# TAME PROTECTIONISM AND REVITALIZE TRADE

*Paul Blustein*

## Framing the Issue

The global trading system is at risk of following the global financial system into crisis. Governments around the world have responded to pleas from beleaguered industries and workers by enacting a variety of protectionist and quasi-protectionist measures. Although the effect of these steps on trade flows has been minimal compared with the much more damaging plunge in global demand, it is easy to imagine how the trend could spiral out of control, conceivably leading to an outright trade war. So the G-20 leaders, weary as they may be after dealing with all the other weighty issues on their agenda, will have to take up trade as well.

## Policy Considerations

It is tempting to say, as many commentators have, that the G-20 should vow to shun all new acts of protectionism, including any raising of tariffs or more subtle forms of import barriers such as "buy local" provisions in government stimulus programs. Unfortunately, such blanket pledges are likely to be no more credible than abstinence campaigns among teenagers. The G-20 must be ambitious on trade, but it must also be practical. Minimizing long-term damage to the trading system should be the leaders' overarching goal.

The G-20's attempt to take a stand on trade at its first summit last November was loaded with high-mindedness—and, as it turned out, hot air. The leaders said they would "strive to reach agreement" in 2008 on the central elements of the Doha Round of trade negotiations, which have dragged on for seven years. They also promised to "refrain from raising new barriers to investment or to trade in goods and services" for at least 12 months.

Alas, violations of both the spirit and letter of the declaration materialized within days of its promulgation.

An effort to convene a meeting of trade ministers to advance the Doha talks failed for lack of adequate convergence of key issues. Meanwhile, Russia raised duties on cars, pork and poultry. India raised tariffs on certain steel and soy products, and banned imports of Chinese toys. Indonesia imposed onerous customs requirements on a number of imported goods that compete with Indonesian manufacturers.

More worrisome, in some respects, are other actions that have protectionist implications even though they aren't the classic sort that involve restrictions on imports. Prominent among these is the

"Buy American" provision in the economic stimulus package passed by Congress last month. Although watered down to ensure compliance with various international trade obligations, the law would still allow new infrastructure spending to discriminate against, say, steel from China or India. Furthermore, numerous governments—with Washington in the lead—have started bailing out their national auto industries, which clearly helps domestic firms at the expense of foreign ones. Banks receiving public funding are being directed to concentrate their loans at home rather than abroad.

As worries mount that a self-reinforcing cycle of economic nationalism could ensue, proposals abound for the G-20 to approve not only a "standstill" on all tariff hikes but a ban on buy-local preferences and subsidies that favor national producers. Also widespread are exhortations for the G-20 to take a "just do it" stance on the Doha Round.

Desirable though it would be to see such an enlightened approach both endorsed and implemented, the G-20 needs to guard against another blow to its credibility if it is to be effective in steering the global economy. Let's face some lamentable facts: Auto industries are going to be bailed out, and in a discriminatory fashion. (Congress simply isn't going to give federal loans to Toyota or BMW, even though those companies have large plants in the United States.) Anti-dumping cases are going to soar, as are "safeguard" measures (the temporary raising of duties on a good to counter a flood of imports). More righteous verbiage from heads of state will do nothing to close wide gaps among trade ministers in the Doha Round.

## Action Items for Global Coordination

So the principles guiding the G-20 should be these: Make sure that the rules-based trading system survives. Don't try now to open markets more than they already are; rather, focus on keeping protectionism, and quasi-protectionism, from becoming long-lasting features of the international economy, so that globalized trade can help the world recover and prosper anew. To the extent that anti-market policies are adopted, aim to keep them temporary and limited in scope.

In concrete terms, this means first of all shoring up the World Trade Organization. The WTO is the ultimate guardian of open markets for goods and services; it keeps a lid on the import barriers of its 153 member countries, and adjudicates trade disputes that might otherwise flare into trade wars. Its centrality to the system is in doubt, both because of the Doha Round's travails and the proliferation of bilateral and regional trade agreements. One way the G-20 could give a shot in the arm to the WTO would be to declare a moratorium on new bilateral and regional pacts.

Even better would be rescuing the Doha Round. The difficulties of bridging differences among WTO members should not be underestimated. Still, the G-20 has to address the round, and there may be a way out of the negotiating morass.

The big problem with the round is that the tentative deal on the table is scorned—with some justification—for failing to accomplish much. It falls far short of the round's original goal to boost development in poor countries; it wouldn't significantly reduce current trade barriers; and it doesn't deal with major new trade problems relating to the food crisis, climate change, currency manipulation and other issues. Where it would provide value, though, is in gradually lowering many countries' "bound" tariffs—the legal ceilings that WTO members can impose without triggering sanctions. In this sense the round would contribute substantially toward insuring against protectionism in years ahead.

Probably the best way for the G-20 to impart new vitality to the Doha Round, therefore, would be to propose recasting it as an emergency anti-protectionism round rather than a development round. This would mean, first of all, narrowing the prospective deal down to the package of measures concerning farm subsidies, agricultural tariffs and manufacturing tariffs that was under consideration last year. Tough as it would be to get agreement on something like that package, it shouldn't be impossible once business interest and policymakers focus on the importance of preserving open markets. The other parts of the round—talks on anti-dumping rules, services, duty-free treatment for poor country exports, etc.—could be saved for the next round, together with climate and other new issues, and negotiating on that round could start as soon as slimmed-down Doha was completed.

Even more is needed from the G-20 than steps to strengthen the WTO, because for the most part, the quasi-protectionist measures that countries are adopting are legal under WTO rules.

Subsidies to struggling industries are an especially thorny problem, because there's a huge danger that countries will descend into a "subsidies war," which could inflict long-term costs and inefficiencies on the global economy, and would be grossly unfair to countries that can't afford to prop up their manufacturers.

Here, the G-20 needs to borrow a leaf from Catholic theology and draw a distinction between "mortal" and "venial" sin—promising never to commit the former, while treating the latter as forgivable. To qualify for venial sin treatment, subsidies should meet a series of tests. The two most important are that 1) the industry being subsidized is systemically critical to the national economy, and 2) the subsidy being provided is clearly temporary, and will be withdrawn by a specified time period (say, two years).

Here's hoping the G-20 shows that they mean business about countering protectionism—and that their next statement holds up a lot better than their first.