



## Protectionism Amid the Recent Global Financial Turmoil

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### Introduction

**P**rotectionism refers to a government policy which involves the implementation of various trade-related measures to protect/favor domestic industries over foreign commercial interests. Protectionist policies are categorized into three major groups, namely, tariff barriers, non-tariff barriers, and government support/subsidies.<sup>2</sup> Tariff barriers entail either an imposition of higher tariff rates (tax on foreign goods upon entry to a country) or trade remedy actions.<sup>3</sup> Increase in tariff rates contributes to higher import prices, thus, making domestic products more competitive with imports from foreign companies. Meanwhile, trade remedies are policy instruments permissible under the World Trade Organization (WTO) rules, available for member-countries in countering damage/s caused by an imposition of a certain country of unfair trade practices or measures.<sup>4</sup>

Non-tariff barriers, as the term implies, refer to non-tax measures imposed by governments to protect the interests of the domestic industries over foreign competitors. Non-tariff barriers can be grouped into five major categories: (a) quantitative restrictions (e.g., imposition of quotas and licensing requirements); (b) non-tariff charges (e.g., variable levies and advance deposit requirements); (c) government participation in

trade (e.g., state subsidies/aids and government procurement policies); (d) customs procedures (e.g., customs valuation, classification and clearance procedures); and (e) technical barriers to trade (e.g., safety/industrial standards and packaging/labelling regulations).<sup>5</sup>

Despite justification by implementing countries that their imposition of protectionist policies at the onset the recent global financial crisis was intended to be temporary responses to alleviate trade imbalances and economic downturn, the cost of protectionism along with its long-term implications remain the main concern to those who oppose it. It is argued that the cost of protectionist policies tend to be much greater than its expected benefits. Aside from concerns on the appropriate exit strategy for these supposedly temporary measures, a potential risk of facing “negative sum game” arising from imposition of protectionist policies remains.<sup>6</sup>

### Protectionism during the recent Global Financial Crisis

*“In a situation of global recession, there is a risk that beggar-thy-neighbour trade policies are implemented at the same time by all governments. Increased protection in one country may lead to retaliation by other countries. The overall result will be the reduction of global welfare and a worsening of the economic situation.”*

– *Pascal Lamy, WTO Director General*<sup>7</sup>

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<sup>2</sup> Frederick and Gereffi (2009).

<sup>3</sup> In general, tariff measures are intended to either “raise fiscal revenue or to protect domestic industry from foreign competition and are applied when a product crosses the boundary of a customs area” through increased import price by “a fixed percentage or amount, calculated on the basis of the value (Ad valorem tariffs) and the physical quantity (special tariffs).” Source: Baldwin, R. (2009).

<sup>4</sup> Op. cit., p.3.

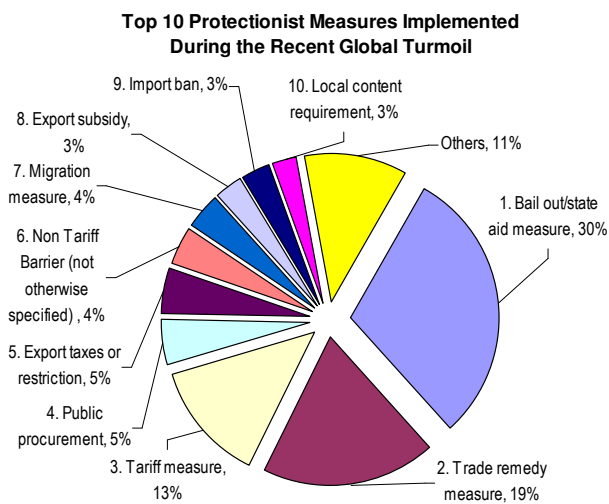
<sup>5</sup> Tschani, Hanspeter and Wiedmer, Laurence. (2001).

<sup>6</sup> Krueger, Anne (2010).

<sup>7</sup> World Trade Organization (2009).

