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GLOBAL TRADE ALERT RELEASES THIRD REPORT ON PROTECTIONISM

The Unrelenting Pressure of Protectionism: The 3rd GTA Report
Edited by Simon J. Evenett

WHAT'S NEW IN THIS GTA REPORT? MORE THAN AN UPDATE ON PROTECTIONISM.

The third report of the Global Trade Alert contains:

1. The latest assessment of protectionist dynamics at work in the world economy, with a focus on the second half of 2009 to see whether the welcome news of economic recoveries in many countries has feed through into less protectionist pressure (summarised below).
2. A focus on the Asia-Pacific region: a separate assessment of who is imposing what forms of protectionism in that region and which nations are getting hurt by crisis-era protectionism (see chapter 2 of the report by Mia Mikic). The last section of the Report gives a country-by-country breakdown of the harm done to each Asia-Pacific nation by beggar-thy-neighbour policies and each government's resort to protectionism since November 2008.
3. An analysis showing the differential impact of crisis-era beggar-thy-neighbour policies on the exports of the leading sectors of the Japanese economy (summarised below.)
4. A comparison between the products and trading partners targeted by antidumping investigations before and during the crisis (summarised below).
5. Accounts of the impact of the crisis on the trade policy priorities of China, India, and Russia (summarised below).

Each chapter is succinct and the report has been made available to you. Contact information is given at the end of this Press Summary.

MAIN FINDINGS OF THE THIRD GTA REPORT

Many economies may have turned the corner in the second half of the year, but protectionist pressures have not relented. If anything, recent evidence suggests that the protectionist dynamics were worst in the first three quarters of 2009 than the Global Trade Alert reported in September 2009. For sure, protectionism hasn't yet reached the scale of the 1930s--but water doesn't have to boil to scald.

Since its last report was published, just before the Pittsburgh G20 summit, the Global Trade Alert team has filed 183 new reports on government measures that--when announced--looked like they could affect international commerce. The Global Trade Alert is the **only** trade monitoring initiative that identifies the trading partners affected by crisis-related state measures--so, taken together, its 611 reports provide decision-makers and commentators with a comprehensive overview of the scope and harm done by crisis-era protectionism.

Concerning governments' resort to protectionism, the main findings are¹:

1. Since the first G20 crisis-related summit in November 2008, the governments of world have together implemented **297 beggar-thy-neighbour policy measures**; that is, more than one

¹ For further details see Evenett's Global Overview in the next section of this Report.

for every working day of the year. Add another 56 implemented measures that are likely to have harmed some foreign commercial interests, the total reaches **353**.

2. 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**.
3. When examining quarter-by-quarter changes in protectionism, experience has taught us that many beggar-thy-neighbour acts only come to light with delay. 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. In the GTA's second report it was estimated that in the first half of this year approximately 70 measures that likely harmed foreign commercial interests were imposed by governments. **This estimate is now revised upwards by 20-25 percent; conservatively estimated, governments imposed 85 protectionist measures per quarter during the first half of 2009.**
4. In the light of this finding, the reported number (78) of discriminatory measures implemented in the third quarter of 2009 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.
5. 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 only refers to measures announced or implemented in October and November 2009, two out of the three months of the quarter. Moreover, prior experience suggests that information about many recent protectionist measures taken by governments is not yet in the public domain. For these reasons, **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:

1. 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. This protectionist overhang could limit the contribution of exports to economic recovery.**
2. Since the last G20 Report was published in September 2009, every one of the top 10 most targeted countries has been hit **a minimum of 20 more beggar-thy-neighbour state measures**. 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 as economic recovery takes hold.**
3. On the 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 **European Union** would always appear in the list of top 10 worst offenders.
4. Since the last GTA report was published, **bailouts and trade defence measures account for the overwhelming majority of new discriminatory state measures**. Recently, the action is in these two policy instruments, with tariff increases running a distant third.
5. 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 is.
6. Looking ahead, the **basic metals and basic chemical sectors could be affected by over 30 pending measures**. Should these announced--but not yet implemented measures--actually come into force over the next year or so, both sectors will eclipse the **financial sector** as the principal sector most affected by crisis-era protectionism.

Insights into the Japanese export collapse and antidumping targeting.

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 in 2007.) The main findings of these studies are summarised below.

With respect to Japanese sectoral export performance, using monthly export data for 12 Japanese export sectors from November 2008 until September 2009, 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 foreign discrimination faced by a Japanese sector is estimated to have reduced exports by approximately six percent.**
- Japanese protection in favour of local firms **reduced** that sector's exports; suggesting that resources have been reallocated by Japanese firms towards supplying the relatively 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 largesse. 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..."
- Shingal's study highlights the perils of assuming that subsidies and bailouts have the same impact as tariffs; hence, **estimates of the impact of recent tariff increases provide a misleading picture of the overall impact of crisis 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:

- Although the average number of countries targeted in each antidumping investigations has not changed², 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 safeguards³--has not happened. In terms of the share of imports targeted, Crisis-era antidumping actions has been more selective than their pre-crisis predecessors.**

² With a mean close to two in both the 2009 and 2007 sample of antidumping filings.

³ It being recognised that the legal standard to be met in the injury test in an antidumping action is lower than that for a safeguard action.

- 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 their market shares 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 anti-dumping 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 in the first place.**
- 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 imports where the applied tariff rates have fallen by **more** than the average in the five years before the crisis. Three-quarters of crisis-related antidumping investigations are into products where tariffs have fallen less than the respective national average; before the crisis only half of the investigated products had previously benefited from below average tariff cutting. **Compared to earlier years, crisis-era antidumping is less likely to target--and reverse--previous tariff cutting.**

Has the crisis changed the trade policy priorities of the large emerging Asian nations?

This GTA report includes three analyses of the effect of the crisis on the trade policy priorities of China, India, and Russia. The most dramatic changes in commercial policy have taken place in Russia--**moving away from multilateral engagement towards import-substitution policies and a customs union with certain neighbours.** Our Russian analyst documents these changes and argues that many of them were **predictable.** In contrast, according to our analyst of the Indian situation, the crisis has worsened the prospects for regional integration in South Asia, leaving the WTO and its troubled Doha Round talks the principal vehicle available to Indian trade policymakers.

Another of our analysts argues that, while Chinese trade policy has achieved three of its major objectives in the past year, the substantial targeting by foreign governments of Chinese commercial interests means that **current Chinese policy has failed to deter foreign beggar-thy-neighbour actions.** To date, it was argued, most Chinese discrimination observed the MFN rule and a **more targeted approach** is needed if protectionism by other governments is to be deterred. At a time of rising concerns about currency manipulation, carbon border tax adjustments and the like, a greater perception of the threat of Chinese retaliation will raise the profile of commercial policymaking elsewhere, focusing the minds of senior decision-makers in the months and years ahead.

Contact persons and details.

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