Trade Protectionism: An Increasing Threat to Global Economic Recovery

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Abstract Unlike the Great Depression of the 1930s, the Great Recession of 2008-09 did not trigger a massive wave of protectionism as expected. Nevertheless, numerous countries have adjusted their trade policies during the financial crisis to mitigate its negative effects. Despite the widely shared view that crisis-related protectionism has been limited and kept under control by the WTO’s multilateral rules, available data provide clear evidence on the quite notable increase in the number and incidence of the newly introduced trade restrictive measures. Starting from a brief overview of the current situation in the global economy, the paper highlights the main trends in the recent evolution of trade protectionism. It takes stock of the trade restrictive measures as evidenced by the monitoring exercises carried out globally, with a view to outline the peculiarities of contemporary protectionism and address, finally, its outlook and potential implications.

1. Protracted difficulties in the world economy: a fertile ground for escalating trade protectionism

According to economists affiliated with the prestigious World Economic Forum, two broad, contradictory trends are at work in the global economy. First, economic globalization through transnational corporations’ (TNCs) production networks continues apace. This promotes global economic convergence and integration. However, the second trend pertaining to economic crisis policy responses is one of divergence. Associated with this is the ever-present threat of a destructive spiral of protectionism and consequent disintegration (Draper, Dadush, Hufbauer et al., 2012, p. 4).

Indeed, economic globalization continues at a steady pace, being driven by the dynamic expansion of global production networks operated by TNCs and the associated increasing integration of developing countries into the world economy. Actually, an overwhelming part of what is produced in the world today relates to these networks, and on trade conducted through these networks depend whole segments of national industries around the globe. For this reason, the economists mentioned above view the global value chains operated by TNCs as the “world economy’s backbone and central nervous system”.

On the other hand, the world economy is witnessing a trend towards divergence, which is related, indeed, to the policy reactions of the countries worldwide to the global financial and economic crisis. The Great Recession of 2008-09 has severely affected the global economy and left deep scars on the dynamics of international trade. Trade flows rebounded relatively quickly in 2010 following the historic collapse in 2009, however the recovery remained unfinished and uneven regionally, and the trend towards market opening came to a halt, at least temporarily.

As a result of weak economic activity, particularly in developed countries, global GDP growth decelerated from 3.8% in 2010 to 2.4% in 2011, and to 2.1% in 2012, according to the World Trade Organization’s latest estimates (WTO, 2013). Consequently, global trade growth recorded a sharp slowdown over the last two years, i.e. to 5.2% in 2011 and again to 2.0% in 2012, following its vigorous recovery in 2010 (13.9%). Against the background of a subdued global growth trajectory, all forecasts suggest a sub-par expansion of world trade in the coming years. The WTO’s projected trade growth of 3.3% in 2013 and 5.0% in 2014 is well below the precrisis trend of 6.0% (1990-2008) (WTO, 2013). Furthermore, global FDI flows – the main driving force behind steady trade expansion over the recent decades – declined by 18% to USD 1.3 trillion in 2012, a level close to the trough reached in 2009, according to preliminary estimates by UNCTAD (2013).

What is more, the sharp deterioration of the global economic setting, particularly since the second half of...
2011 alongside decelerating trade growth provide a fertile ground for protectionist pressures to gain strength. The difficulties confronting the world economy, including macroeconomic imbalances, persistent debt crises in some major economies, and high unemployment, are fuelling trade frictions among countries. Hence, the threat of escalating trade protectionism with all its consequences of disintegration is looming large.

The international community has repeatedly given voice to its deep concern about intensifying protectionist pressures in the context of sluggish global economic recovery and high unemployment. It is quite obvious, that such developments would be extremely dangerous, entailing the risk of undermining the benefits of open trade and the very fundamentals of global economic growth based on expansion of trade flows.

