CHAPTER 3

POST-CRISIS PROTECTIONISM IN THE REGION

A. MULTILATERAL TRADING SYSTEM TESTED

At the start of the global economic crisis in 2008/2009, there was a real fear that the sharp collapse in exports and production in many countries would lead to a repeat of the damaging trade wars in the 1930s. Fortunately, such a trade war, using tariffs as the principal protectionist tool, did not happen, although protectionism using other tools has increased (ESCAP, 2010). Contemporary or crisis-era protectionism is dominated by behind-the-border measures such as bailouts, state aids and export subsidies rather than tariffs. More recently, WTO Director-General Pascal Lamy acknowledged that while protectionism had become "the dog that hasn't barked" during the crisis, the risk of rising protectionism has not been eliminated. In fact, the continued rise in unemployment, deepening debt and incidence of other financial problems and shocks to national economies have all kept protectionism as a clear danger (Elliott, 2011). The most recent monitoring report by WTO, OECD and UNCTAD raises a cause for concern about new a number of restrictions being imposed in early 2011 (WTO, 2011c).

The reason why the multilateral trading system was able to guard the overall level of low(er) tariffs achieved over eight multilateral negotiation rounds was that members were committed to not raising the national level of tariff protection above "bound" levels agreed on during the negotiations. Globally, leaders have forged an intellectual and political consensus on "tariff wars" being lose-lose scenarios for all involved and this helped them to control the tariff increases during the pressure. Furthermore, low (zero) tariffs have become a very important factor in the operation of regional and global networks especially in Asia and thus there was less lobbying for such protection among the participants in such networks.

The eight rounds of tariff negotiations succeeded in significantly reducing the average level of bound most-favoured nation (MFN) rates, but the extent of imports covered by bound tariffs remains a big problem, at least in Asia and the Pacific. For example, while the unweighted average of bound tariffs for selected Asia-Pacific economies is 28.1% (figure 15), bindings cover on average 87.8% of imports. These averages hide the fact that the range of bound tariffs varies significantly, from less than 5% to more than 169%; similarly, while a number of countries bind 100% of imported products, there are other economies covering only half or even just 15% of imports (see also annex tables to this chapter). The lower the binding coverage, the more flexibility a country has in introducing higher levels of applied import tariffs on products that do not have tariff bindings.

Historically, applied import tariffs in most Asia-Pacific economies on average have never been very high, as those economies were dynamic traders that needed to import in order to be able to export. In the peak crisis year of 2009, the average applied MFN rate in the economies shown in figure 15 was 8.1%, with only Maldives\(^2\) being associated with an average MFN applied rates of just over 20% while most other economies had average rates of less than 10%. Notwithstanding the low applied MFN rate, most economies still have "policy space" left, which equals more than triple the level of tariff protection at current levels. In other words, the "dog could start barking anytime" and it is just the strong restraint of the "owners" that is preventing this from happening.

The ESCAP (2009a and 2010) *Asia-Pacific Trade and Investment Report* reviewed the evolution of the use of discriminatory trade measures since the onset of the economic crisis in November 2008. While initially almost all countries, including the developed members of the G20 group, tried to impose new or higher trade barriers, with the recovery in 2010 fewer instances of such measures have been recorded. Furthermore, it appears that international trade in services has been more resilient to protectionist actions than good trade. Molinuevo (2010) finds that most of the protectionism in services was in the basket of stimulus measures and investment measures. His analysis suggests that a number of economic, legal and institutional factors complement each other to create strong incentives against a general surge of protectionism in the area of services.

Understanding the type and duration of implementation of the measures introduced is extremely helpful in understanding the design of trade policy and its effectiveness, which the remainder of this section attempts to do.

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\(^2\) In 2009, Maldives was still classified as a least developed country.

