

Protectionism and the crisis: some good news



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‘Accusing governments of protectionism when they are not acting in a protectionist way may jeopardise the credibility of such criticisms in the long run’

One of the most feared economic consequences of the current global downturn has been the possible resort to protectionism by governments. Since the beginning of the crisis economists have warned repeatedly of the need to avoid beggar-thy-neighbour trade policies of the kind seen during the Great Depression (e.g. Baldwin and Evenett, 2008, Baldwin and Evenett, 2009, Gamberoni and Newfarmer, 2009). A website: <http://www.globaltradealert.org> (GTA) has been launched specifically to track protectionist measures implemented by countries, and the World Trade Organization (WTO) is now producing a report that monitors the actions of G-20 countries on protectionism. There is a good historical reason for this flurry of monitoring and warnings: the escalation of trade tariffs in the 1930s played a large role in the spread and intensity of the Great Depression.

The recent warnings may have helped to keep protectionist temptations at bay. There is an emerging consensus that although a number of countries have put some protectionist measures in place, the outbreak in protectionism feared at the beginning of the crisis has been avoided so far (Evenett, Hoekman and Cattaneo, 2009).

However the anti-protectionist alarm bells have not stopped ringing – not just yet. The latest Global Trade Alert report claims that ‘the protectionist juggernaut has not lost any of its momentum’ (Evenett, 2009). Between November 2008 and mid-September 2009, 192 measures were put in place discriminating against foreign producers. This tendency is particularly worrisome, according to the GTA report. However, we are nowhere near the dramatic protectionism seen during the Great Depression (or even during the oil crisis of the 1970s through non tariff measures), and a closer look at the data paints a different – less pessimistic – picture.

A new look at the evidence

As noted by Rodrik (2009), one obvious problem with the data at hand is that they do not

pre-date the crisis. So we do not know whether those 192 protectionist measures or the 15 countries that implemented discriminatory tariff measures between November 2008 and September 2009 represent an unusually large number. The only readily available data on protectionism that allow a comparison across years suggest that anti-dumping initiations by G-20 countries did not increase in the first seven months of 2009 relative to the same period in 2008 (WTO, 2009). Another factor that softens the protectionist alarm of the GTA report is that a number of countries have also passed liberal measures during this period (classified as green by the GTA), reducing the overall net level of protectionism.

In the absence of data for year-on-year comparison, it is useful to analyse the evolution of the protectionist (and liberalising) measures gathered by the GTA since November 2008. Such analysis suggests that the ‘protectionist juggernaut’ (if it had ever arrived) may have lost momentum, or be on its way out. The introduction of discriminatory measures is falling month by month from the peaks of May 2009, as shown in Figure 1. This downward trend applies even more to countries implementing discriminatory measures. While 21 countries implemented at least one trade protectionist measure in May 2009, this number was down to eight in October. On the other hand, the introduction of liberalising measures has remained fairly stable over the period (barring the peak in June-July 2009).

Part of the reason for this welcome decline in the protectionist trend is that several of the discriminatory measures consisted of one-off state bail-outs of troubled domestic companies, especially in the financial sector. Such measures have dwindled rapidly since the peak in May, alongside a decline in the number of large corporate victims of the crisis and increasing pressure on states’ budgets. Other discriminatory measures are also on a downward trend. For example, the implementation of the most traditional of these measures – import tariff increases – has been declining steadily since

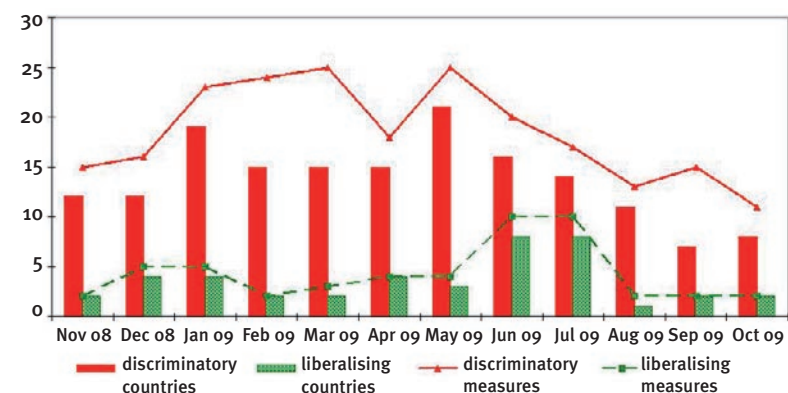
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Figure 1: Trade related measures, by number of implementing countries and measures



Source: Author's elaboration based on Global Trade Alert.

the peak in February-April 2009. For example, the implementation of the most traditional of these measures (not shown here) – import tariff increases – has been declining steadily since the peak in February-April 2009. The number of new discriminatory tariff measures in the last quarter (August-October) was very similar to that of new liberalising measures, which has remained stable across the different quarters.

These data confirm that the crisis has not (yet) triggered the feared beggar-thy-neighbour trade war. Analysis suggests that the risk of escalating protectionism was more concrete in the first half of 2009 than it is now. Indeed, the relatively restrained protectionism to date may have helped contain the adverse effects of the downturn on the global economy.

But while these data provide some optimism, some notes of caution are in order. First, it is hard to assess the eventual trade disruption caused by protectionism without a more detailed analysis of the sectors and trade flows involved. Second, protectionist temptations may not be quite over yet, as unemployment rises and a full economic recovery is not yet in sight.

Bearing this in mind, it is still right to acknowledge the resilience of trade policy to the crisis so far. This recognition is important in the light of recent warnings of protectionist assaults. Accusing governments of protectionism when they are not acting in a protectionist way may jeopardise the credibility of such criticisms in the long run – a case of the boy

who cried wolf, perhaps? Second, giving the impression that there is a rush towards the recourse to protectionism may galvanise pro-protectionist lobbies to press their governments to take a protectionist stance in line with the rest of the world.

What to expect

Is it time to be (mildly) optimistic about the prospects for trade policies? This depends on the evolution of the tension between incentives for trade restricting policies (i.e. the economic recession) and the factors that restrain them. In addition to the anti-protectionist warnings from economists, there are three main factors that make the current trade policy response look very different from that seen in the Great Depression. First, governments now have other policy levers to stimulate the economy and protect the domestic labour force, including monetary and fiscal policy. Monetary easing and unemployment benefits were rarely available in the 1930s, but have been widely used in this crisis. Eichengreen and Irwin (2009) for example, show that the ability to use monetary policy eased protectionist pressures during the Great Depression. Second, the disintegration of the vertical production model has increased the import content of domestic production, which is much higher today than during the Great Depression. Third, the web of binding trading agreements at bilateral, regional and multilateral level is a legal barrier to protectionism. The WTO seems to have acted as an institutional barrier to protectionism, despite the difference between the bound and the applied tariff rates.

The unfolding of the crisis has eroded the extent to which governments can now resort to monetary and fiscal policies, but has not (yet) undermined the other factors restraining the recourse to protectionism. If the intensity of the crisis continues to diminish and the recession is shorter than the Great Depression, the decline in protectionism is likely to continue. And trade policy will not have been a serious victim of the crisis. However with current high levels of unemployment and the erosion of the space to use alternative policy tools, it is still too early to lower the anti-protectionist guard.

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