The fateful allure of protectionism: Taking stock for the G8

Edited by: Simon J. Evenett, Bernard M. Hoekman
and Olivier Cattaneo

THE WORLD BANK

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The front cover of this book features images of Reed Smoot and Willis Hawley, and the Jarrow Marchers. The Smoot-Hawley Tariff Act (1930) raised US tariffs on over 20,000 imported goods to record levels, prompting a retaliation in kind from many countries, and is widely thought to have been a contributing factor to the severity of the Great Depression. The Jarrow March (or Jarrow Crusade) was an October 1936 protest march against unemployment and extreme poverty suffered in the north-east of England. The 200 marchers travelled from the town of Jarrow to the Palace of Westminster in London, accompanied by their MP, Ellen Wilkinson, to lobby parliament.

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WTO member countries turn to import-restricting 'trade remedy' instruments during both good and bad macroeconomic times. Nevertheless, the historical economic evidence finds a strong link between economic downturns associated with recessions and exchange rate shocks and an increase in use of policies such as antidumping and safeguards. The sudden onset and global nature of the current economic crisis has created concern that countries may dramatically increase their use of such trade remedy instruments beyond the 'normal' underlying current of protectionism associated with the ongoing process of adjustment due to the forces of globalization.

Newly available data tracking the global use of these trade remedy instruments from the *Global Antidumping Database* does indicate a marked increase in WTO members' combined resort to these instruments beginning in 2008 that continued into the first quarter 2009 during the spread of the global economic crisis. As Figure 1 illustrates, the product-level use of trade remedies was 34.0 percent higher in 2008 relative to 2007, and the first quarter 2009 use was 22.3 per cent higher than the same period in 2008. The imposition of new definitive measures in 2009 is projected to be 18.5 per cent higher than the amount imposed in 2008.

A number of countries have resorted to these instruments, including almost all of the Group of Twenty (G-20) that are members of the WTO. These countries have few alternatives for invoking new forms of potentially WTO-consistent import protection as many are constrained both by the rules of the international system and because their pre-crisis applied tariff rates may have been somewhat close to their tariff bindings legally submitted to the WTO. The use of these import-restricting instruments is increasingly affecting 'South-South' trade, i.e., developing country importers initiating and imposing new protectionist measures primarily affecting developing country exporters. The majority of the product-level actions to limit import competition intensively target exports from China.

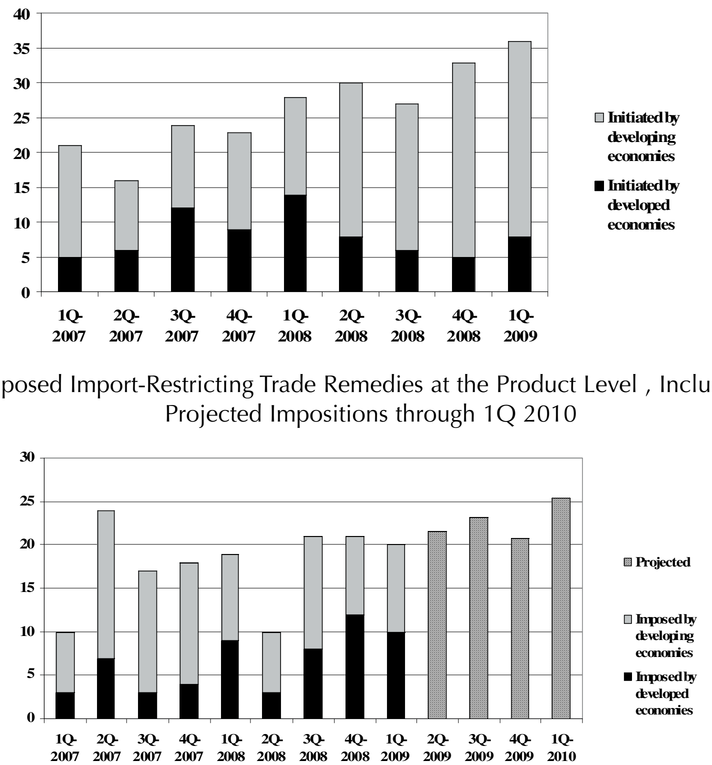
Despite the increasing use of these instruments the amount of imports targeted by these measures thus far is relatively small. Collectively, the value of imports in 2007 for these major G-20 economies that has subsequently come under attack by the use of import-restricting trade remedies during the period of 2008 to early 2009 is likely to be less than $29 billion, or less than 0.45 per cent of these economies' total imports. With the exception of the concern raised by India's use (1.8 percent of its total 2007 imports) in particular, country-by-country estimates indicate that the new protectionism thus far covers only 0.2 to 0.8 per cent of these economies' total pre-crisis (2007) level of imports.