**D**espite criticisms on the implementation of protectionist policies during the recent global financial turmoil, the sixth Global Trade Alert (GTA)<sup>8</sup> report revealed that many economies – both developed and developing countries alike – have implemented protectionist measures in response to a synchronized deterioration of trade accounts worldwide. Although implementing countries argue that these protectionist measures are meant to be imposed only as short-term responses to the deteriorating external accounts, multilateral institutions headed by the WTO disputed that, “a protectionist response to the pain of contraction is a recipe for deepening and prolonging an economic crisis.”

The latest GTA report provides evidence suggesting that the protectionist dynamics worsened further. To date, the GTA team recorded a total of 554 state measures deemed to cause injury to foreign commercial interests. As of June 2010, the ratio between discriminatory measures to benign measures is placed at four to one.



Source: 6<sup>th</sup> Global Trade Alert (GTA) Report. Period coverage of data: November 2008 to June 2010.

<sup>8</sup> The Global Trade Alert (GTA) is an independent academic and policy research think-tank based in London, United Kingdom, coordinated by the Center for Economic Policy Research. The GTA is funded by various governmental and non-governmental organizations. Its main mission is to provide information in real time on state measures taken during the current global economic downturn that are likely to discriminate against foreign commerce, thus, complementing the monitoring initiatives of the World Trade Organization (WTO) and the World Bank.

State provision of bail out/aid measures tops the list of discriminatory measures implemented against foreign commercial interests for the period November 2008 to June 2010. A total of 183 measures (30 percent of the total) have been implemented in this regard. Following closely are trade defense measures (anti-dumping measures, countervailing duties, safeguards) comprising of 112 measures (19 percent of total). The rest of the commonly imposed protectionist measures were as follows: (a) tariff measure; (b) public procurement; (c) export taxes; (d) non-tariff barriers (not otherwise specified); (e) migration measure; (f) export subsidy; (g) import ban; (h) local content requirement; and (i) others (not specified).<sup>9</sup>

Based on the latest GTA data, China tops the list of ten countries which are mostly targeted by protectionist measures implemented by various governments. Following China are the EU27<sup>10</sup>, USA, Germany, France, UK, Italy, Belgium, Japan, and the Netherlands. It may be noted that despite concerns raised on the adverse impact of the imposition of protectionist measures to the speed and pace of global economic recovery, protectionism lingers. Lending support to this observation is the significant increase in the number of discriminatory measures imposed during the first half of 2010 in comparison with that recorded in December 2009. Table I suggests that in a span of six months, the average increase of discriminatory measures imposed on the top ten targeted countries is 45.6 percent.

Complementing the list of the top ten countries frequently targeted by protectionist measures, are the list of the worst offenders, based on the four indicators utilized by the GTA in its assessment (Table II). The four indicators focus on the number of: (1) discriminatory measures implemented; (2) product categories affected by the discriminatory measures; (3) sectors affected by the discriminatory measures; and (4) trading partners affected by the discriminatory measures. The EU27 tops in

<sup>9</sup> Evenett, Simon. (2010).

<sup>10</sup> EU27 herein refers to the sum of the protectionism measures imposed by the 27 national governments of the European Union and the European Commission.

Table I

Top Ten Targets Countries	Number of Discriminatory Measures Imposed on Target		
	As of June 2010	As of December 2009	(Percent Change)
China	282	146	48.23
EU27	266	140	47.37
USA	213	118	44.60
Germany	204	115	43.63
France	188	106	43.62
UK	181	94	48.07
Italy	175	93	46.86
Belgium	170	99	41.76
Japan	168	99	41.07
Netherlands	163	97	40.49

Source: Global Trade Alert (GTA) Reports (Third and Sixth).

three of the four indicators while ranking fourth in terms of the second indicator (number of affected product categories). Asian countries which made it to the top ten worst offenders are China, India, and Indonesia. These three countries are consistently present in the first three indicators.

### Protectionist policies of major trading partners and competing countries of the Philippines during the recent crisis

The Philippines' major trading partners along with other competing countries plus China and the European Union (EU), imposed quite a number of protectionist measures during the global financial crisis. Table III shows the protectionist measures implemented by the major trading partners of the country and its competing countries since the onset of the recent global crisis.<sup>11</sup> Also included in the said table are the protectionist measures of China and the European Union which are also among the top export destinations of Philippine products. The most common types of protectionist measures

<sup>11</sup> Major trading partners of the Philippines: United States (US), Japan, Germany and the United Kingdom (UK). Competing countries: Hong Kong, Indonesia, Korea, Malaysia, Singapore, South Taiwan, and Thailand. Details on the specific examples of respective protectionist measures are available at the GTA website.

implemented by this group of countries are bail out/state aid measures, tariff measures, other non-tariff barriers, export taxes/restriction, and export subsidy.