That fears about growing protectionism are entirely sustained, is confirmed by the warning signals of trade policy monitoring reports, according to which new trade restrictions introduced in 2012 continue to be on an upward trend due to deteriorating global economic climate. The Declaration adopted at the last G-20 summit in Los Cabos, Mexico, in June 2012, is a clear reflection of the growing concern about rising instances of protectionism around the world. It also mirrors the reaffirmation of G-20 leaders' standstill commitment until the end of 2014 with regard to measures affecting trade and investment, and their pledge to roll back any new protectionist measure.

Currently, two major monitoring exercises are carried out globally. First, at the request of G-20 leaders, the WTO publishes periodically (every six months) reports on how G-20 countries comply with their commitments assumed at the first crisis-related summit held in November 2008 in Washington, to resist protectionism and promote global trade and investment. Second, Global Trade Alert (GTA) – an independent monitoring body – provides real-time information as well as periodic reports on state measures taken during the current global downturn that are likely to affect foreign commerce.

2. Worrying trends in the evolution of protectionism: facts and figures

At present, the new trade policy measures implemented since the outbreak of the global financial crisis in 2008 are well documented by the monitoring exercises mentioned above, that still continue to provide information on developments in terms of trade policies. Available data show that many countries of the world have actively adjusted their trade policies in response to the difficulties caused by the crisis, resorting to a large variety of trade restrictive measures. The various state actions undertaken with the aim to protect national industries from external shocks have fuelled fears worldwide that the protectionist phenomenon could derail into a dangerous spiral of retaliatory measures with devastating effects, comparable to those associated with the Great Depression of the 1930s. Some analysts have even predicted such a development, but these gloomy forecasts have not come true. The Great Recession of 2008-09 did not trigger a massive wave of protectionism comparable with that of the 1930s, or at least not through the traditional means of increasing tariff protection or trade defense measures (Bown, 2011).

On the contrary, a broad consensus emerged internationally that protectionism has been kept under control during the crisis, being moderate and limited both compared to the magnitude and negative effects of the crisis and the initial fears. There is also a widely shared view that the WTO’s rules and disciplines have largely contributed to stave off exacerbation of economic nationalism and escalation of protectionism during the crisis.

Nevertheless, available data on trade policy changes since 2008 confirm, without any doubt, the steady increase in the number and incidence of the new trade restrictive measures introduced by numerous governments during the crisis and post-crisis years. The last two monitoring reports published by the WTO, that cover the whole year 2012, provide clear evidence of intensified protectionism in the context of worsening global economic climate since the second part of 2011. This is in sharp contrast with the quite reassuring note of the WTO’s earlier reports, according to which protectionism has shown moderation both during the crisis and afterwards, being rather limited to “some slippages”, and governments have in general refrained from resorting to protectionism.

According to the WTO’s latest report, there has been a slowdown in the imposition of new trade restrictive measures by G-20 economies from mid-May to mid-October 2012 (WTO, 2012b). However, the new measures have further increased the amount of restrictions put in place since the outbreak of the crisis. The most frequent new measures continue to include trade remedy actions, in particular the initiation of anti-dumping investigations, followed by more stringent customs procedures. The accumulation of trade restrictions remains a great concern. The new trade restrictions implemented between mid-May and mid-October 2012 add to the stock of restrictive measures accumulated since the start of the crisis. The cumulative trade restrictive measures put in place since October 2008 cover now around 3% of world merchandise trade, and 4% of trade of G-20 economies (WTO, 2012b). But this percentage reflects only the trade coverage of

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restrictive measures, and not their impact on trade. According to estimates, the new protectionist measures reduce global trade by at least 0.2% annually (or by some USD 30 billion to 35 billion) (Henn and McDonald, 2011). On the other hand, trade frictions seem to be increasing due to the pervasive economic difficulties. These are reflected not only through trade remedy and dispute settlement cases under the WTO, but also through decisions affecting foreign investment and participation in infrastructure-related government procurement programmes (WTO, 2012b). Escalating global trade tensions are evidenced by WTO figures, according to which the cases of trade disputes brought before the dispute settlement mechanism of the WTO were nearly three times as many in early October 2012 as in all of 2011.

