

**TRADE POLICY
RESEARCH AS IF THE
GLOBAL ECONOMIC
CRISIS REALLY
MATTERED**

**Simon J.
Evenett**

**University of
St. Gallen**

**December
2013**

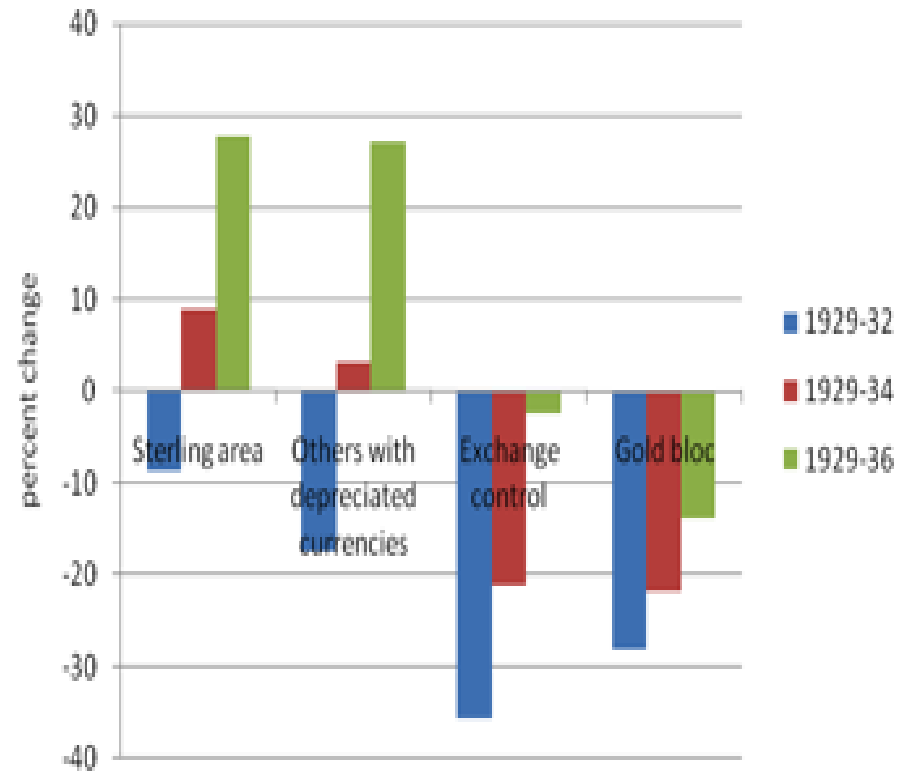
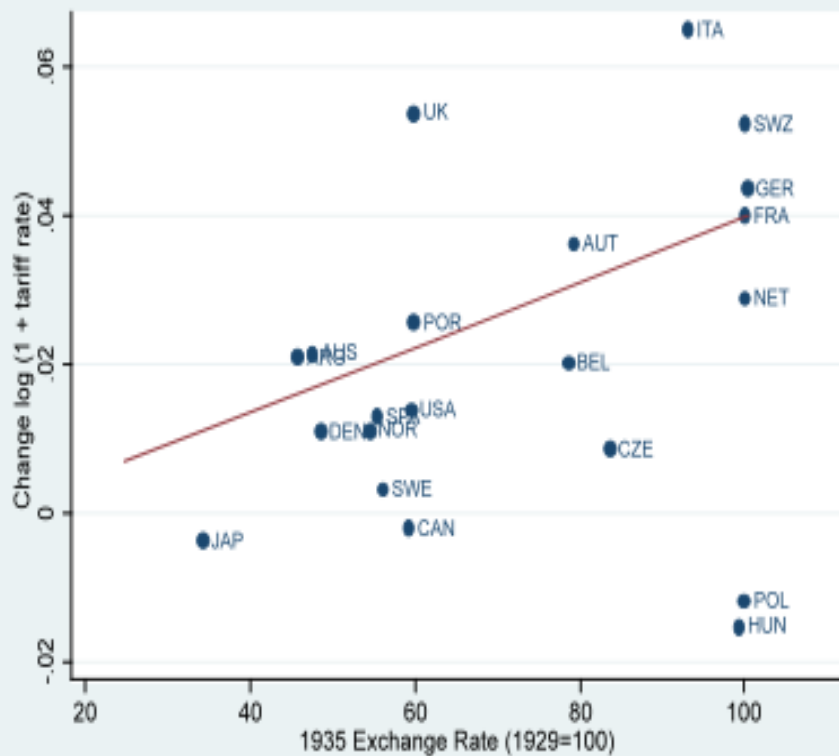
CONTENTS OF TODAY'S PRESENTATION

- Point of Departure—Revisiting Our Understanding of Protectionism in Previous Systemic Economic Crises.
- What is Protectionism?
- The Political Economy of Protectionism During Systemic Crises.
- Discrimination during the Crisis Era.
- Substitutability between Policy Instruments.
- The Resurgence of Industrial Policy.
- What Role for the WTO?
- Concluding Remarks.

POINT OF DEPARTURE: SOME LESSONS FROM EARLIER CRISES

- Protectionism was not the cause of the Great Depression—but was still important.
- Macro policy choice conditioned the resort to protectionism.
- Protectionism has a bad name—so its principal manifestation changes from crisis to crisis.
- International accords had little purchase over national decision-making.

CURRENCY DEPRECIATION AS A SUBSTITUTE FOR PROTECTIONISM



WORLD TRADE DURING THE GREAT DEPRESSION IN THE 1930S

B. Eichengreen, D.A. Irwin / *J. Int. Econ.* 38 (1995) 1–24

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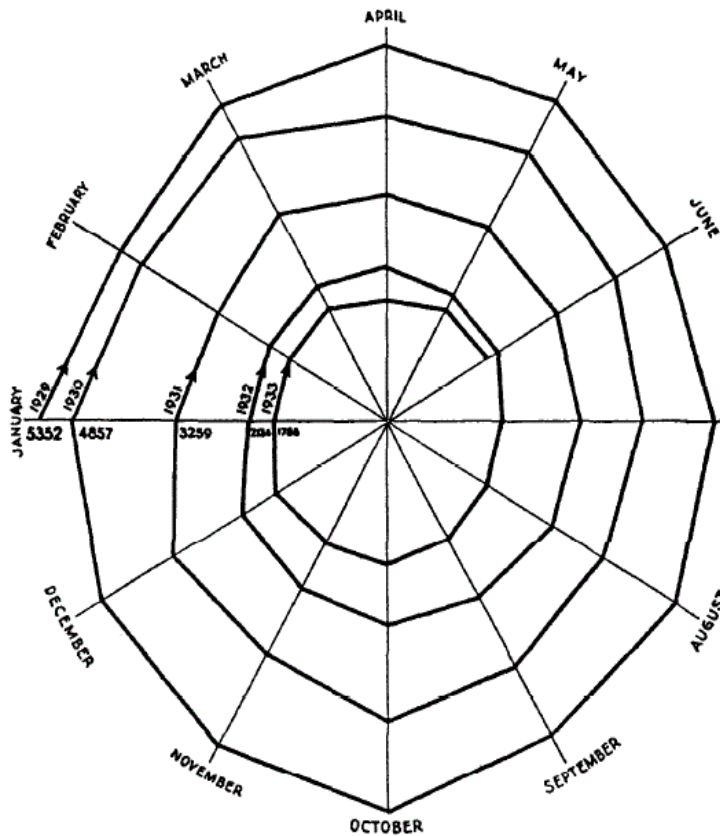


Fig. 1. The contracting spiral of world trade, month by month, January 1929–June 1933 (in millions of U.S. (gold) dollars).



THE GLOBAL ECONOMIC DOWNTURN OF THE EARLY 1980S

Evidence from the UK...

Comparing recessions

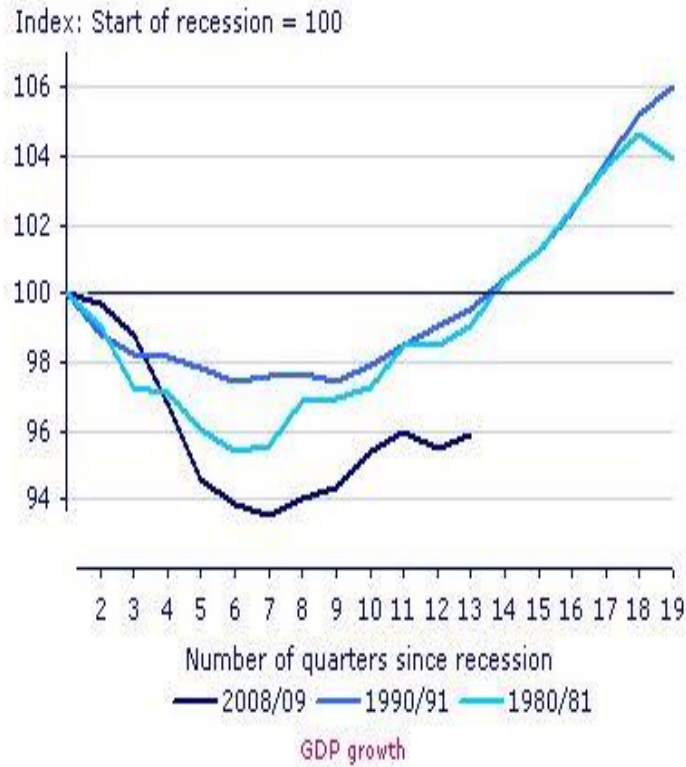


Table V Voluntary export restraints operating in 1988

Product group	Worldwide	EC	
		EC-wide	National
Steel	52	14	1
Agriculture/food	55	36	4
Vehicles/transport equipment	17	2	11
Textiles/clothing	72	18	3
Electronic products	19	5	11
Footwear	14	1	10
Machine tools	7	2	1
Other	25	10	9
Total	261	87	51

Source: [9, p.150]

Source: Roarty (1989)

WHAT IS PROTECTIONISM?