*Bail out/state aid measures* include US government's subsidy to a tuna canning industry strategic in generating jobs, Indonesia's state aid for footwear manufacturers and state-owned sugar firms, and UK's temporary aid to all companies for the production of green products, among others. *Tariff measures* imposed comprised of increased import tariffs on medicines, cosmetics and energy efficient lights in Indonesia; increased import tariffs on fuel oil and jet fuel from 1 percent to 3 percent and 6 percent, respectively, in China; and increased tariffs in selected Korean products (e.g. sea food, mushrooms, plywood and specialized machinery).

The *other non-tariff barriers* category were the implementation of new procedures for the import of steel and iron products into Indonesia; granting of award by the "Food Action Nippon" citizen movement to businesses and organizations that contribute to improved food self-sufficiency rate in Japan; and the "Blue Complex" project in Thailand. The Blue Complex project of the Thai government enables local manufacturers to sell in the subway station free of rental/space charge, thus, they could price their products at 15 to 50 percent lower than other stores.

*Export tax/restriction measures* implemented include Indonesia's increased export tax of crude palm oil (CPO) to 4.5 percent (in April 2010) from 3 percent a month ago; a 3 percent reduction (from 10 percent to 7 percent) by the Chinese government of the off-season export tax on urea priced at or below specified base prices; and the move of Indonesia, Malaysia, and Thailand rubber producers, the largest exporters of rubber in the world, to limit rubber exports in 2009, so as to increase world prices. *Export subsidy measures* comprised of the Malaysia's expanded financial support to domestic service exporters when doing business overseas through its Services Export Fund (SEF); China's increased export-tax rebates

Table II

Rank	2009 Top Ten Worst Offenders (Based on Four GTA Indicators)			
	Ranked by the Number of Discriminatory Measures Imposed	Ranked by the Number of Product Categories Affected by Discriminatory Measures	Ranked by the Number of Sectors Affected by Discriminatory Measures	Ranked by the Number of Trading Partners Affected by Discriminatory Measures
1	EU27 (147)	Venezuela (748)	EU27 (55)	EU27 (168)
2	Russian Federation (73)	Kazakhstan (719)	Algeria (54)	Argentina (161)
3	Argentina (41)	Nigeria (599)	Nigeria (45)	China (161)
4	India (31)	EU27 (437)	Venezuela (38)	Indonesia (152)
5	Germany (29)	Russian Federation (421)	Kazakhstan (36)	Russian Federation (142)
6	UK (24)	India (347)	Russian Federation (34)	Finland (132)
7	Indonesia (22)	Indonesia (347)	Ethiopia (32)	Germany (132)
8	China (19)	Ethiopia (345)	Indonesia (32)	South Africa (132)
9	Italy (19)	Argentina (336)	India (31)	Belgium (131)
10	Austria (17)	China (335)	Germany (27)	Brazil (131)

Source: Evenett, Simon J., ed. (2010). 6th Global Trade Alert (GTA) Report (2010).

granted to producers of high-technology and high-value added equipment; and EU's export subsidy aimed at stabilizing its dairy market burdened by the falling dairy prices in 2009, among others.

### Conclusion and Policy Implication

In the point of view of governments facing the pressures from their constituents to alleviate the adverse effects of a global economic crisis, implementation of protectionist measures seem to be justifiable, adding that these measures are rather temporary responses. After all, they are expected by their citizens to protect/prioritize their own domestic interests over others by speeding up economic recovery through implementing trade barriers. However, the experience during the great depression during the 1930s provided proof that the net effect of protectionism was more harmful than beneficial.<sup>12</sup> The imposition of protectionist measures by one country may prompt its neighbors or trading partners to retaliate by doing the same. Another complexity involves the appropriate design of exit strategies from these protectionist measures as soon as the economic recovery sets in.

