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A "significant slippage" in protectionism? Not yet

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Executive Summary

The WTO used the term "significant slippage" to qualify changes in protection during Fall 2008 and Winter 2009. Most newspapers translated these terms into "rise of protectionism."

Evoking such a rise is premature. It is crucial to address this statement because it offers a huge tactical advantage to protectionist interests.

- it makes it much more difficult for governments to push for more liberalization when everybody else is—allegedly—busy raising protection.
- since nothing bad will flow from such a "rise of protection" (since there is none) protectionist lobbies can claim that raising protection does not have the dire effects that economists predict, and they will quickly ask for more protection.

Based on the raw information provided by the WTO Report *itself*, this note shows that:

- One third of the measures taken during the eight last months have been market-opening (cuts in tariffs, export taxes, etc.). The most important measure of these last few months is the vast program of tariff cuts of Mexico (7th largest world economy).
- Assessing the increase in antidumping initiations in 2008 compared to those in 2007 as a rise in protectionism is far-fetched for several reasons. The year 2007 shows the lowest annual number of cases since 1995. Suggesting a link between the 2008 rise in antidumping cases and the current crisis ignores the duration of antidumping procedures (12 months or more). The products involved have been antidumping addicts for the last two decades at least.
- Other protectionist measures (increases of non-tariff barriers or tariffs) are limited, except for a couple of (unsurprising) exceptions (Argentina and Indonesia).
- Half of the stimulus packages have little or no discriminatory impact, but simply aim at boosting economic activity. There are only two key exceptions: (i) China's stimulus package has a systematic sectoral approach, and (ii) the car sector across the OECD (from assemblers to dealers) has been a major beneficiary of stimulus packages.
- "Financial nationalism" is unlikely for several reasons. Governments are eager to give banks back to the private sector, and the rapidity of such moves depends crucially on the capacity of these banks to keep foreign clients. Local politicians have begun to realize that jobs in the local subsidiary of a foreign firm are as valuable in terms of votes as jobs in a wholly domestically owned firm. After almost 20 years of globalization, it is almost impossible to define what is a "domestic" firm.

This cold-minded assessment suggests three "counter-offensives": (i) monitoring closely antidumping initiations (especially, a widening of the scope of products in new antidumping complaints), (ii) cutting back car subsidies, and (iii) launching talks to improve market access in services, first between the EC and the US, then extending such talks to fewer than the ten countries that account for more than 80 percent of the world value added in services.

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A "significant slippage" in protectionism? Not yet

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Introduction

In its latest Report on the "financial and economic crisis and trade-related developments" (26 March 2009), the WTO used the term "significant slippage" to qualify changes in protection observed from late 2008 to March 2009. Most of the newspapers in the world translated these terms into "rise of protectionism."

This note argues that evoking a rise in protectionism in April 2009 was premature. Disputing this statement may seem futile. It is not. Such a misrepresentation of the situation offers protectionist interests a considerable tactical advantage in the coming months. First, it will make more difficult for a government to convince its country to liberalize when everybody else is allegedly busy to raise protection. Second, as nothing bad will flow from such a "rise of protection"—for the excellent reason that few additional protectionist measures have been taken so far—protectionist lobbies are in the ideal situation to claim that "raising protection" does not have the dire consequences that economists predict. Then, they will quickly add that more protection could thus be—and should be—granted more lavishly. Public opinion could only agree.

Such a scenario is not a fantasy. It has already occurred. When, in 1995, negotiators presented farm liberalization as a result of the Uruguay Round (while it was a mere possibility, indeed still to materialize) many supporters of farm protection used the negotiators' statement as sufficient proof that all the difficulties met by the farmers after 1995 were caused by such a liberalization, while these problems were due to the highly distorted agricultural policies of industrial countries. It took a full decade to eliminate this perverse twist in public opinion, and to impose a more accurate assessment of the true achievements of the Uruguay Round and of the true causes of the post-1995 problems in agricultural markets.