**Simon J.
Evenett**

**University of
St. Gallen**

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PROTECTIONISM: WHAT'S IN A NAME?

- Which set of policies are relevant for analyses of contemporary protectionism?
- Are policy instruments deemed “protectionist” if they reduce imports?
- Relationship to mercantilism.
- Recall the four modes of supply of foreign markets and competition in third markets.
- Making the case for a discrimination/relative treatment standard.
- Weakness of relative treatment standard.

MURKY PROTECTIONISM

- Policy instruments differ considerably in their transparency, in particular:
 - Secrecy with which government decisions are taken.
 - Frequency of reporting of state decisions by official bodies domestically and, where relevant, to the WTO.
 - Ease with which magnitudes can be compared.
 - Ease of justification on non-protectionist, often regulatory, grounds.
 - Attention given to them by the press.
- WTO and FTA accords have tougher rules on more transparent (less murky) forms of protectionism.
- Implications for substitutability across policy instruments.

**THE POLITICAL
ECONOMY OF
PROTECTIONISM
DURING SYSTEMIC
CRISES**

**Simon J.
Evenett**

**University of
St. Gallen**

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SYSTEMIC ECONOMIC CRISES

- Do our single country perspectives on protectionism blind us to incentives to discriminate that arise during systemic (multi-country/global) economic crises?
- Such crises involve:
 - Substantial contraction of national economies, unemployment increases, exports fall.
 - Freezing up of financial markets.
 - Therefore, simultaneous effects on many nations.
- Two implications for the analysis of protectionism.
 - Cash, not customers, is King.
 - The glass house syndrome—beyond Nash.

PREDICTIONS

1. Resort to discrimination in allocation of finance should be important—with it there is less need to resort to across the board trade restrictions such as tariff hikes.
2. Discrimination should circumvent tougher WTO rules and exploit loopholes where possible.
 - Protectionism will change in form and potentially become “murkier” (harder to detect).
3. The perpetrators of protectionism will have little incentive to openly discuss these matters—they may even assert their fealty to WTO rules.
4. Few crisis-era trade disputes will arise—retaliatory suits will be filed.

DISCRIMINATORY POLICIES UNDERTAKEN DURING THE CRISIS

**Simon J.
Evenett**

**University of
St. Gallen**

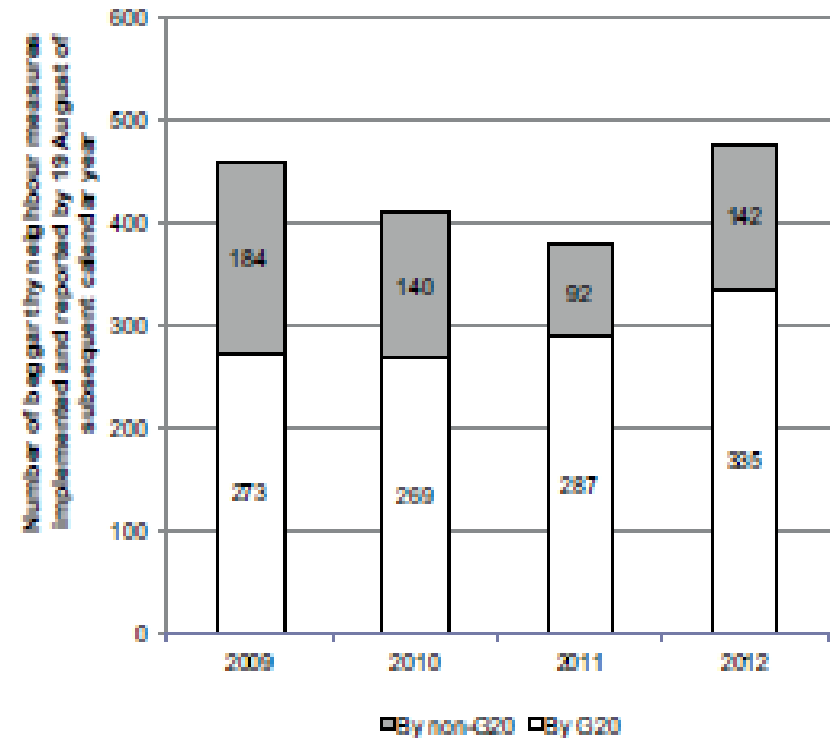
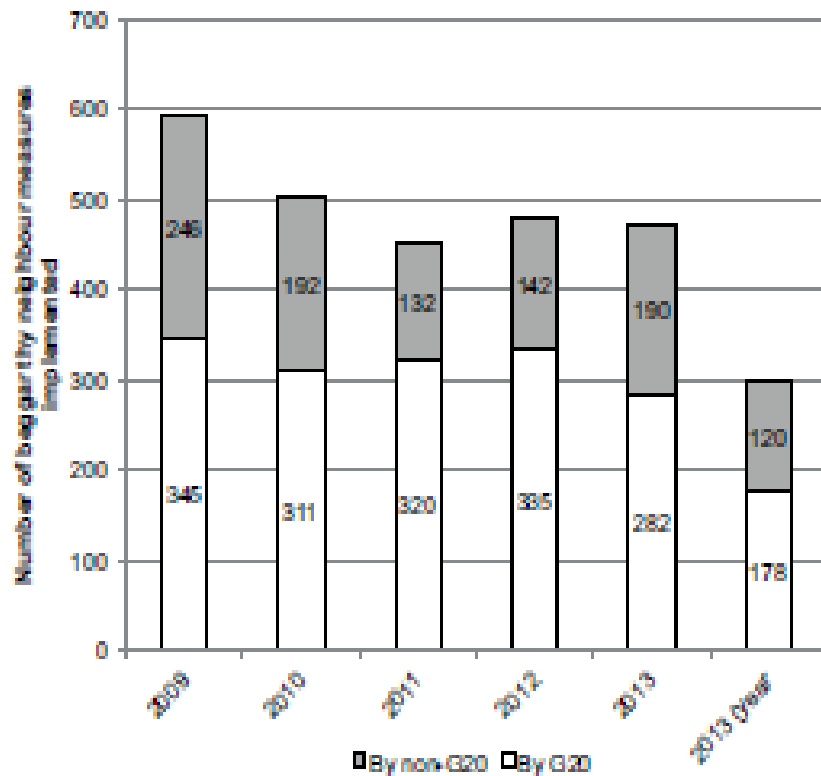
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A WORD ON DATA SOURCES

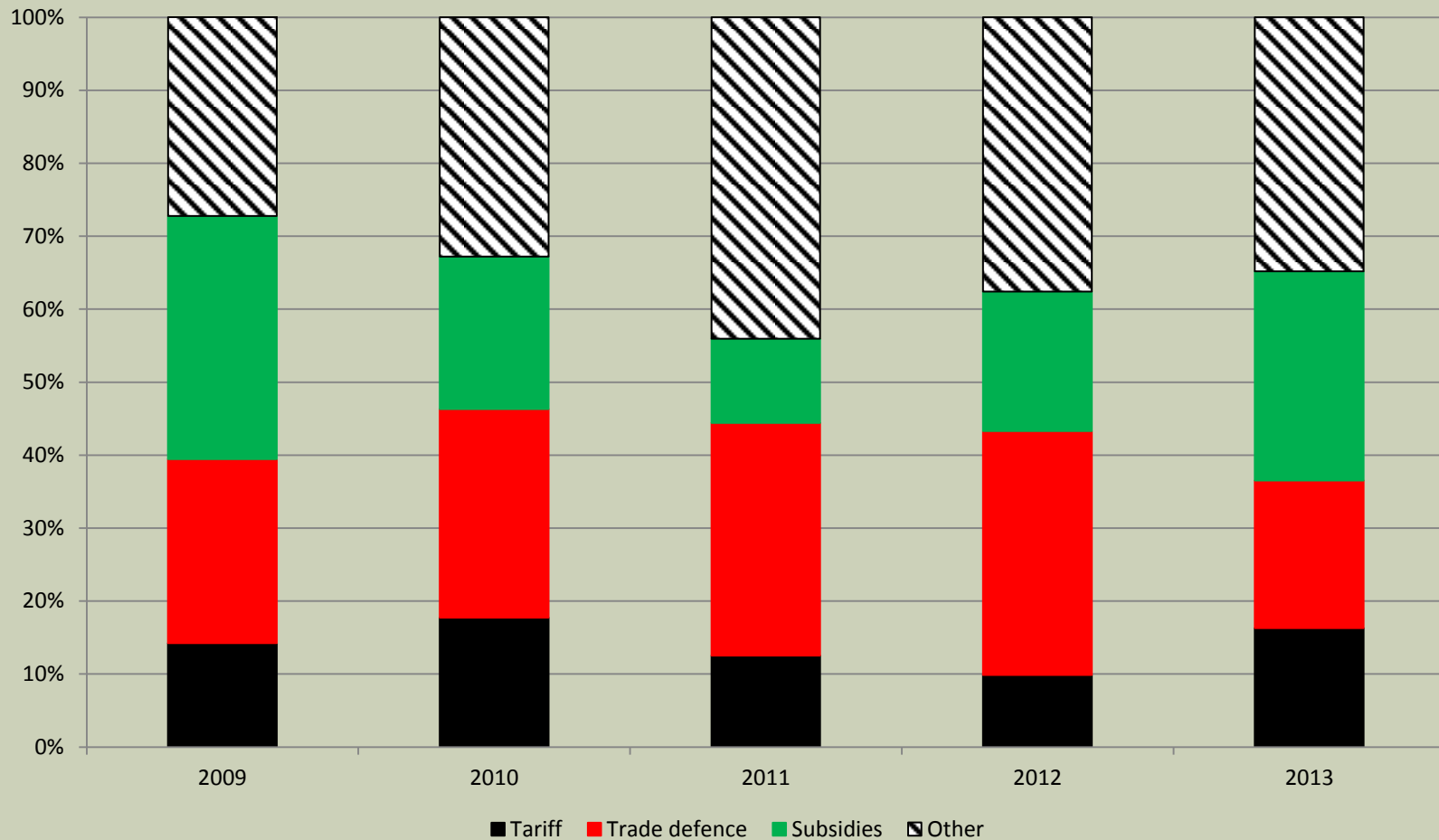
- Only data on tariffs and trade defence is available before the crisis.
- Paucity of pre-crisis data on other discriminatory policies.
- Data collection by the independent Global Trade Alert, www.globaltradealert.org, which I coordinate.
- 3,965 reports on policies measures announced or implemented since November 2008.
- Global Trade Alert cited in 557 entries in Google Scholar.

