not automatically conflating subsidies and bailouts with tariffs; estimates of the latter's effects provide a misleading overall assessment of the impact of contemporary protectionism.

Given the growing resort to antidumping investigations in the latter part of 2009, governments and firms probably want to assess the likelihood that their commercial interests will be targeted by foreign investigations. Rather than assume that pre-crisis targeting practices continue, Johannes Fritz and Martin Wermelinger (University of St. Gallen) checked whether there were any discernible differences between antidumping filing behaviour in the first three quarters of 2009 compared to two years previously in 2007, before the financial crisis had begun to affect trade flows. Fritz and Wermelinger's principal findings are:

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- Although the average number of countries targeted in each antidumping investigation remains unchanged⁴, during the crisis far more investigations target foreign firms whose combined market share is 21-40 percent rather than 41-60 percent. **A shift during the crisis to targeting larger shares of total imports - that one might expect if antidumping actions were being used as substitutes for across-the-board safeguards⁵ - has not happened. Crisis-era antidumping actions seem to be more selective and less comprehensive than their pre-crisis predecessors.**
 - Three-quarters of crisis-era antidumping investigations targeted countries where imports had grown faster than the average from all sources; up from two-thirds before the crisis. **Selective targeting of foreign firms' expanding market share is consistent with this finding.**
 - There has been a large shift during the crisis to targeting products where import prices have risen over the previous two years. Only 16 percent of the antidumping investigations launched in the first three quarters of 2009 involved imports where their unit prices had fallen; the comparable percentage for the 2007 investigations was 52 percent. **Some defenders of antidumping actions argue that antidumping targets predatory pricing by foreign firms; the relevance of this argument is questionable during the current crisis as so few antidumping investigations target products whose prices are falling.**
 - Before and during the crisis antidumping investigations are overwhelmingly into imports of products where the gap between bound and applied tariff rates are low. However, the crisis has seen a large shift in investigations away from imported products where tariff rates have fallen on average more in the five preceding years. Only a quarter of crisis-related antidumping investigations are into products where tariffs have fallen faster than the national average; before the crisis this fraction was one-half. **Compared to earlier years, reversing prior tariff reform is a less likely motive for crisis-era antidumping actions.**

Mapping crisis-era protectionism

Sometimes averages and totals obscure interesting variation across countries. To counter this several maps have been reproduced at the end of this Executive Summary. Map 1.1 shows how many almost certainly discriminatory measures have been implemented by each jurisdiction since November 2008. There is considerable variation across countries. While a number of Sub-Saharan African countries have implemented no such measures, Russia has implemented the most (37). Many countries have implemented 10 or more such measures in the past year.

Map 1.2 shows that the overwhelming majority of nations will find their country's commercial interests harmed if the discriminatory measures in the pipeline are actually implemented. This evidence suggests that many governments have a strong interest in discouraging this pending protectionism from retarding any economic recovery over the next year or so. The case for vigilance - and its mirror image, the case against complacency - is as strong as ever.

⁴ With a mean close to two in both the 2009 and 2007 filings.

⁵ It being recognised that the legal standard to be met in the injury test in an antidumping action is lower

Some government initiatives affect very few trading partners, others many. Map 1.3 reports the total number of trading partners that - on the basis of existing flows of goods, investments, and people across borders - are likely to have been harmed by the implementation of discriminatory measures. China, India, the Russian Federation, Indonesia, the United Kingdom, the United States, France, Germany, Argentina, Spain, and Poland have already taken measures that harm 100 or more of their trading partners. Maps 1.4 and 1.5 report the number of product categories (4 digit tariff lines) and economic sectors affected by the discriminatory measures that have been put in place since the first crisis-related G20 summit in November 2008.

Maps were also generated for the number of times that each jurisdiction's commercial interests have been harmed by other country's discriminatory measures. Given the enduring interest in whether the G20 member states have lived up to their no-protectionism pledge, Map 1.6 may be of particular interest. This map demonstrates the almost global reach of the harm done when G20 governments thought it wise to violate their own no-protectionism pledge. No one can claim that the damage done by the G20 members was confined to themselves.