This note tries to make a cold-minded assessment of the current situation. It relies on the evidence provided by the WTO Report which has two major limits. First, not all new

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measures are notified to the WTO. This limit is often seen to create a systematic under-estimate of the level of protection. This is far from certain. Rather, one could reasonably argue that, in the coming year(s), it will be more difficult to hide protectionist measures (because hurt trading partners will cross-notify) than to overlook inadvertently pro-market opening measures (which hurt no one). The second limit of the WTO Report is that it allows only for a mere counting of the measures adopted, offering no systematic sense of their economic importance. This note will provide some sense of the most important measures—the only ones that really matter.

Section 1. Trade-related measures

Table 1 summarizes the "trade-related" measures (a term covering the usual range of trade instruments) listed in Annex 1 of the WTO Report. Table 1 suggests five lessons.

One third of the measures taken have been market-opening

The world press has been silent on the fact that one third of all these measures listed in the WTO Report improved market access. First, the WTO Report lists a notable number of reductions or cuts of import tariffs. Among them, there is the most important change among all the listed trade-related measures—the program of tariff cuts decided by Mexico (the 7th largest world economy). Strangely, the WTO Report did not make any reference to this initiative in its text, but kept the information in the list itself, buried among much more limited measures. No surprise that the world newspapers did not highlight it.

Second, the measures listed include many reductions in export taxes. Economic analysis shows that cutting export taxes is equivalent to cutting tariffs, justifying their classification as market-opening measures. This second group of measures is all the more crucial because it has been mostly taken by large emerging economies, such as China—on a large scale—India and Russia.

Lastly, the Report lists a substantial number of measures improving the non-discriminatory access of small and medium enterprises to export credit and FDI schemes. Such measures aim at reducing the domestic distortions between large firms (which already benefit from the measures in question) and small and medium enterprises which were excluded from such benefits, often out of mere bureaucratic neglect. They may involve small quantities, but their non-discriminatory nature enlarges vastly the range of products and competitors that would be available on the world markets.

Table 1. Trade-related measures, late 2008 to March 2009

	Market-opening measures				Protectionist measures					
		based on								
	All	import	export	others	All	tariffs	AD [a]	NTBs [b]	Subsid. & taxes	Public proc. & labor
Argentina	1		1		5		1	3	1	
Australia										
Brazil	1		1		1		1			
Canada	3	1		2	3		3			
China	4		4		5	1	1	2	1	
EC	1			1	9	1	7		1	
India	5	1	4	1	9	2	2	5		
Indonesia	1	1			8	1		7		
Japan					1		1			
Korea					1	1				
Malaysia	1	1			2		1	1		
Mexico	1	1			1	1				
Russia	4	1	3		3	2		2		
Taiwan					3		2			1
Turkey					3	1	2			
USA	1			1	5		1	1		3
Total above	23	6	13	5	59	10	22	21	3	4
All economies	28	9	15	5	68	16	23	22	3	5

Source: WTO Annex I 2009. Notes: [a] AD: antidumping cases (initiations, reviews or measures). [b] NTBs: non-tariff barriers.

Which rise in antidumping measures?