REPORTING LAGS MATTER

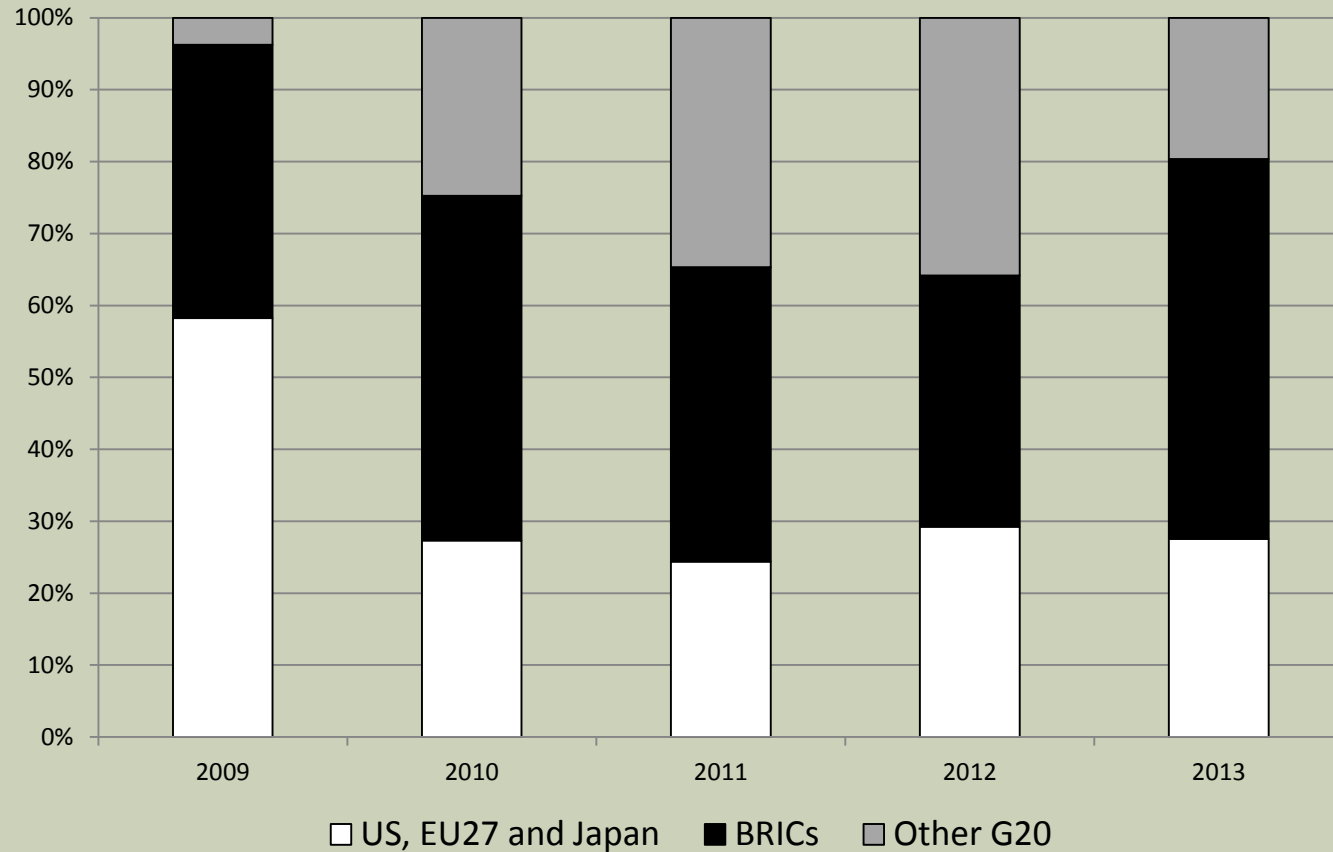
Figure 1.1 Failure to correct for reporting lags hides the 2012 jump in protectionism imposed by the G20



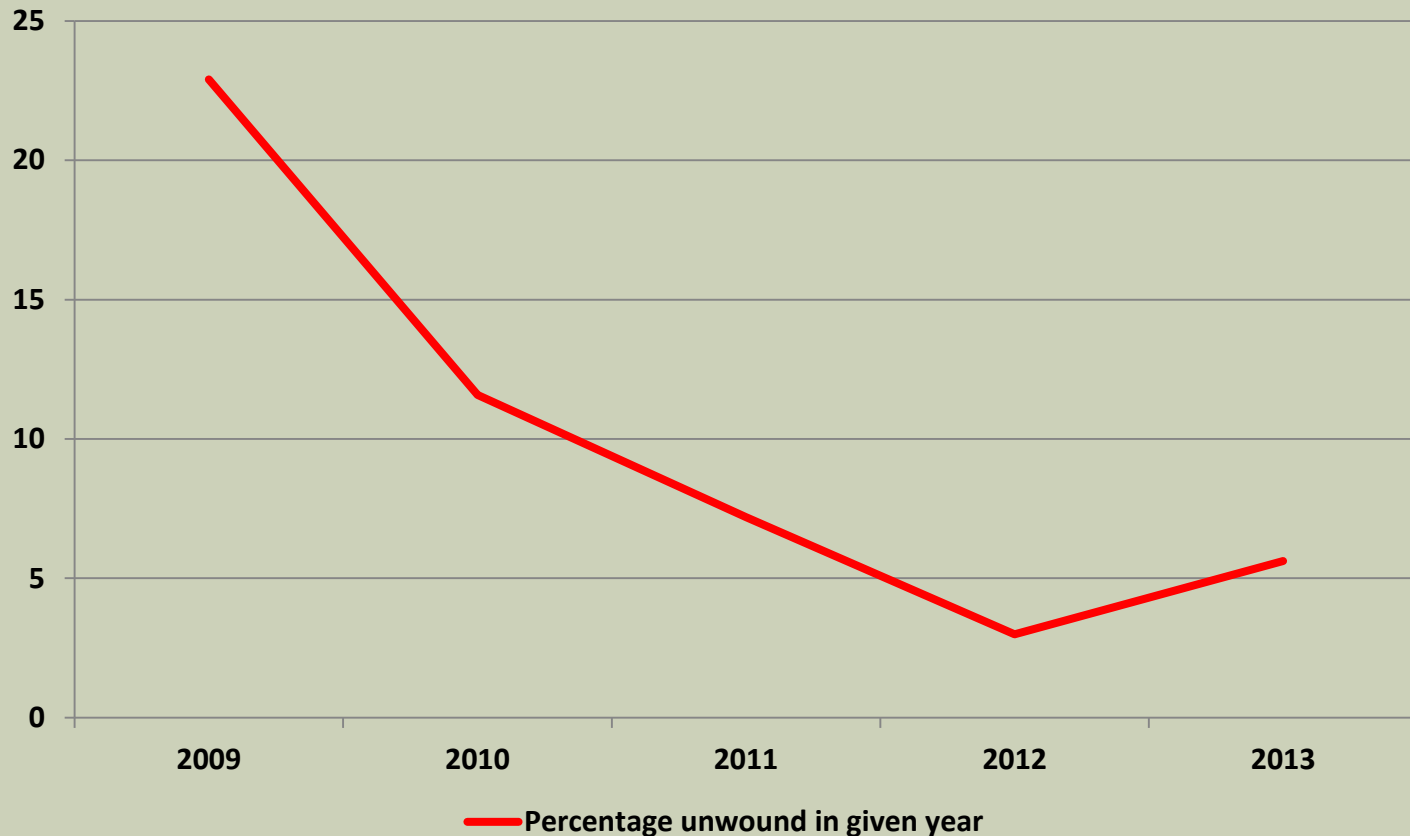
TYPES OF BEGGAR THY NEIGHBOUR MEASURE USED



WHO IS RESPONSIBLE FOR G20 PROTECTIONISM?