While the level of trade affected thus far may be small for most of these economies,

Figure 1 Combined Use of Import-Restricting Trade Remedies, 1Q 2007 - 1Q 2009

a. New Import-Restricting Trade Remedy Investigations at the Product Level

b. Newly Imposed Import-Restricting Trade Remedies at the Product Level , Including Projected Impositions through 1Q 2010



Source: Compiled by the author from the *Global Antidumping Database*. These are non-redundant AD, CVD, SG, CSG at the product level The Figure 1b projections for 2Q 2009 through 1Q 2010 are based on the 2007 year rate of 79 per cent of initiations subsequently resulting in definitive measures, the 2007 average of a 4 quarter lag between initiation and imposition of final measure, and the rate of initiations between 2Q 2008 and 1Q 2009 documented in Figure 1a.

a first assessment of some of the case-level data identifies many possible ways in which the crisis use of these import-restricting trade remedies may have economically important welfare-distorting effects. These potential losses go beyond the first order concern of the size of lost imports associated with targeted products and the losses to domestic consumers and using industries that suffer due to reduced access to imported varieties and higher prices. An established body of economic research identifies a number of unintended and adverse consequences associated with national resort to these trade remedies. A more detailed investigation of individual cases suggests a number of examples in which firms may be using such remedies during the crisis period to generate anti-competitive effects that end up imposing an additional burden on consumers and using industries. This may especially be the case in concentrated sectors such as chemicals and in steel in which recent M&A activity and legacy of foreign direct investment creates an environment in which multinational firms and their subsidiaries have access to trade remedies *in multiple jurisdictions* and the possibility of abusing them to segment markets.

An examination of the products being targeted by trade remedy use across countries during the crisis also suggests that current protectionism, while limited, could quickly lead to *escalating protectionism* through at least three possible channels. The first of these is simple tit-for-tat retaliation in which one country responds to another country's use of a trade remedy on its exporters with imposition of a retaliatory trade remedy. The second occurs after one country imposes a trade remedy on a product, and a second, third, fourth (etc.) country follow up by using their own import restrictions to target the same product due to the fear of a 'trade deflection' surge of exports of the product into their own markets. Third, a newly imposed upstream trade barrier on imported inputs raises the cost to downstream users, creating competitiveness concerns that can generate additional downstream industry demands for cascading protectionism. There is some evidence of all three channels in the data.

The possibility that the major G-20 economies are currently invoking trade remedies that may *increase* the probability of a spiraling, 1930s-style resort to Great Depression protectionism is therefore still a primary concern during the global crisis. The foremost lesson for policymakers stemming from data on the crisis use of trade remedies and from decades of economic research into the effects of these policies is to *hold the line*. To the greatest extent possible, policymakers should refuse new requests to implement demands for new import protection.

However, if it is not possible to dismiss all the requests for new import barriers, policymakers should shepherd protectionist pressure into the policy instruments that end up imposing new trade barriers in the *least-distorting* means possible. From this second-best perspective, economists typically recommend the use of global safeguards and not antidumping for both short-run (less trade diversion) and long-run (removal of the policy more quickly and with more certainty) reasons that will also impact how quickly economies are able to grow and successfully emerge from the crisis.

About the author

Chad Bown is Associate Professor in the Department of Economics and International Business School at Brandeis University and a Non-Resident Fellow in the Global Economy and Development (GED) Program at the Brookings Institution. Bown is a term member of the Council on Foreign Relations and serves as the Book Review Editor for the *World Trade Review*. He manages a trade policy transparency initiative for the World Bank via organization and dissemination of the Global Antidumping Database, and he is also currently an Adviser to the American Law Institute (ALI) project on the Principles of the Law of World Trade. In addition to his research on WTO dispute settlement, his recent work also examines the international use of antidumping and safeguard trade policies, the integration of China, India, and other developing countries into the global trading system. For 2004-5, Bown was the Okun-Model Visiting Fellow in Economic Studies at Brookings, and for 2007-8 he was the visiting scholar in the Economic Research and Statistics Division in the WTO Secretariat in Geneva. He has also been a visiting scholar at the World Bank in Washington, the Center for European Integration Studies (ZEI) in Bonn, Germany and the Swedish National Board of Trade in Stockholm.