Implementation of protectionist policies, even in the context of a global economic recession, remains inconsistent with the guiding principles of global and regional integration. Protectionism defeats the purpose of decades of efforts by various governments and multilateral institutions to forge trade agreements that would govern the conduct of international trade transactions and lessen disputes amongst trading partners and competitors over discriminatory/defensive trade policies. Nonetheless, addressing protectionism requires cooperation and collective action among all countries rather than individual policy responses. Striking the appropriate balance between individual countries' welfare and global stability along with short-term (as opposed to long-term) perspectives are likewise crucial considerations in addressing the issue on protectionism. Indeed, protectionism remains to be one of the major challenges confronting policymakers of the 21<sup>st</sup> century.

<sup>12</sup> WTO, (2009).

Table III

Implementing Country	Types of Protectionist Measures
United States (US)	<ul style="list-style-type: none"> <li>• <i>Bail out / state aid measure</i></li> <li>• <i>Export subsidy</i></li> <li>• <i>Local content requirement</i></li> <li>• <i>Migration measure</i></li> <li>• <i>Non-tariff barriers (not otherwise specified)</i></li> <li>• <i>Public procurement</i></li> <li>• <i>Quota (including tariff rate quotas)</i></li> <li>• <i>Sanitary and Phytosanitary measure</i></li> <li>• <i>Tariff measure</i></li> <li>• <i>Technical barrier to trade</i></li> </ul>
Japan	<ul style="list-style-type: none"> <li>• <i>Non-tariff barriers (not otherwise specified)</i></li> <li>• <i>Trade defense measure</i></li> </ul>
Germany	<ul style="list-style-type: none"> <li>• <i>Bail out / state aid measure</i></li> </ul>
United Kingdom (UK)	<ul style="list-style-type: none"> <li>• <i>Bail out / state aid measure</i></li> <li>• <i>Migration measure</i></li> </ul>
Hong Kong	<ul style="list-style-type: none"> <li>• <i>None recorded</i></li> </ul>
Indonesia	<ul style="list-style-type: none"> <li>• <i>Bail out/ state aid measure</i></li> <li>• <i>Export taxes/restriction</i></li> <li>• <i>Import ban</i></li> <li>• <i>Import subsidy</i></li> <li>• <i>Non-tariff barrier (not otherwise specified)</i></li> <li>• <i>Sanitary and Phytosanitary measure</i></li> <li>• <i>Tariff measure</i></li> <li>• <i>Technical barrier to trade</i></li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>• <i>Export subsidy</i></li> <li>• <i>Export taxes/restriction</i></li> <li>• <i>Import ban</i></li> <li>• <i>Investment measure</i></li> <li>• <i>Migration measure</i></li> <li>• <i>Non-tariff barrier (not otherwise specified)</i></li> <li>• <i>Tariff measure</i></li> <li>• <i>Trade finance</i></li> </ul>
Singapore	<ul style="list-style-type: none"> <li>• <i>None recorded</i></li> </ul>
South Korea	<ul style="list-style-type: none"> <li>• <i>Migration measure</i></li> <li>• <i>Tariff measure</i></li> </ul>
Taiwan	<ul style="list-style-type: none"> <li>• <i>None recorded</i></li> </ul>
Thailand	<ul style="list-style-type: none"> <li>• <i>Export taxes/restriction</i></li> <li>• <i>Non-tariff barrier (not otherwise specified)</i></li> </ul>
China	<ul style="list-style-type: none"> <li>• <i>Export subsidy</i></li> <li>• <i>Export taxes/restriction</i></li> <li>• <i>Export tax rebates</i></li> <li>• <i>Import subsidy</i></li> <li>• <i>Intellectual property protection</i></li> <li>• <i>Local content requirement</i></li> <li>• <i>Public procurement</i></li> <li>• <i>Quota (including tariff rate quotas)</i></li> <li>• <i>Tariff measure</i></li> </ul>
European Union	<ul style="list-style-type: none"> <li>• <i>Bail out / state aid measure</i></li> <li>• <i>Export subsidy</i></li> <li>• <i>Export taxes/restriction</i></li> <li>• <i>Trade defense measure</i></li> </ul>

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