SO MUCH G20 CRISIS-ERA PROTECTIONISM NEEDS TO BE UNWOUND



SCALE OF CRISIS ERA BEGGAR THY NEIGHBOUR ACTIVITY

- It is hard to think of a car manufacturer that has not received extensive financial support, especially in Western Europe which still accounts for half of world exports in this sector. Bailouts triggered copy-cat measures in other countries. Remember total trade in this sector alone exceeds \$1.3 trillion, more than 7 per cent of total world exports.
- One study totalled up \$440 billion of financial incentives for increasing the supply of low carbon energy, energy efficiency, and upgrading water infrastructure and the like announced in the fourth quarter of 2008 and January 2009 alone.
 - EU-China solar panel dispute covered 20bn euro of imports.
- Chinese system of tax rebates for exporters increased in coverage during the crisis to include more than a \$1 trillion dollars of exports.
- Chemicals accounts for just under \$2 trillion of world exports--over 10 per cent of the world total. This sector alone has seen 355 beggar-thy-neighbour acts alone implemented since November 2008, 87 per cent of which remain in force.
- And, what about the “currency wars”? Changes in the US dollar alone affect imports and exports by Americans totalling \$3.7 trillion.

REVISITING THE SUBSTITUTABILITY HYPOTHESIS

**Simon J.
Evenett**

**University of
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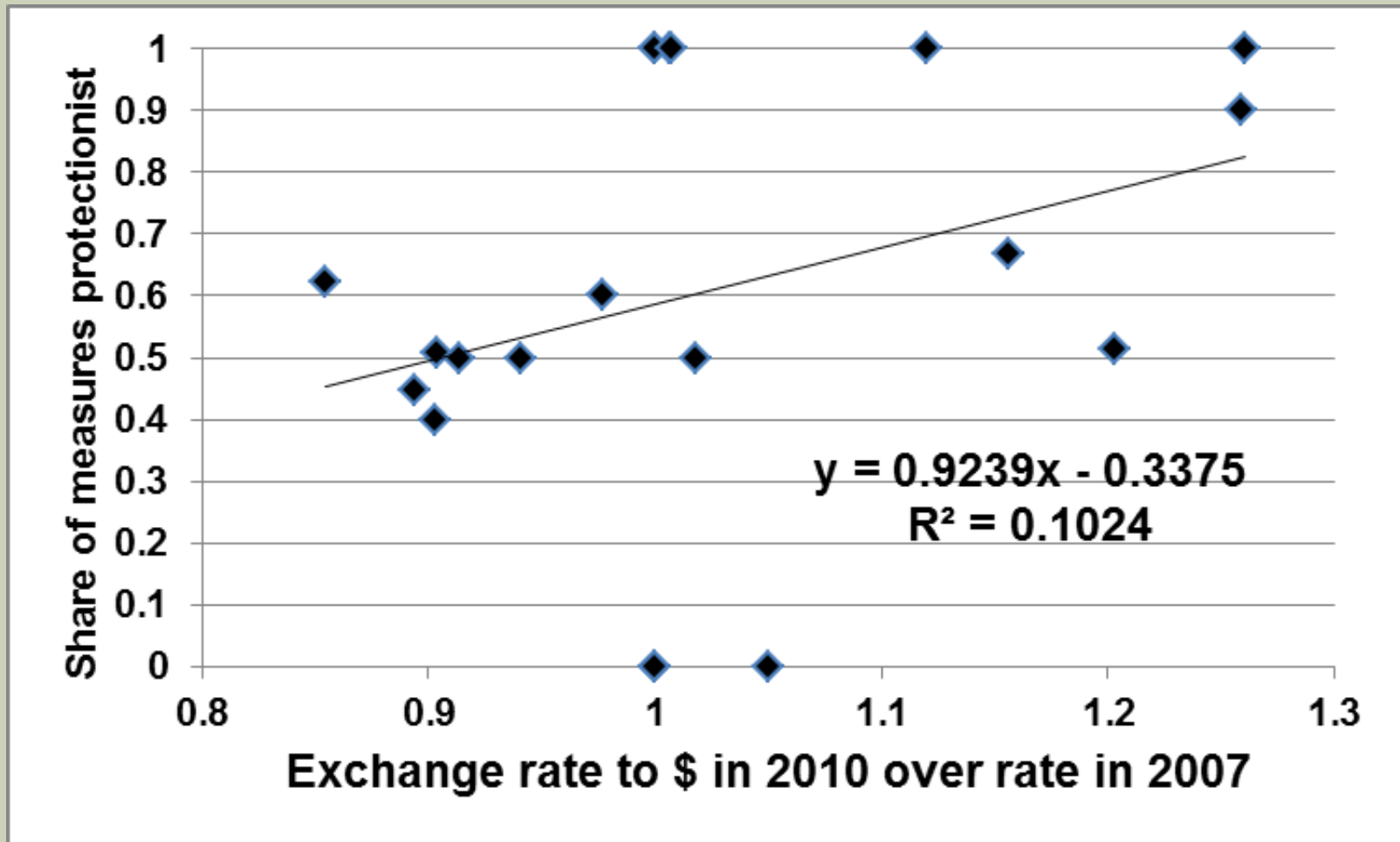
EICHENGREEN AND IRWIN'S FORMULATION

- Exchange rate depreciation and resort to tariff increases were substitutes in the early 1930s.
- Rationale provided by Eichengreen and Irwin.
 - Note their rationale for substitutability involve two options that beggar thy neighbour.
- Alternative substitutes in the modern era:
 1. Fiscal policy.
 2. Relax budget constraints (subsidies).
 3. Monetary easing and capital controls.

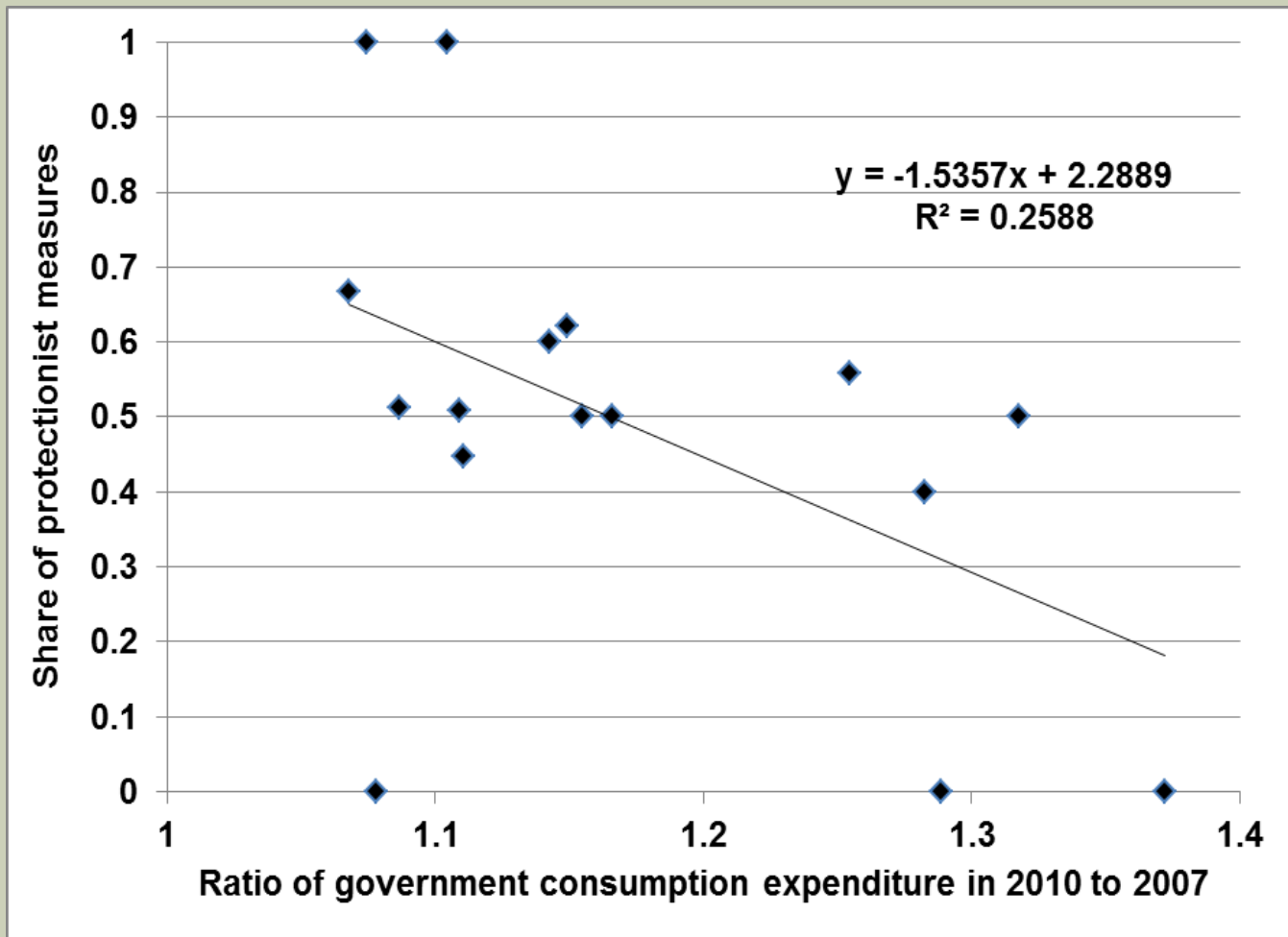
CLEAN VERSUS DIRTY SUBSTITUTABILITY

- Limited empirical evidence on substitutability.
- Substitutes to trade restrictions can involve discrimination too—dirty substitutes.
- Plenty of dirty substitutes used during the crisis.
Evidence:
 1. Competitive devaluations—measurement problems here.
 2. Fiscal measures with buy local clauses: 65
 3. Discriminatory subsidies: 602
- Need to consider substitutability between discriminatory instruments—not just between clean and dirty instruments.