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**Figure 15. Remaining policy space for tariff intervention in selected Asia-Pacific economies**

*(Simple average tariff rate in percentage)*

B. TRENDS IN USE OF BORDER MEASURES

The total number of discriminatory measures being implemented globally since November 2008, as listed in the Global Trade Alert database, is 823.24 There is, however, some good news regarding protectionism dynamics; figure 16 plots the number of harmful measures implemented per quarter by economies in the Asia-Pacific region and elsewhere. Contemporary protectionism was a real concern from 2008 up to the first quarter of 2010; almost 70% of all recorded discriminatory interventions were introduced during that period. The economic and trade recovery brought a significant decline in protectionism. Only 46 harmful measures were implemented in the first quarter of 2011, which is just one third of the number of such measures implemented in the peak crisis quarter of 2009. This trend in reducing protectionism is even more important, as some trade experts and global leaders have been concerned that the 2010 debt crisis, spread through a number of developed economies, could trigger another wave of protectionist actions around the globe.

The Asia-Pacific region contributed to around 40% of all harmful measures in the observed period (figure 16). According to four indicators of harm done by a country’s discriminatory policies,25 the data further reveal that Asia-Pacific economies are well represented among the top 10 countries instigating discriminatory policies.26 According to ESCAP (2010), India, Indonesia, Kazakhstan and the Russian Federation still appear on this list under at least two indicators while newcomers to the top 10 list and reported directly under three indicators are China and Viet Nam. It is also important to note that much of the harm done to the commercial interests of Asia-Pacific economies has been inflicted by other economies in the region (Evenett and Wermelinger, 2010).

Measures that harm commercial interests still outnumber measures with beneficial effects

Rather than merely looking at the discrimination aspect of government interventions, it is also important to investigate the interaction of discriminatory and liberalizing measures over time (figure 17). Globally, measures that harm commercial interests of trading partners still outnumber measures with beneficial effects by almost three to one. This ratio reached its peak (5.0) in the first quarter of 2009 and has been declining ever since. During the most recent period, the ratio of discriminatory to liberalizing measures is almost balanced at 1.5. A similar trend is observed for measures implemented by Asia-Pacific economies. The improvement in these ratios with economic recovery becomes more apparent in figure 18, which shows that higher GDP growth rates in Asia-Pacific economies are associated with smaller ratios of discriminatory to liberalizing measures.

Data presented here do not provide evidence to support such concerns (at least up to early 2011). It should be noted, however, that many government interventions become apparent only several months (in some cases, up to one year) after their actual implementation. Therefore, the (now reported) decline over time could also reflect reporting challenges rather than improved government behaviour (see Evenett and Wermelinger, 2010, for additional explanations). Moreover, a large number of discriminatory measures have yet to be removed, while more than 250 additional measures have been announced and may be implemented in the months ahead.

24 Throughout this chapter, data for government interventions are derived from the Global Trade Alert website (http://www.globaltradealert.org), downloaded in April 2011.

25 These indicators are (1) number of (almost certainly) discriminatory measures imposed, (2) number of tariff lines (product categories) affected by (almost certainly) discriminatory measures, (3) number of sectors affected by (almost certainly) discriminatory measures, and (4) number of trading partners affected by (almost certainly) discriminatory measures.

26 See table III.1 in the annex to this chapter.
Figure 16. Decline in discrimination and ratios of discriminatory to liberalizing measures

Source: Global Trade Alert database, April 2011.

Figure 17. Higher GDP growth in Asia-Pacific economies is associated with lower ratios of discriminatory to liberalizing measures

Source: Global Trade Alert database, April 2011 and IMF World Economic Outlook database, April 2011.

Notes: Each Asia-Pacific economy that has a positive number of measures in the Global Trade Alert database, and for which GDP growth figures are available in the World Economic Outlook, is reported twice (2009 and 2010).
Asia-Pacific commercial interests have recently been targeted less often by harmful measures over time (figure 18). A comparison of figures 16 and 18 shows that the decline in protectionism targeting the region is similar to trends in protectionism at the global level. In particular, some two thirds of globally implemented harmful measures target economies in the Asia-Pacific region each quarter. Figure 18 also shows that the quarterly ratios of discriminatory to liberalizing measures targeting the region show a parallel trend with such ratios implemented globally. However, in each quarter, the Asia-Pacific region has experienced relatively greater benefit from liberalization than the world on average; the line for the ratios of measures targeting the region runs below the line for the ratios of measures implemented globally.