But even more worrying are those more recent developments that point towards inward-looking policies promoted by some countries, suggesting a revival of protectionist rhetoric. Of special concern are the statements of some G-20 leaders in favour of import substitution policies that are likely to enhance trade tensions regionally and globally. Accordingly, the more recent wave of trade restrictions seems no longer to be aimed at contending the temporary effects of the crisis, but rather at trying to spur economic recovery through industrial policies with long-term effects. In addition to traditional trade restrictions, many of these policies promote the use of tax breaks and government subsidies, the provision of preferential treatment to local firms in public procurement, including local content requirements (WTO, 2012a).

It is important to note, that the WTO’s monitoring exercise is limited to traditional trade policy measures falling within its competence, namely, border measures and trade defense measures. While the WTO takes notice of some of the behind-the-border-measures (e.g. restrictions on government procurement, technical standards, trade-distorting subsidies), it is silent about a whole array of measures (such as bailouts, subsidies, fiscal stimulus packages, etc.), that represented in fact the favourite forms of state intervention during the crisis. The latter are not at all, or only partially covered by current WTO rules.

Unlike the WTO, Global Trade Alert (GTA) tracks all new trade measures that cause prejudice to trading partners, i.e. both traditional trade policy measures and measures related to domestic regulation, such as state aid, subsidies, government procurement practices, etc. Hence, its monitoring exercise includes also protectionist state measures that are not covered by WTO agreements. Accordingly, the scope of GTA’s monitoring reports is much wider, and the results more alarming. The common denominator of all reports released since 2008 is the conclusion that protectionism increased significantly in the crisis years 2008-09, and continued to grow unabated over 2011 and 2012.

The last GTA report, published in June 2012, suggests that the new protectionist measures implemented by different countries between November 2011 and May 2012 continued to expand, increasing the cumulative number of protectionist measures introduced since November 2008 to 1,340 by May 2012. Moreover, the report concludes that the incidence of protectionism in the second half of 2011 was as high as in the first part of 2009, which was the most harmful in terms of restraining trade (Evenett, 2012).

3. Key features of contemporary trade protectionism

But apart from the large number of new protectionist measures accumulated since the start of the crisis in 2008, most alarming are the trends shaping the evolution of trade protectionism. The following snapshot of the key features of current protectionism – based on both WTO and GTA data – is likely to highlight the reasons for concern.

- A salient feature of present-day protectionism is its great diversity, which contrasts sharply with the protectionism of the 1930s dominated by tariff increases.
- The traditional forms of protectionism, that are relatively well covered by WTO rules (such as tariffs and trade defense measures) exceeded just slightly one-third of the worldwide total of discriminatory measures implemented since November 2008. Hence, non-traditional forms of protection dominate crisis-related protectionism.
- Most of the new protectionist measures introduced are rather new forms of protection, that are less common and more subtle. These include a large variety of non-tariff measures (such as standards) and measures related to domestic regulation (such as discriminatory investment measures, export subsidies, bailouts, etc.). Altogether these represent less transparent trade policy instruments, with a slow and insidious evolution, that are known as murky protectionism.
- During the crisis, governments have circumvented the more severe WTO rules, and have resorted to protectionist instruments that are either outside the purview of WTO’s trade rules, or are only partially or inefficiently covered by these rules (e.g. export restrictions, government procurement, subsidies, etc.).
- Numerous protectionist measures have been initiated by major trading powers, affecting a large number of sectors and trading partners. G-20 governments are responsible for the bulk of crisis-
related protectionism, accounting for almost 80% of the world total of protectionist measures introduced since 2008. Hence, the G-20 leaders’ repeatedly assumed commitments to resist protectionism have been continuously infringed.

- Among the countries accounting for a large proportion of protectionist measures implemented since 2008 are certain European advanced countries (EU-27 as an entity and its Member States, including the UK, Germany, France, and Italy) and emerging countries (such as Argentina and the BRICS – Brazil, Russia, India, China). Among the target countries ranks by far China, followed by the EU-27 as a whole and some Member States, such as Germany and France, but also the U.S.