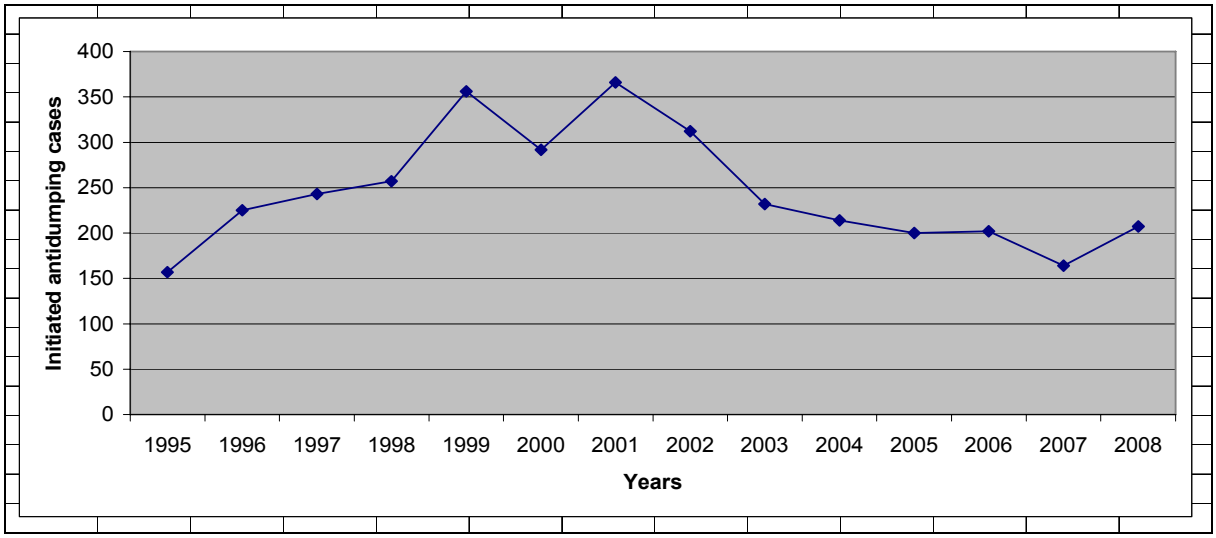
Second, the most frequent protectionist measures in Table 1 are the antidumping cases which are the preferred instrument by most vested interests for several reasons: its legal consistency with WTO rules, its notion of apparent fairness that impresses the media and public opinion, and—by far above all—its almost infinite capacity to discriminate among foreign exporters, a feature that makes this instrument the "mother of collusions" among domestic and foreign firms alike and that makes it a very costly policy for consumers since it magnifies protection by collusion. The WTO Report notes a 27 percent increase in antidumping initiations in 2008 compared to those in 2007 (focusing on the second semesters of 2007 and 2008 shows no acceleration).

But assessing this increase as a rise in protectionism is far-fetched for several reasons. First, as shown by Graph A, the year 2007 witnessed the lowest annual number of cases since 1995, and less than two thirds of the annual average of the complaints initiated in 1999-2002.

Second, suggesting a link between the 2008 rise of antidumping measures and the economic crisis is inappropriate for a simple reason. The legal duration of antidumping procedures

means that measures taken in 2008 correspond to cases initiated 12 months (or even longer) ago, that is, a period which was dominated by high prices and by few—to say the least—worries about a severe world economic downturn.

Graph 1. Initiation of antidumping cases, 1995-2008



Sources: WTO website and Report (2009).

Third, the products listed in the WTO Report (aluminum, steel fasteners, bars and rods, plastic bags, etc.) have been antidumping addicts for the last two decades at least. Such new antidumping cases aim mostly at "rejuvenating" old ones. They make data on antidumping activity look bad, but the key question is whether they deteriorate notably the situation existing in the markets from an economic point of view. This is debatable because most of the new cases aim simply to make clear that the collusion nurtured by past antidumping measures will not be allowed to collapse. In other words, they send clear threats, but they do not introduce significant changes in the already existing costly distortions of the world markets—they simply reveal clearly things that were going on quietly.

The truly worrisome sign would have been a wider scope of products involved in new antidumping complaints, a sign of distortions spreading to new markets. The WTO Report does not suggest such an evolution—if one excepts the EC antidumping duty on US biofuels. But the protection granted to EC biofuels did not wait for the recession to reach a staggering level—almost 10,000 percent for some biofuels in terms of effective rate of protection [Amaral 2008]. In short, much ado about nothing in antidumping—so far.

Other protectionist measures: limited with a couple of exceptions

Table 1 shows that non-tariff barriers (NTBs) is a field as active as antidumping. The new NTBs reported consist mostly of licensing schemes, minimum (reference) prices and norms and standards, while quotas are limited to a few products. But, there are only two cases with NTBs covering a wide range of products: mostly licensing schemes in Indonesia (more than 500 products) and reference prices in Argentina (around 1000 products).