EVIDENCE FROM LATIN AMERICA (1)



EVIDENCE FROM LATIN AMERICA (2)



RESURGENCE OF INTEREST IN INDUSTRIAL POLICY

**Simon J.
Evenett**

**University of
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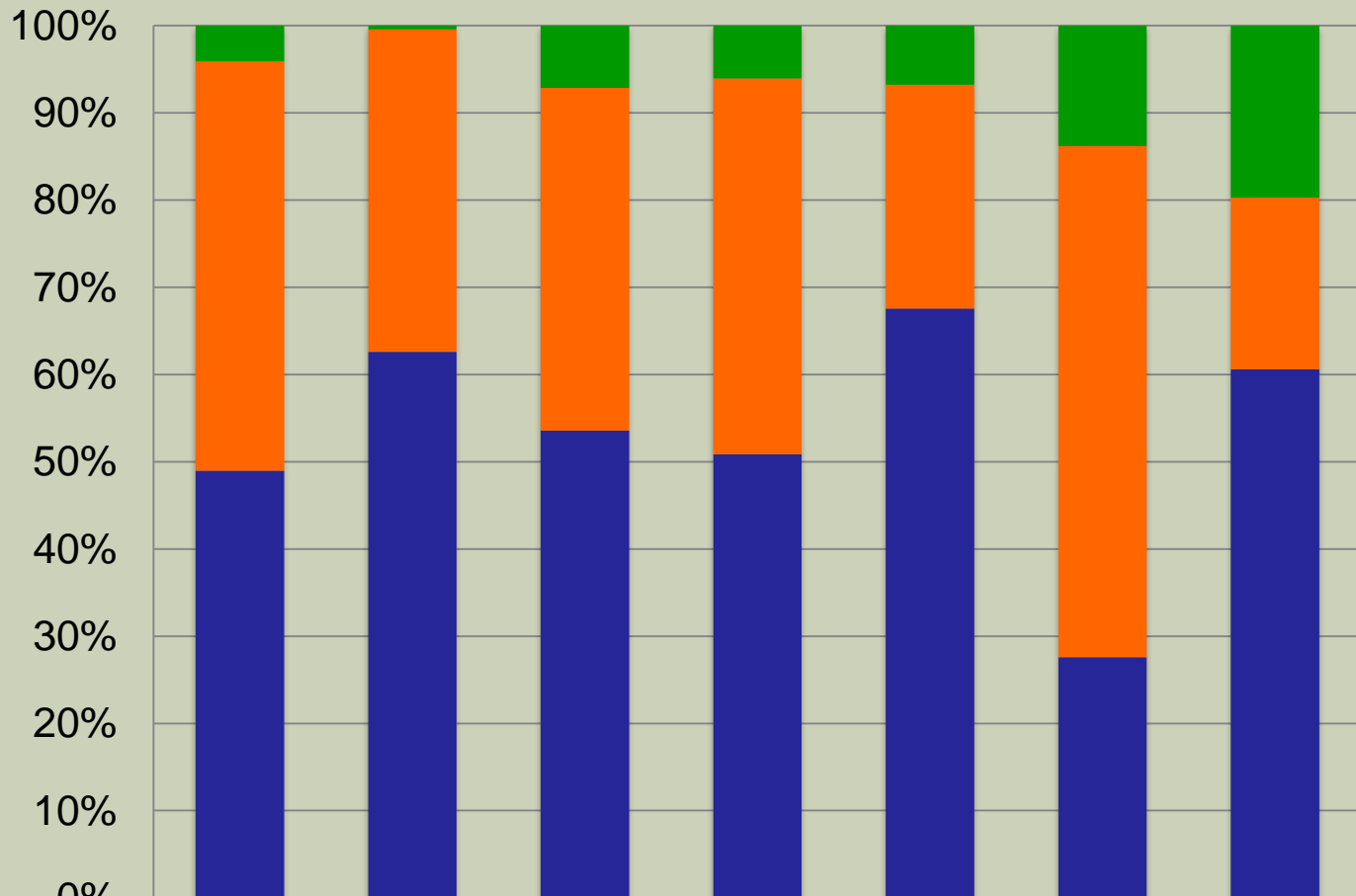
WHAT IS INDUSTRIAL POLICY?

- Anything you want it to be—except macroeconomic policy.
- Policies often associated with industrial policy.
- Rationales given for industrial policy:
 1. Fixing market failures.
 2. Network systems.
 3. Promoting strategic sectors.
 4. Defensive—easing or postponing adjustment.

MERITS OF A QUANTITATIVE APPROACH

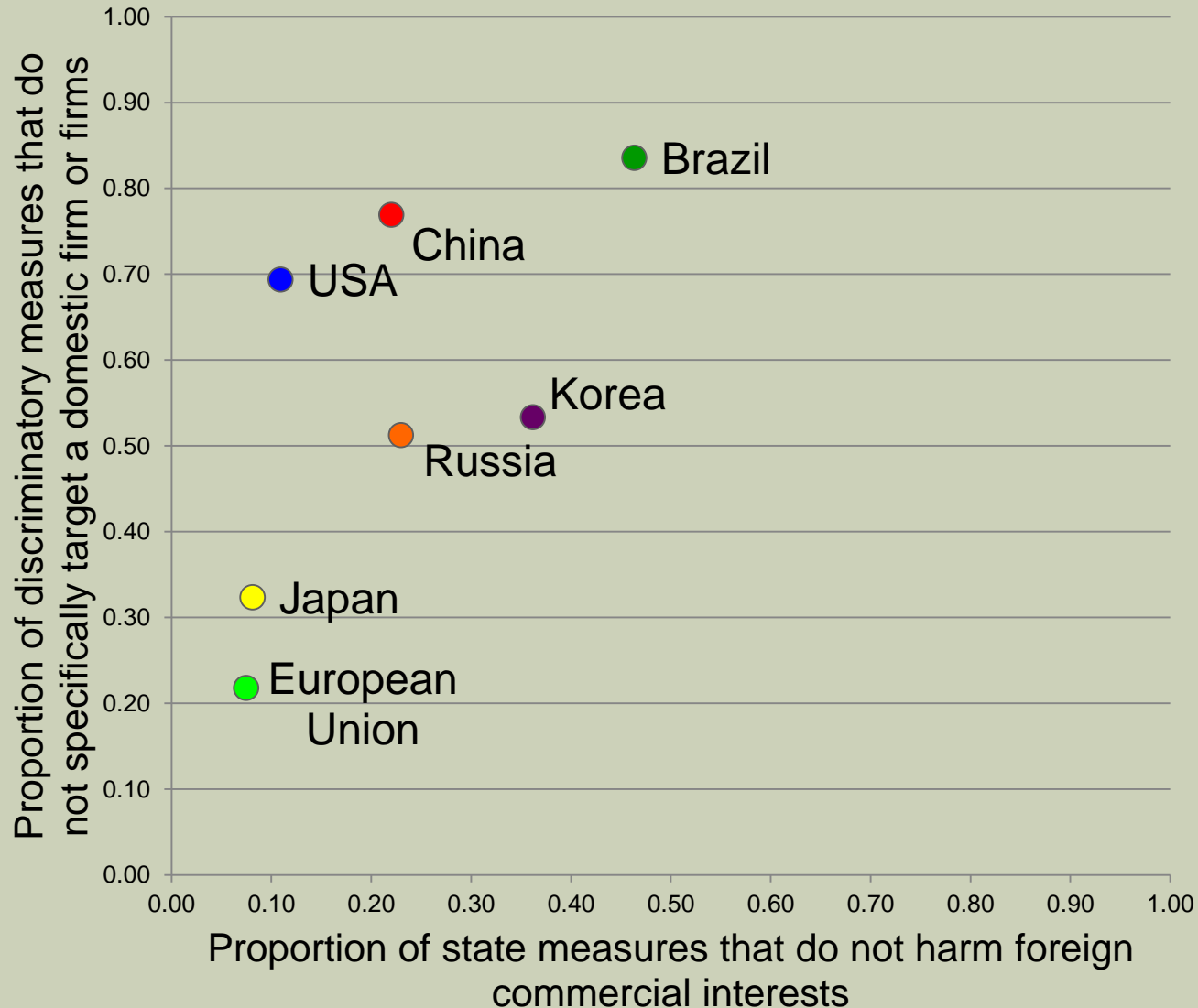
- Too much of the industrial policy literature is anecdotal with a strong ideological overtone.
- Much is at stake as trade rules can impinge on resort to selective intervention.
- Risk of extrapolating from a limited empirical base. Can analysts do better?
- Get the facts on the table, identify patterns, and allow this to drive policy discussions and further analysis.