- In addition to the financial sector, the most affected areas include: agricultural products and basic chemicals, metals and transport equipment.

Hence, the myth of “a moderate crisis-related protectionism, that has been hold in check by WTO’s multilateral disciplines” is more and more fading away (Ghibuțiu, 2012). On the contrary, with growing pressure on governments to save jobs and protect domestic industries, protectionist measures continue to increase. In fact, protectionism has always been present, both in the acute phase of the crisis in 2008-09 and in the subsequent years. However, the reason for remaining largely unnoticed is that it tends to take new and more subtle forms, circumventing the current multilateral rules and disciplines (Evenett, 2012).

4. Implications and outlook
Economic history shows that crisis-related protectionism continues to survive a long time following economic recovery. Once established, certain types of restrictive trade measures, particularly trade defense measures (anti-dumping, countervailing duties and safeguard actions), produce consequences in the medium and long term. Hence, the real effects of the new barriers introduced through the changes in trade defense policies during the crisis years will be felt in the coming years. The numerous large-scale government interventions operated in goods and capital markets during the crisis, combined with escalating global trade tensions, will add to the current risks and uncertainties in the global economy, with the potential of holding back global economic growth and expansion of trade in the next decade (Ghibuțiu, 2012).

But even more worrying is that the trend towards market opening came to a halt. Apparently, the major trading powers, particularly the U.S. and EU are not likely to give up their defensive trade policies promoted in recent years, and nor assume leadership in the multilateral liberalisation of markets. Such a trade policy stance further enhances the danger of protectionist pressures. On the contrary, the leading economic powers seem to promote more aggressively than ever their strategic options to conclude preferential trade agreements (PTAs), as illustrated by the recent launch of trade negotiations for free trade agreements between the EU and Japan, and the EU and U.S., respectively. The forthcoming PTAs will undoubtedly add to the already great challenges facing the multilateral trading system due to the exponential growth in the number and incidence of PTAs.

Finally, a major stumbling block in keeping markets open is the deadlock in the current multilateral trade negotiations. The Doha Round launched in 2001 continues to be in impasse, although at the WTO Ministerial conference in December 2011 member states have committed to complete it successfully, and spur negotiations in those areas where consensus-based agreements might be concluded. The package of agreements reached to date is substantial, but incomplete. If concluded, the final deal would provide an economic stimulus to the global economy worth hundreds of billions of dollars annually, thus ensuring trade liberalization over the next decade (Bhagwati and Sutherland, 2011).

More importantly, the final Doha agreement is expected to adjust the multilateral trade rules to the realities of the 21st century. While global trade relations experienced dramatic transformations during the last decade, the multilateral trading system failed to keep pace with the rapidly changing global trading landscape. Hence, the world trade rule-book, that is currently guiding international trade relations as a result of the Uruguay Round (1986-1994), is stuck in the 20th century trade issues. Improving and adjusting multilateral trade rules ranked among the main objectives of the Doha Round. However, due to the stalemate in trade negotiations since 2008, the legislative function of the WTO responsible for devising new rules is also blocked, hindering the process of adjustment.

The deadlock of the Doha Round is therefore very expensive. Beyond the chance that would be lost in case of an unsatisfactory conclusion of the round, a failure would cause serious harm to the credibility of the WTO and further affect multilateralism, that is already severely challenged by the steady proliferation of PTAs. Furthermore, concluding the Doha Round is of vital importance for curbing protectionist pressures and spurring global growth, so badly needed under the present circumstances when the world economy continues to be plagued by the consequences of the financial crisis. And last but not least, the rapid erosion of WTO’s position as the pillar of the multilateral trading system could lead to a situation in which nations would feel entitled to ignore multilateral rules. This would put...
the world trade system back to power politics of the earlier centuries, depriving smaller countries of the ability to negotiate on an equal footing with the big trading powers (Bhagwati and Sutherland, 2011).

References
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