Increases in tariffs are limited in terms of both the range of products and tariff rate increase—a good surprise for the vast majority of WTO Members that apply tariffs at a level much below their bound rates, hence that could have raised their tariffs rapidly at no cost in the WTO forum. The only exception is Ecuador which increased its tariffs on more than 600 tariff lines while decreasing its tariffs on more than 3000 lines, hence increasing the effective rate of protection of the 600 domestically produced goods.

As expected, tariff increases do not occur in countries which apply tariffs as their bound level, and the only exceptions are not unusual. The EC reintroduced import duties on certain cereals following a price swing, as it did in the mid-1990s in similar circumstances. China increased its export tax on silicon products subjected to antidumping measures taken by China's trading partners (a measure aiming at appropriating the rents created by foreign antidumping measures on such exports).

A final overview: the sectors covered

Table 2 provides a breakdown by product of all the trade-related measures listed in the WTO Report (there are more products than measures or countries because measures often involve several goods or services). The classification used in Table 2 is very crude, and results are not surprising. Changes are largely concentrated among the usual suspects (farm and food products, commodities, steel, textile and chemicals) and the usual *second-string* players (cars, toys, shoes, electronics).

Table 2. Trade-related measures, by sector

	All measures	Market opening measures	Protectionist measures	
			number	share (%)
Food-Farm	19	4	15	79
Commodities	14	7	7	50
Cars	4		4	100
Steel	20	5	15	75
Textile	10	3	7	70
Toys	4	1	3	75
Shoes	4	1	3	75
Electronics	5	1	4	80
Chemical	11	2	9	82
Eq.Goods	6	3	3	50
Other goods	36	15	21	58
Services	7	2	5	71
All sectors	140	44	96	69

Source: WTO Annex I (2009).

That said, the share of market-closing measures in all measures varies widely from 50 percent in the commodity and equipment good sectors (showing trade policies in flux) to 100 percent in the car sector (a result which does not include the support from the stimulus packages examined in the next section).

Section 2. The stimulus packages and the bail-outs

Annexes II and III of the WTO Report list the measures taken in the context of the stimulus packages and the bail-outs for financial institutions. There have been concerns that such measures could be trade-distorting. A cold assessment of the situation does not support yet these fears, with a couple of exceptions.

The stimulus packages

A thorough assessment of these packages (listed in Annex II of the WTO Report) would require time and skills much beyond those available for this note. Table 3 tries simply to give a broad sense of the possible level of discrimination of these stimuli—from level 1 (unlikely or low discrimination) to level 4 (doubtless or high discrimination). When such a sense is difficult to get, two guidelines have been used: first, economy-wide stimuli are unlikely to be very discriminatory (they are classified under level 1 or 2); second, stimuli focusing on small or medium enterprises and on services may be more discriminatory, hence their classification under level 2 if they cover many sectors, or under level 3 if they focus on some sectors.

Table 3. Stimulus packages, as of March 2009

	Number of stimulus packages [a]					
	All	by estimated level of discrimination [b]				for cars
		1	2	3	4	[c]
Argentina						
Australia	4		2	2		1
Brazil	1				1	2
Canada	2	1			1	1
China	4	1	2		1	3
EC	20		12	2	6	6
India	1			1		
Indonesia						
Japan	2				2	1
Korea	2		1		1	2
Malaysia	3	2			1	1
Mexico						
Russia	2			1	1	1
Taiwan	1	1				2
Turkey	2		1	1		1
USA	2		1		1	2
Total above	46	5	19	7	15	23
All economies	53	6	20	10	17	24

Source: WTO Annex II (2009). [a] Including those listed under non verified information. [b] The estimated level ranges from 1 (none or low) to 4 (certain or high). [c] The number of measures can be higher than the total in the column "All" because separate measures on car producers and dealers are distinguished.

Table 3 suggests that half of these packages have little or no discriminatory impact (level 1 and 2). Above all, they aim at boosting the whole economic activity. There are only two exceptions to this generally low level of discrimination. The first is related to one country, since the fears on the "Buy American" clause in the US package have been dissipated (totally in WTO legal terms, almost completely in economic terms). China is the only country that has taken a systematic sectoral approach under its stimulus package, which is split in ten sectors (a feature possibly magnified by the packages decided by the Chinese provinces).