Almost all crisis-era intervention targeted one or more sectors

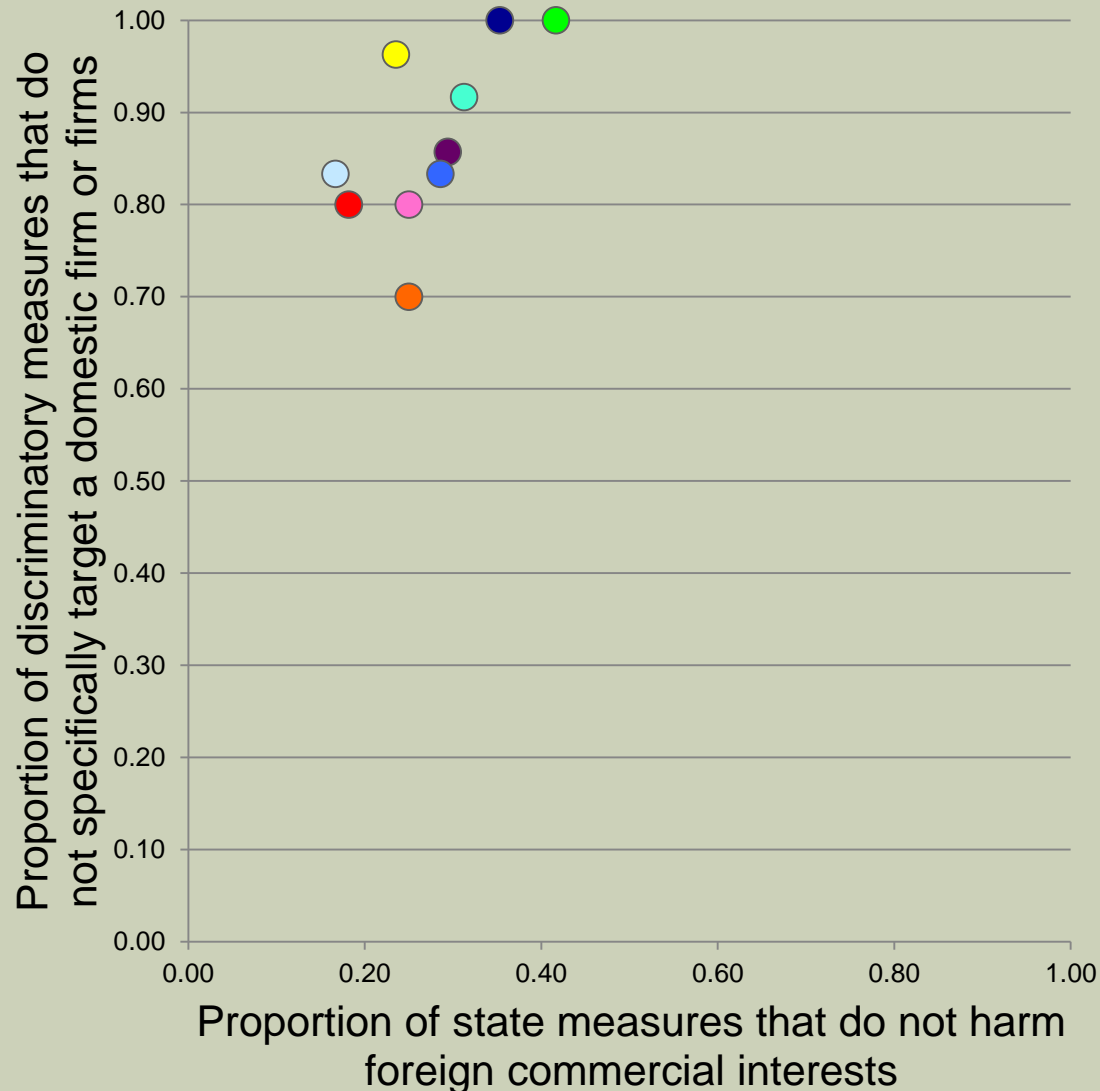


	USA	Russia	Japan	China	Brazil	Korea	EU
■ none **	2	1	2	7	5	4	66
■ 2 or more*	23	88	11	50	19	17	66
■ 1 sector	24	149	15	59	50	8	203

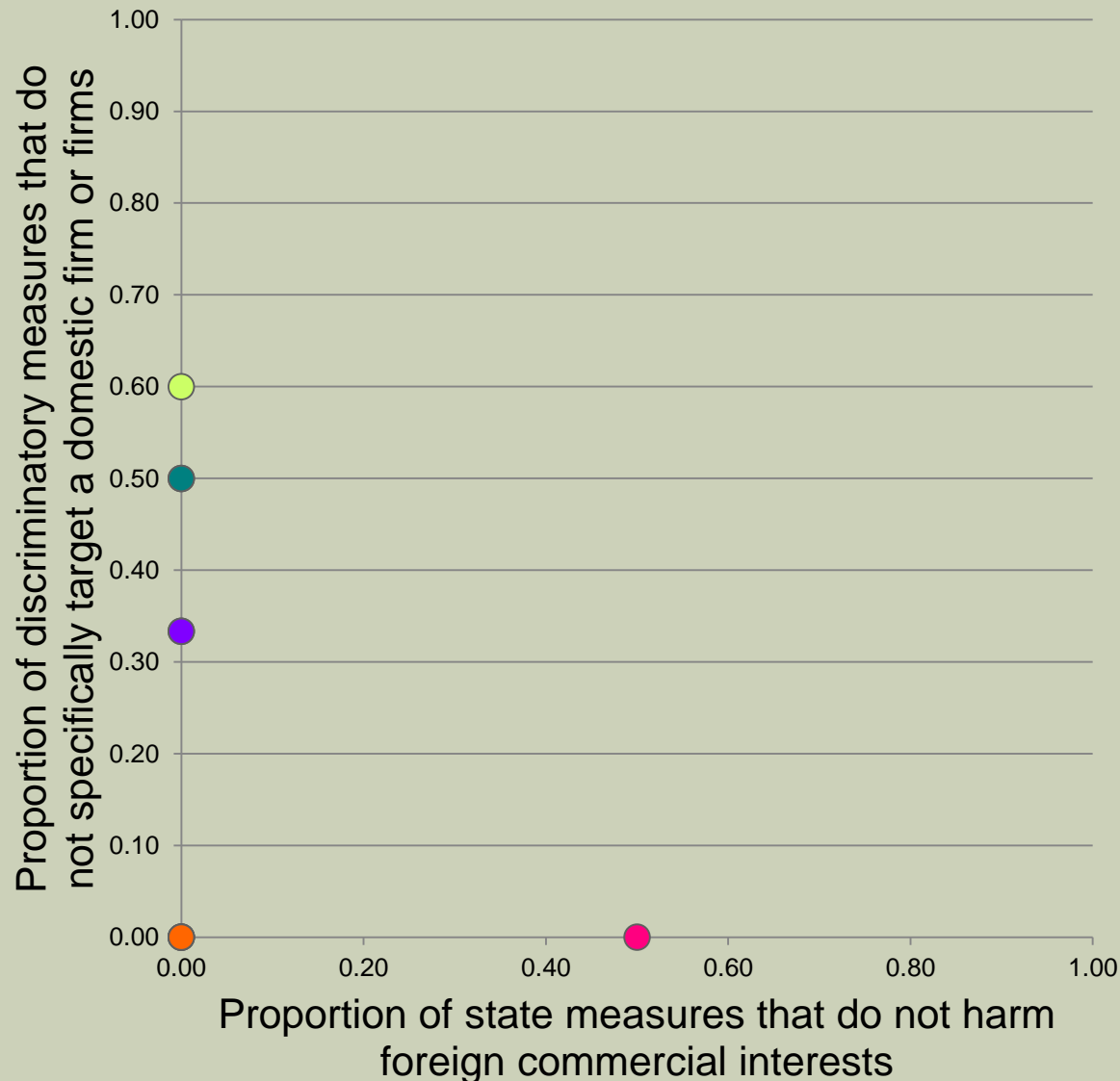
Variation in the resort to discrimination against foreign commercial interests and targeting specific firms within sectors