Maps 1.7 and 1.8 provide more evidence against the propositions that contemporary protectionism is confined to a small number of implementing jurisdictions, that the harm is confined to a small number of jurisdictions, and that essentially the problem is localised. In fact, the high degree of interdependence revealed by these maps strongly suggests that many nations have a very strong interest in putting the break on the protectionist juggernaut.

How this Report is organised

The rest of this Report is organised as follows. The large number of state measures investigated by the GTA team provide the evidential base upon which the emerging trends in contemporary protectionism can be delineated. Accounts of the protectionist dynamics over the past 12 months are given next for the Asia-Pacific region and worldwide. Analyses of selected aspects of crisis-era commercial policymaking in four large Asia-Pacific trading powers (China, India, Japan, and Russia) follow. After that there are two chapters on the impact of the crisis on global supply chains and on the use of antidumping measures worldwide. Finally, for each nation in the Asia-Pacific region information is presented on the extent to which its commercial interests have been harmed by the actions of other countries. Symmetrically, information is presented on the extent to which each nation's state measures have affected other trading partners.

References

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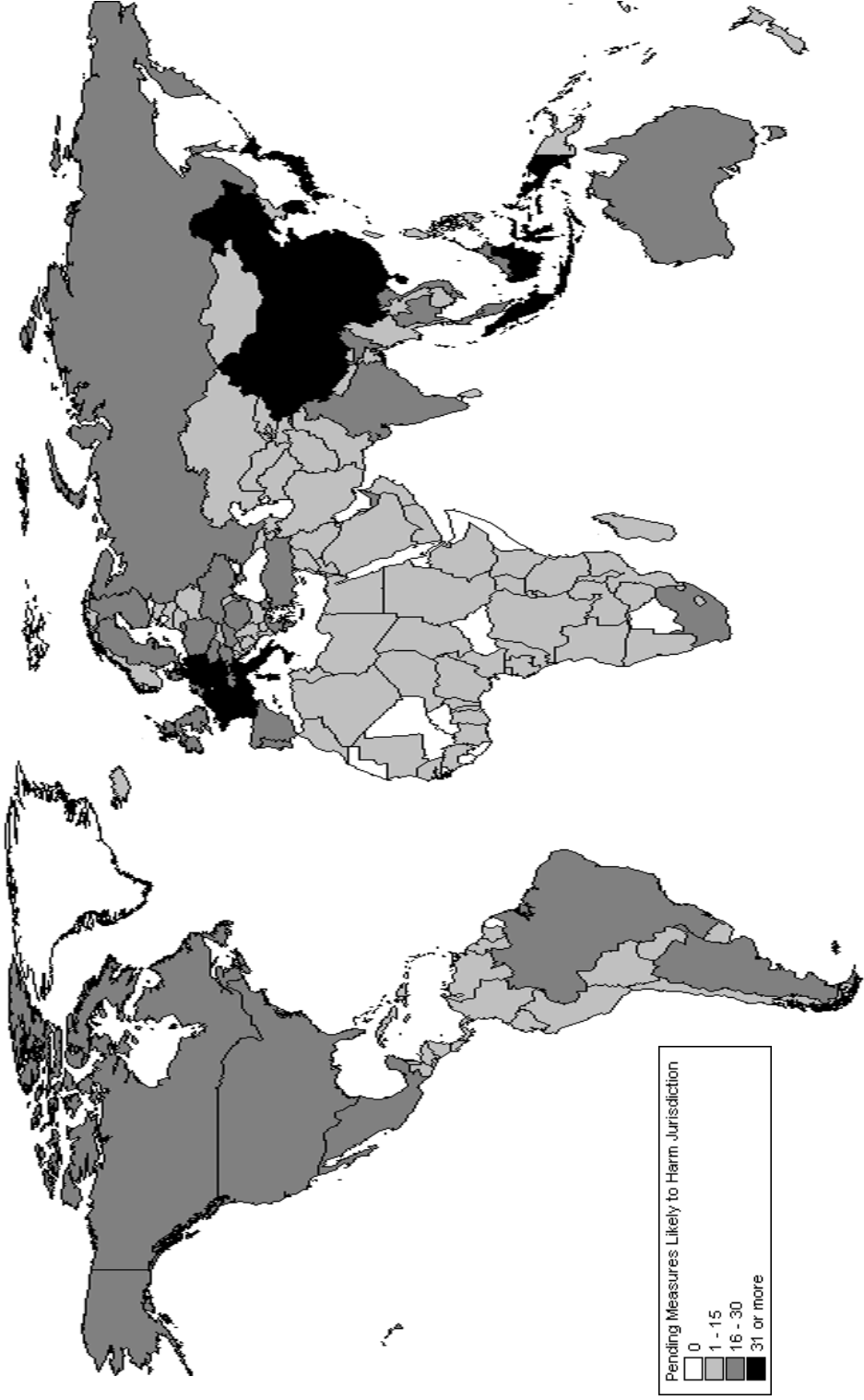
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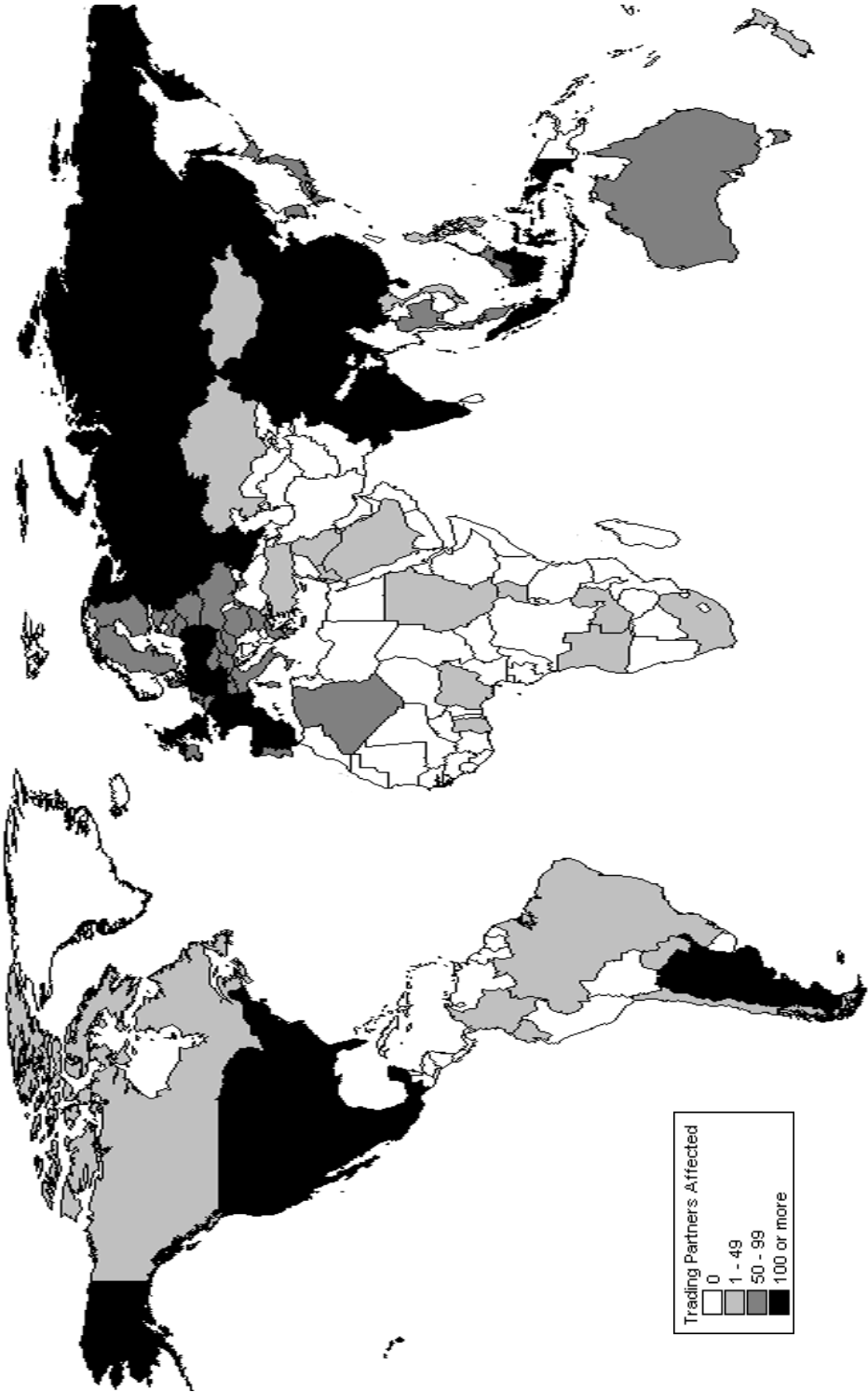
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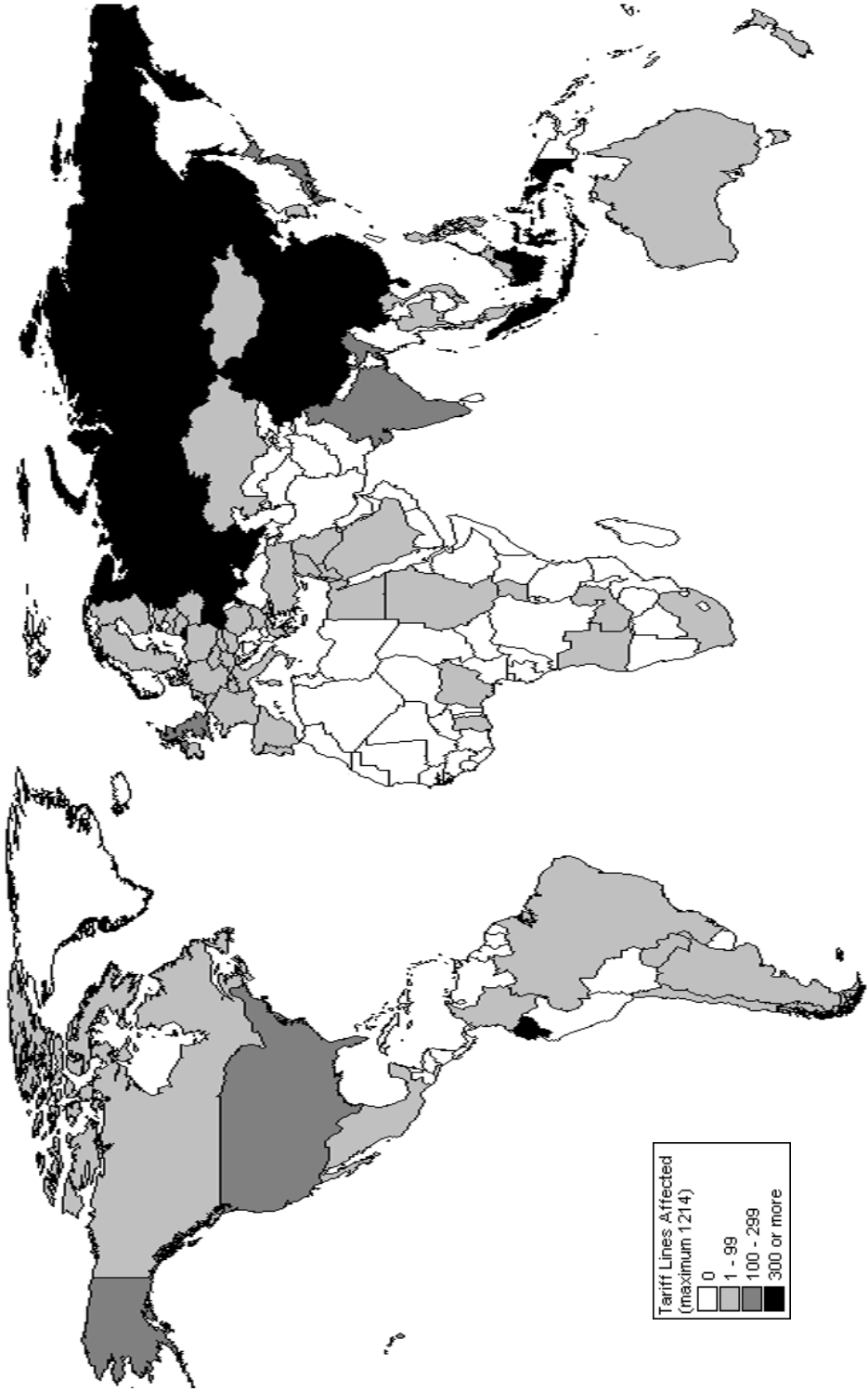
Map 1.2 Number of pending discriminatory measures likely to harm a jurisdiction