The second major exception is the whole car sector, from assemblers to car-part producers to car dealers. It benefits from stimulus packages in no less than 18 countries, of which 6 EC Member States (hereafter ECMS). Some car makers which operate in several countries are thus likely to benefit from several packages. These features make the car sector the best candidate for a plurilateral effort to cut back new protection, as suggested in the conclusion.

The financial bail-outs

Annex III of the WTO Report lists 65 bail-out operations. But, 54 of them have occurred in developed countries—out of which 46 in the EC and 3 in the US, consistent with the fact that the crisis was fuelled by mistakes in financial regulations in developed countries. The high number of measures in the EC mirrors both the many (18) ECMS involved, and the fact that the ECMS have followed a trial-and-error process in solving their problems.

The crucial question from the trade perspective is whether these bail-outs have generated any "financial nationalism"—meaning whether banks will turn to policies systematically favoring domestic firms. This question has been fuelled by statements from high officials in several countries insisting on the fact that the banks saved from bankruptcy by public money should lend only to "domestic" firms. Table 4 shows the large size of the banks involved in the bail-outs in the main ECMS and in Switzerland (a few smaller banks that have joined the club since January 2009). Would thus such large financial institutions be likely to practice a strong and sustained "financial nationalism?"

The answer is probably "no" for several reasons. First, the governments involved in bail-outs are eager to give these banks back to the private sector, and the rapidity at which that will occur is perceived as a sign of success of the governments' policy (the current situation has nothing in common with nationalizations in the past). Such a positive turn of events depends crucially of the capacity of these banks to keep as many foreign clients as possible.

Table 4. The resolution of the solvency problems in European banks, as of 16 January 2009

Country	Total amount Bil. Euros	Amount announced		Banks involved	Losses	
		Billion Euros	% of assets		Billion Euros	% of assets
Britain	56,5	41,8	3,8	RBS Lloyds TSB HBOS	20,7	1,6
Germany	80,0	21,2	5,1	Commerzbank Bayern LB	12,7	3,1
France	21,0	10,5	0,5	Credit Agricole BNP Paribas Credit Mutuel CEp.-BPop. Soc. Generale	17,8	1,0
Netherlands	20,0	10,0	3,0	ING	7,5	2,1
Switzerland	3,8	3,8	1,8	UBS	36,3	15,9

Source: BNP Paribas, January 2009.

Second, the banks will benefit from the basic principle in politics according to which "all politics is local". In coming months, local politicians will realize (they have begun to do so) that jobs in the local subsidiary of a foreign firm are as valuable in terms of votes as jobs in a wholly domestically owned firm. In addition, it is becoming increasingly difficult to define "domestic" firms after almost 20 years of globalization. Would a local subsidiary of a foreign firm with most of its business in the country be more (or less) domestic than a domestically-owned firm with most of its business outside the country?

Conclusion

The evidence provided by the WTO Report does not support a conclusion of "significant slippage" in protection. Ironically, the major event of the last six months has been the vast liberalization program launched by Mexico, the 7th largest world economy. That said, the fact that the economic crisis is not (too far from being?) over raises two questions: what to watch first, and what to do now?

What to watch first?

It is important to watch antidumping, because it is more "efficient" in imposing protection than any other instrument. Even unbound, tariffs offer much less opportunities to discriminate than antidumping. NTBs which create quantitative restrictions are easy to implement through antidumping, while norm-setting NTBs are cumbersome to define, slow to implement, and hurt exports as well as imports. Subsidies require rich Treasuries, an increasingly rare animal, and may trigger ruinous wars.

When could a rise in antidumping complaints occur? Potential complainants have a tactical benefit in waiting for a few months before lodging complaints if they want to exhibit the largest possible gaps between falls in prices in the exporters' and domestic markets (such gaps determine the amount of antidumping duties).[3] Hence, antidumping activity could be expected to increase late in 2009 or in 2010, depending of the depth and duration of the world crisis. Until then, rumors about rising antidumping activity will be mostly a war of nerves—protectionist forces trying to impress the other side (but, complainants could hasten the lodging of complaints if they fear a jam in the domestic antidumping procedures).