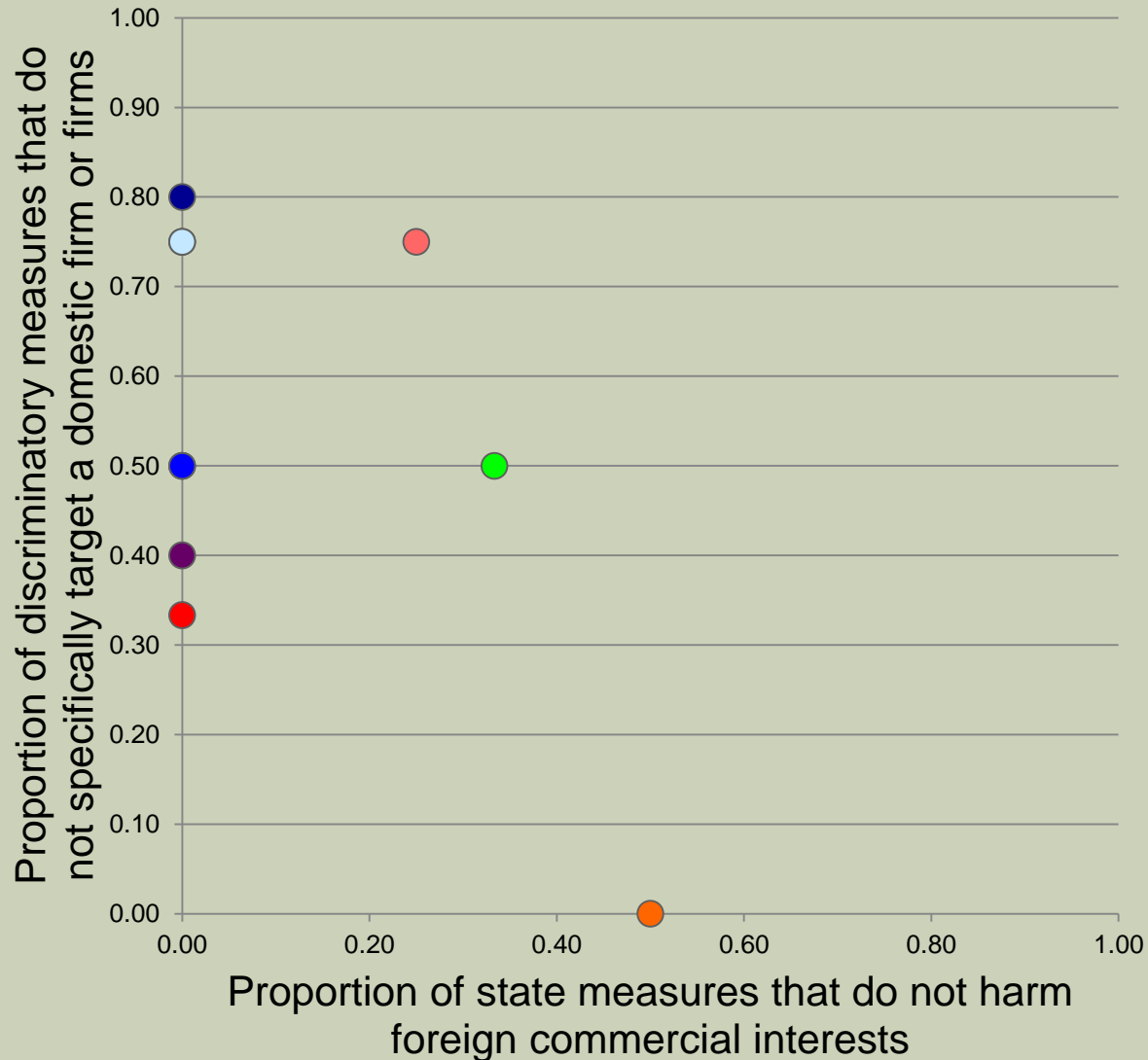
Top 10 Sectors (Ranked by total number of instruments applied to a given sector) – China



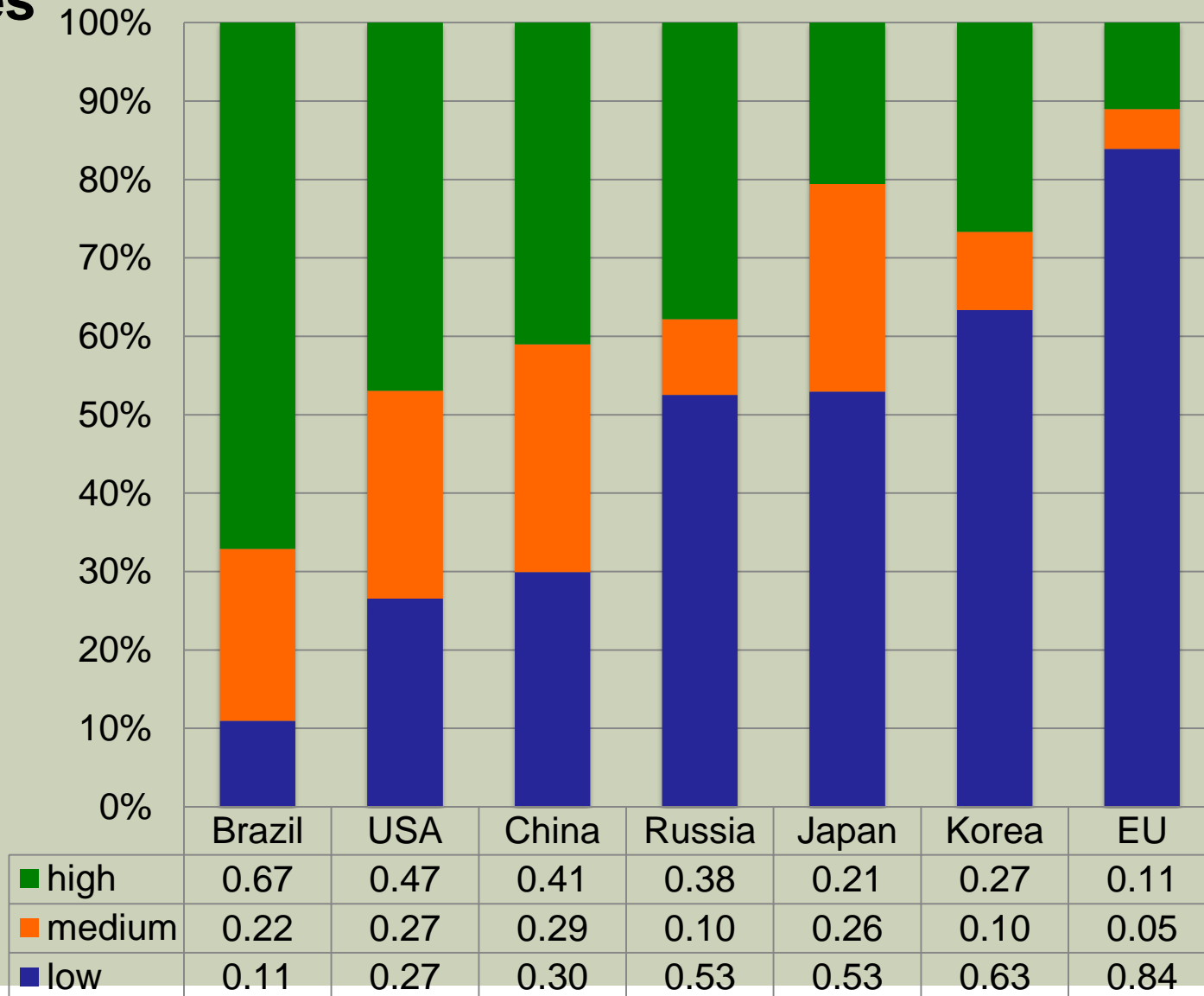
Top 10 Sectors (Ranked by total number of instruments applied to a given sector) – Japan



Top 10 Sectors (Ranked by total number of instruments applied to a given sector) – USA



The major economic powers vary in their resort to policies covered by tight, moderate, weak or no WTO rules



IMPLICATIONS OF THE EVIDENCE

- Resort to across the board measures was rare, especially among the leading trading powers.
- Intervention was principally sector-specific—hence the focus of this conference on sectors.
- Distinct patterns of selective intervention occur within countries and among countries—why?
- Many of the policy tools (e.g. subsidies) that allow for selectivity between domestic firms are not well governed by WTO rules.
- Caveats.

RETHINKING OUR UNDERSTANDING OF INDUSTRIAL POLICY

- Reconsider each rationale given for industrial policy:
 1. Fixing market failures.
 2. Network systems.
 3. Promoting strategic sectors.
 4. Defensive—easing or postponing adjustment.
- Relate to the notions of discrimination used by trade policy analysts: MFN and national treatment.
- Be wary of the “strategic” use of industrial policy arguments by special interests.
- Recall the argument that WTO rules have limited resort to industrial policy (“policy space”).

WHAT ROLE OF THE WTO?

**Simon J.
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THE WTO ISN'T SHY TO CLAIM CREDIT

“The multilateral trading system was instrumental in helping governments successfully resist intense protectionist pressures during the recent global recession. It is vital to preserve this system to be able to face future crises. Any weakening of the multilateral trading system and the insurance policy that the WTO represents would provide grounds for renewed calls to retreat into protectionism” (WTO 2011 page 3)