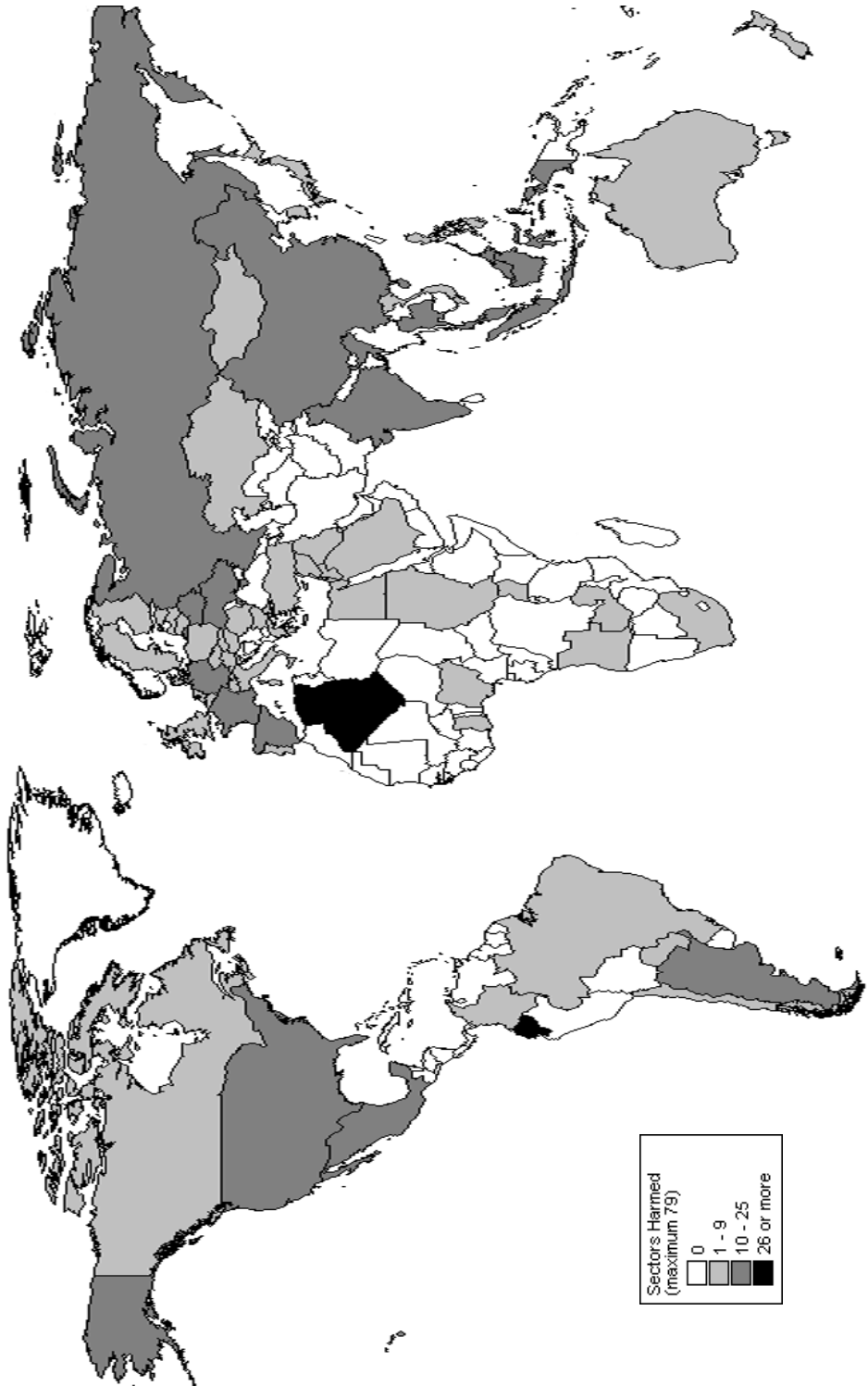
Map 1.3 Number of trading partners harmed by each jurisdiction's discriminatory measures