[3] The injury test, always very weak, will be even weaker in coming years if growth remains low.

That said, many of these new antidumping cases may simply be designed to "rejuvenate" old ones, adding little to the messy spaghetti bowl of costly anti-competitive distortions that the current antidumping measures have already generated. The truly worrisome sign to watch out for is a possible widening of the scope of products involved in new antidumping complaints, an indication that distortions might be spreading to new markets.

What to do now?

Watching is not enough. There is a need for new initiatives. A pledge to conclude the Doha Round by the September 2009 G20 Summit would look like wishful thinking as long as the US Congress has no appetite for such an endeavor. What else could thus be done?

First, it is time to begin to dismantle the support granted to the car sector. As the US and the ECMS represent 85 percent of the global US$ 50 billions support, such an initiative could rely on a Transatlantic taskforce (to be extended, if possible, to countries, such as Japan or China). First, this taskforce could assess the extent to which these subsidies are counteracting and/or amplifying each other. This requires an estimate of the "subsidy-equivalent" of the car packages, a difficult task because most of them are loans with "preferential" interest rates, not straight subsidies.[4] Second, the taskforce could facilitate the progressive elimination of the huge excess capacity in world car production. This new approach would shift the efforts to protecting workers—not jobs or firms (for instance, see OECD 2005).

All this looks terribly similar to the 1970s or 1980s. But, today's environment is quite different. Public opinion is realizing that nothing is more "tradable" than a subsidy in a globalized economy. Granting a one euro subsidy to a firm allows the firm to save the one euro it already owns and to invest it where it wants, while spending the subsidized euro in accordance to the political wishes of the moment.[5] Despite their best endeavors, no government can stop tradable subsidies without imposing large costs on the domestic economy. Emerging new alliances in the car sector will inevitably increase concerns about "tradable" subsidies, and about attrition in competition, with its costs to consumers *and* workers alike.

[4] In fact, these interest rates can be substantial (8 percent for the French loan to the French carmakers).

[5] For instance, out of the first US$ 49.5 billions granted to the U.S. insurer AIG by December 2008, 24.3 billions (49 percent) ended up at six European banks (Société Générale, Deutsche Bank, UBS, Calyon, Barclays and Rabobank) (International Herald Tribune, March 18, 2009).

Another key difference with the 1970s-1980s is that today, firms see public support as a threat to their reputation. It is remarkable that some firms declined quickly public support—such as Deutsche Bank, Crédit Suisse, Ford or Volvo (in France). Since then, the news have shown firms trying to escape from the packages, and developing a strategy to brand themselves as more robust and independent than their competitors. These efforts reveal the difficulty in designing a broad, sensible subsidy policy in a globalized economy.[6]

A second—much more ambitious—initiative would be to launch serious negotiations on services liberalization, as suggested in detail in another paper [Messerlin and van der Marel 2009]. The paper examines the option of Transatlantic negotiations in services. Beyond its immediate gains and feasibility, this option has an attractive feature: it generates dynamic forces that induce the US and the EC to extend their talks to about a dozen countries—reaching a threshold of more than 80 percent of output in almost all service industries. As a result, such a Transatlantic initiative on services holds out the prospect of considerable gains and opportunities for consumers and producers on both sides of the Atlantic at a time of considerable economic challenges. "Leading with Services" is also a winning strategy for concluding the Doha Round, given the magnitude of economic gains which could be unleashed. Services could effectively be put in the driving seat of the WTO negotiations, where they belong, and not held hostage to agriculture and manufacturing, a major reason for the defensive tactics that have plagued the talks for years.

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[6] For instance, while returning $10 billions in U.S. government money (under the TARP package) Goldman and Sachs will retain access to FDIC support which is cheaper from an economic, political and reputational point of view (International Herald Tribune, April 16, 2009).