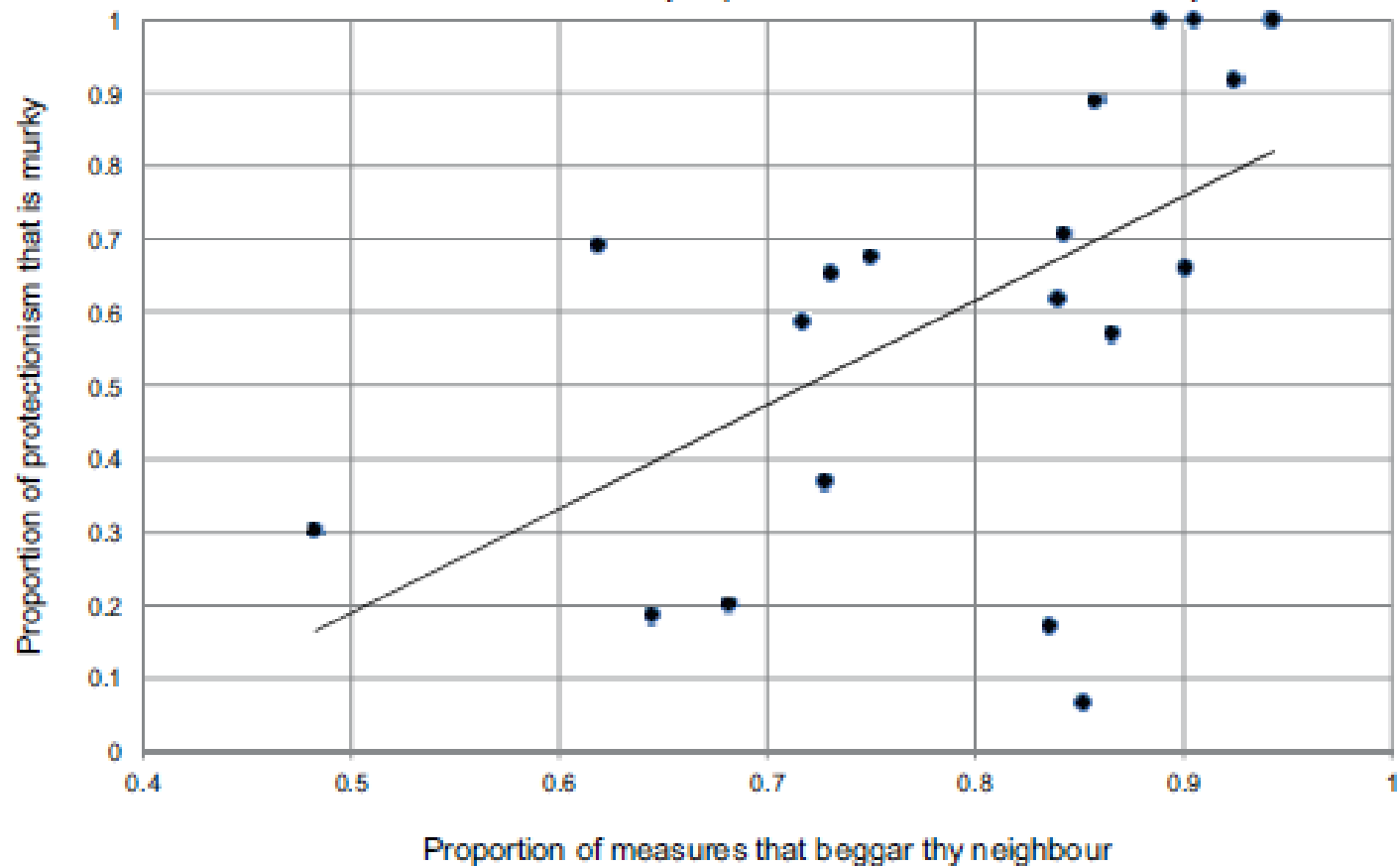
- Using evidence on protectionism, the incentives created by a systemic crisis, and by actual WTO rules and procedures, the above claims are evaluated.

WHAT DID THE WTO REALLY DO?

- First, what could it do?
 - WTO rules are incomplete.
 - WTO obligations are such that they allow most members to implement large legal tariff increases.
 - WTO rules require a member to bring a case against another member.
- Second, what impact of WTO rules?
 - No overt violations—how much solace is offered by that?
 - Crisis-era discrimination concentrated in policies where WTO rules were weaker.
- In the absence of a fully fledged counterfactual, the most that can be said in favour of the WTO is that it affected the composition of protectionism—just as history teaches us.

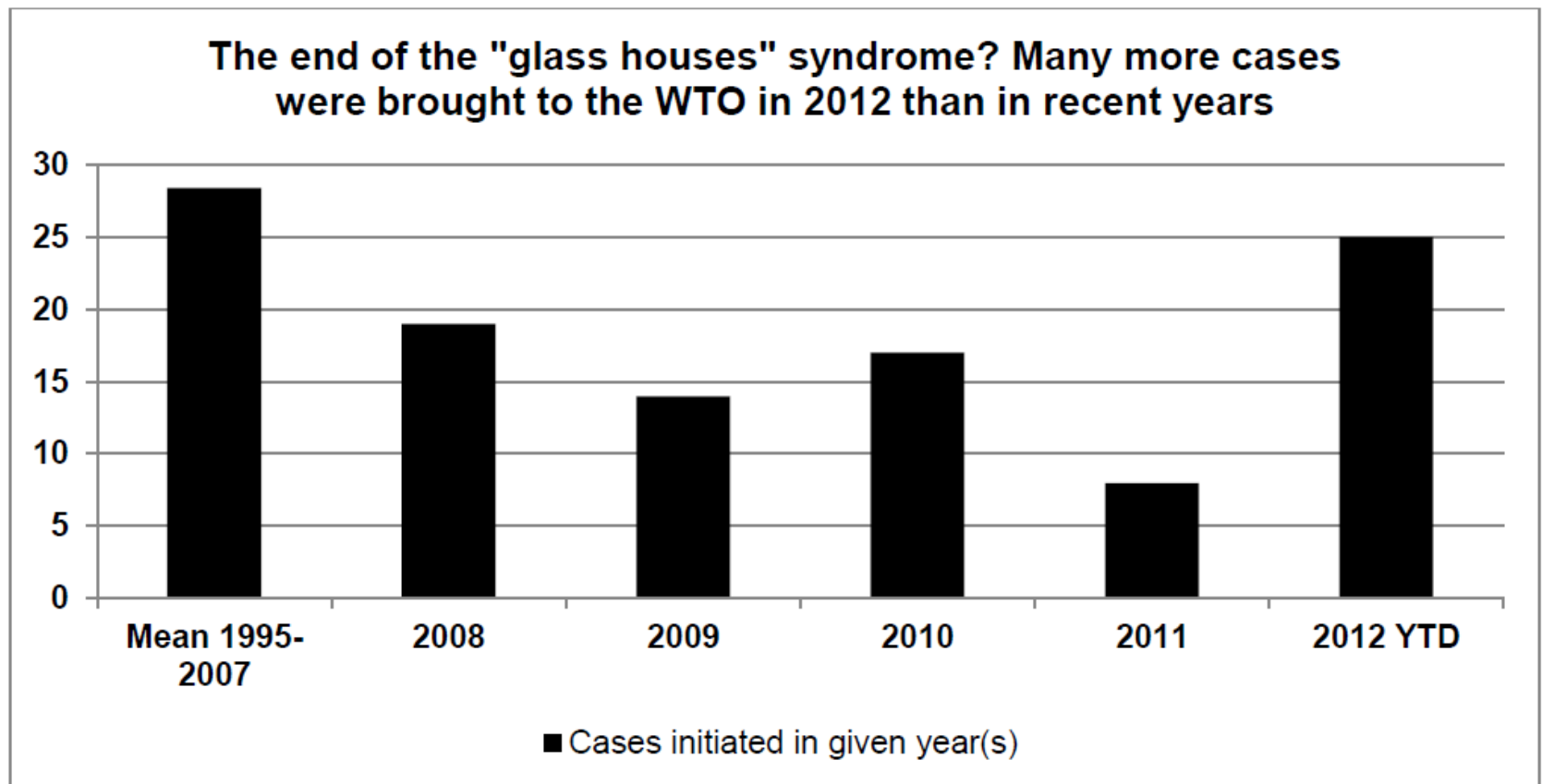
PROTECTIONIST IMPULSE LEADS TO WTO CIRCUMVENTION

Figure 1.3 Those G20 countries that discriminated against foreign commercial interests more often also employed more murkier forms of protectionism



THE GLASS HOUSE SYNDROME

Figure 1. Disputes brought to the WTO in 2012 have returned to pre-crisis levels—but with a sizeable stock of crisis-era protectionist measures could rise much further.



CONCLUDING REMARKS

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FOUR CONSIDERATIONS DURING CRISES

1. Substitution across major areas of policy (fiscal, macro, subsidy, and regulation of domestic and foreign commerce.)
 2. Prioritisation of objectives—with potential explicit or implicit subordination of some.
 3. Incompleteness of rules and norms.
 4. Incentives for compliance.
- The current system of multilateral governance falls short of what is needed to effectively counter crises without wrecking open borders.
 - Should any of this be surprising, since governments created the system in the first place?

HOW MUCH REVERENCE FOR TREATY COMMITMENTS DO LEADERS HAVE?



“Treaties are like roses and young girls -- they last while they last”

**Charles de
Gaulle, 1963**

NIXON CLOSES THE GOLD WINDOW AND DEVALUES THE US DOLLAR

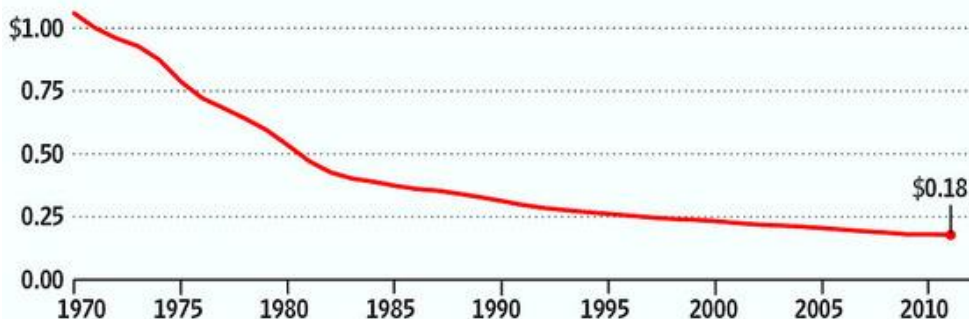


“The dollar is our currency but your problem” US Treasury Secretary Connally told his European counterparts in 1971.



Not as Good as Gold

The decline in the purchasing power of a dollar



Note: Dollar deflated by CPI. 1971=\$1.00

Source: Bureau of Labor Statistics

DEEPER POINTS TO PONDER

- Does a 19th century notion of protectionism—as import restriction and expansion of local firms—make sense in the 21st century?
- Does our understanding of the incentives to undertake protectionism and the counter-incentives provided by the WTO need to be revised in systemic economic crises?
- Would a WTO with a complete set of rules against discrimination really do any better?
 - Would it suffer the same fate as the Gold Standard in the 1930s or the EU's subsidy regime today?
 - What can international accords between sovereigns really achieve in times of severe distress?