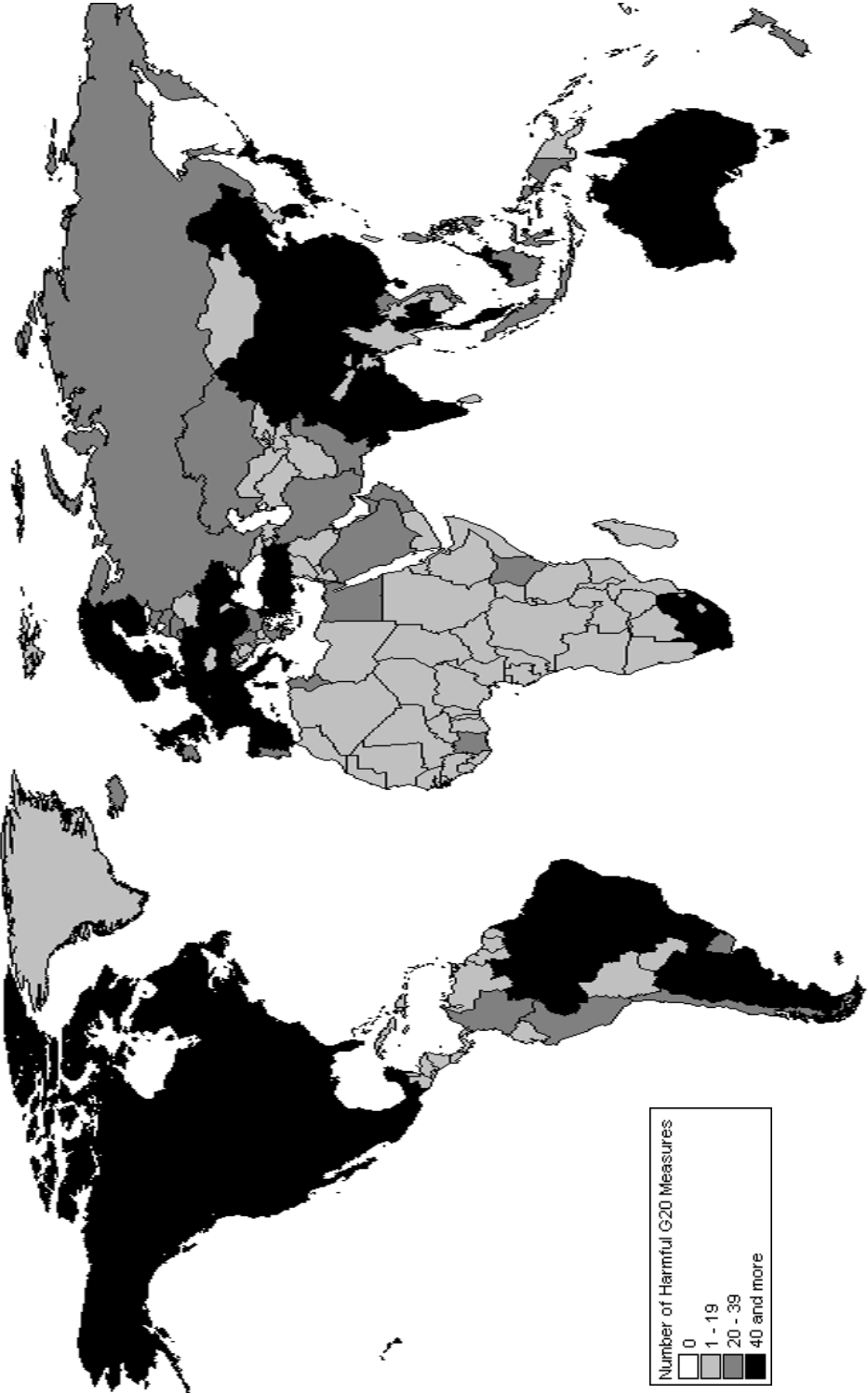
Map 1.4 Number of (4 digit) tariff lines harmed by each jurisdiction's discriminatory measures



