CONFRONTING THE PROTECTIONISM SPAWNED BY THE CRISIS

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FRAMING THE ISSUE

The financial crisis led to a global economic recession that, in many nations, inevitably spawned industry demands for protectionism in the form of new import barriers. To prevent a full-scale proliferation of new trade restrictions, the G-20 economies must re-affirm their commitment to the World Trade Organization system in two ways: by better adhering to WTO rules on when and how to impose new restrictions, and by exercising a leadership that declines to impose such restrictions whenever possible, even in the face of difficult domestic politics.

POLICY CONSIDERATIONS

Historians will one day examine the current global economic crisis in retrospect and confront the efficacy of the WTO system and the G-20 leadership with a series of questions. First, how well did the WTO architecture limit the initial incidence of protectionism? Second, did WTO firewalls prevent somewhat inevitable initial acts of protectionism from spreading? Third, how quickly did the system allow leaders to subsequently dismantle the new protectionism once the crisis had subsided?

The data indicates that major developed and emerging economies have increased their use of trade-restricting policies such as antidumping, safeguards and countervailing measures since the onset of the crisis. For the 25 countries covered by the World Bank-sponsored *Global Antidumping Database*, new requests for administered protection rose 34 percent in 2008 relative to 2007 levels, and the first half of 2009 saw an additional 18.5 percent increase relative to the same time period in 2008. Because many of these newly initiated investigations take over one year to complete, the imposition of new trade barriers is likely to continue to trend upward into 2010 and perhaps beyond, despite any imminent improvement in the global macroeconomic environment.

That countries are resorting to *this kind* of protectionism overall during the crisis is both good and bad. One upside to a permissive system that allows individual industries access to import-restricting trade remedies is that it may help to limit protectionism at the national level. While use of trade remedies leads to individual acts of small scale protectionism—higher tariffs for certain products and/or against certain trading partners—this may be better in some instances than an alternative of larger scale protectionism that results in the imposition of massive tariffs or new quantitative restrictions across entire industries or national economies. This is the kind of protectionism that took place in the Great Depression era of the 1930s, which had a more destructive effect on trade.

While there is some upside to this kind of protectionism, it is also important to understand that most of the decision-making of whether and how a country imposes new trade barriers under this type of system has become bureaucratized. The rules require that the bureaucracies making the decisions on protectionism only impose new trade barriers if there is evidence of injury to the domestic industry, and if this injury is *caused by* dumped, subsidized, or surging imports. How strictly these bureaucracies follow WTO rules and guidelines can vary substantially across countries due to quality and oversight. The implication is that the bureaucracies themselves are also a contributor to the scope and scale of new protection that gets implemented.

The use of trade remedies has seen a measured increase during the recession, and we are a long ways of being "out of the woods" on the concerns over protectionism spawned by the crisis. Nevertheless, it is useful to both take stock of what problems have arisen thus far and to consider the implications of this for the future.

First, whether examining the data in either levels or in shares, it is clear that a tremendous amount of new protectionist activity is being directed against China's exports in particular. Globally, industry demands for new import restrictions against China under country-specific trade remedies such as antidumping and China-specific safeguards were up 23 percent in 2008, and they are on pace to be another 10 percent higher in 2009. Since January 2008, over 75 percent of the WTO membership's total industry requests for new import restrictions under these policies have specifically targeted products from China. Whether the policy-imposing nations are from developed (U.S., EU), emerging (India, Brazil) or developing (South Africa, Turkey, Argentina) economies, China's exports are a major target for new trade barriers.

Second, India is the one major economy that does stand out for its use of trade remedies during the crisis. Beginning in 2008, India's industry demands for new trade barriers against imports make up roughly 25 percent of the total use of trade remedies by the 25 countries covered by the *Global Antidumping Database*. Not only is India's use sizable relative to its use in other economies, these new trade barriers have the potential to affect a major share of India's trade. Up to 2 per cent of the value of India's 2007 imports were in product categories that would subsequently be subject to antidumping or safeguard investigations for new trade barriers in 2008-2009, more than double the amount of any other policy-imposing country.

These first two points combine to highlight what may be the ultimate legacy of the crisis-spawned protectionism—that developing countries are imposing new trade barriers against exports from other developing countries. Because most of these new barriers affect "South-South" trade, a risk is that these newly-created trade barriers may slow developing economy recovery efforts. Many developing countries rely on potential exporting sectors that, if not shut out of these foreign markets, may otherwise be well-positioned to contribute to their economies' overall growth and recovery strategy. Furthermore, many countries rely on imports of inputs and other intermediate products to allow their domestic firms to grow and compete in the global economy. A final concern is that an increase in South-South trade barriers spills over to introduce new frictions complicating the political relations between economies that may have otherwise been showing signs of coordination on key multilateral issues such as the Doha Round of trade talks or even climate change negotiations.

Because the imposition of new trade barriers during times of economic recession is somewhat inevitable, a final question is how well-positioned is the WTO system to encourage leaders to dismantle the crisis-spawned protectionism resulting from new antidumping and safeguard measures? While purely speculative at this point, in large part the answer to this question will depend on how WTO members ultimately choose to respect the negotiated WTO rules on sunset provisions as well as the evolving WTO dispute settlement system's case law and jurisprudence.

The historical record of country behavior on how and whether they remove safeguards versus antidumping is quite different. With respect to safeguards, the rule is that the trade barriers are typically allowed to remain in place for three or four years before they must be removed. Furthermore, each year following the imposition of the initial barrier should result in a "relaxation" of the trade barrier—either a reduction in the size of the new tariff or an expansion in the size of the imposed quantitative limit on imports. The historical record on safeguards is relatively good, as most implementing countries have followed the rules and removed them when so required, also when such barriers were found under formal dispute settlement to have been WTO-inconsistent. For antidumping on the other hand, the historical record is not as charitable. While the rules indicate that new trade barriers are supposed to be removed after five years, in many instances in many countries, the barriers are not removed. One of the key elements to the speed of the global economic recovery may be whether this pattern is broken at the conclusion of the current crisis.

ACTION ITEMS FOR THE G-20 SUMMIT

The rules-based WTO is a critical component to the international economic system. The ultimate historical record on how the global economy responded to the inevitable demands for protectionism in the midst of the current economic crisis will largely be judged by G-20 actions from this point forward. First, did these economies really follow the rules? While many industries were injured during the recession, did the G-20 reign in the actions of their trade remedy bureaucracies by limiting the imposition of new trade barriers to instances in which the *cause of* the injury was dumped, subsidized, or surging imports, as the WTO rules require? Second, in instances in which G-20 leaders could exercise political leadership by declining to impose new trade barriers—did they?