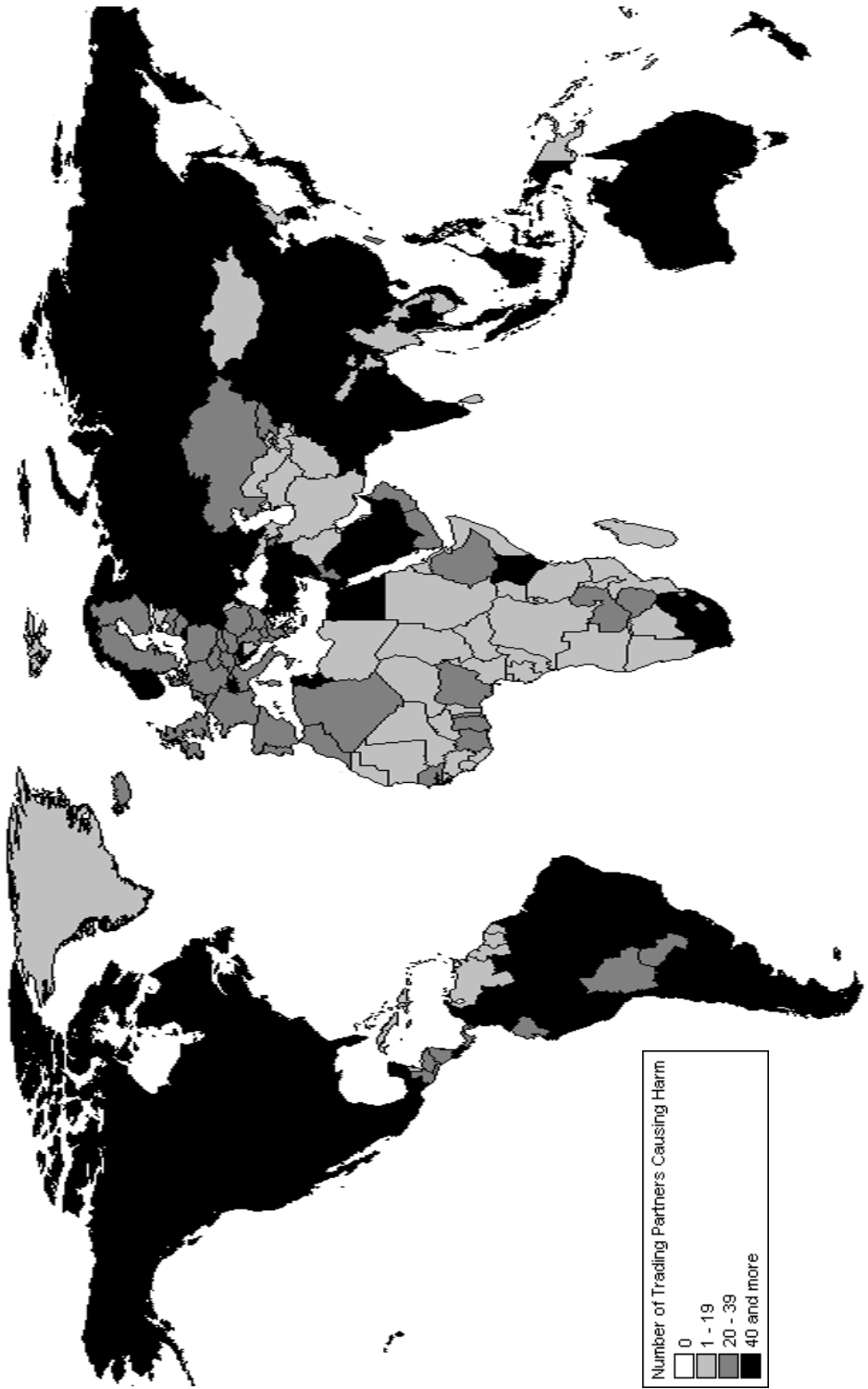
Map 1.5 Number of sectors harmed by each jurisdiction's discriminatory measures



Map 1.6 Number of harmful measures implemented by G20 countries affecting each jurisdiction



Map 1.7 Number of trading partners harming each jurisdiction's commercial interests



Map 1.8 Number of times a jurisdiction's commercial interests are harmed by trading partners