**Figure 18.** Asia-Pacific economies have recently been targeted less often by harmful measures

Source: Global Trade Alert database, April 2011.

A closer look at the data shows that discriminatory measures hurt trading partners selectively and run counter to the spirit and commitments adopted under the multilateral trading system. China remains as the most frequent target of contemporary protectionism and has been the recipient of 402 measures affecting its commercial interests abroad since November 2008 (ESCAP, 2010).27 Despite the worldwide decline in implemented measures during the past 12 months compared with the crisis year of 2009, China was targeted 40% more often in 2010 than in the previous year. All of the other top 10 target jurisdictions are industrialized economies, including Japan and the Republic of Korea. Emerging economies from Asia and the Pacific on the list of top 20 target jurisdictions include India, Malaysia, Thailand and Turkey.

The treatment of least developed countries around the globe as well as in the region is particularly frustrating; their commercial interests were targeted by 124 harmful measures, despite repeated declarations by the international community to assist those countries in their efforts to integrate into the global economy (Evenett, 2010; and Mikic, 2009). Finally, it should be noted that the number of discriminatory measures imposed on a target correlate strongly with the pre-crisis export figures of the target country; thus, the size of exports is a good indicator of how often a country is affected by protectionist measures.28

27 See table III.2 in the annex to this chapter.

28 The correlation coefficient of the number of discriminatory measures imposed on top 20 targets and their export values in 2008 is 0.91.
C. BEHIND-THE-BORDER GOVERNMENT INTERVENTION STILL A PREVALENT TRADE POLICY TOOL

As discussed above, Asian and Pacific economies largely restrained themselves from increasing the levels of MFN applied tariffs in 2009. Nonetheless, they made extensive use of less transparent protectionist measures – so-called "murky" measures – during the global economic crisis. This section explains how the types of protectionism changed, quarter-by-quarter. Figure 19 examines the quarterly shares of different groups of measure types. Protectionist measures implemented globally are detailed in panel (a) while protectionist measures implemented by Asia-Pacific countries and protectionist measures that target at least one Asia-Pacific country are detailed in panels (b) and (c).

"Behind-the-border measures were comprehensively used throughout the crisis and continued to be a prevalent (trade) policy tool during the economic recovery in 2010"

Panel (a) shows that behind-the-border measures, which tend to be less tightly regulated by WTO rules, were comprehensively used throughout the crisis and continued to be a prevalent (trade) policy tool during the economic recovery in 2010. The share of these types of measures in total protectionist measures reached a peak of almost 80% at the beginning of the crisis, declined to just above 50% during the first half of 2009, and balanced at around 40% until the third quarter of 2010. This is a particularly worrisome trend, to the extent that more than 60% of all bailout and government aid measures implemented during the analysed quarters were provided to non-financial sectors that hardly posed a "systemic threat" during the crisis.

One explanation for the relatively large share of non-transparent measures, even during the recovery in 2010, may be that new disturbances – such as the currency and debt crises – have hit world economies, thus prompting the use of precautionary measures such as government aid to protect domestic markets. Harmful government interventions during the two most recent quarters appear to have been more transparent; the share of behind-the-border measures declined to less than 20%, while the share of at-the-border non-tariff measures including quotas, import bans, technical barriers to trade and non-tariff barriers (not otherwise specified) increased accordingly. Tariff-related measures (mostly trade defence measures) made up some 35% throughout most of the period under review.

Panel (b) shows that the picture of protectionism induced by the Asia-Pacific region looks similar. It is interesting that more recently (first quarter of 2011) the region's share of "murky" measures was still above 50%, indicating that the Asian and Pacific region implements relatively less transparent trade policies than the rest of the world.

Finally, a comparison of how the Asian and Pacific region is targeted by harmful government measures is shown in panel (c), with the global distribution of such measures illustrated in panel (a), indicating that, on average, the region suffers by at least 10 percentage points less from "murky" forms of protectionism than the rest of the world (see bar to the right in each panel).

29 Recent empirical findings suggest that "tight" tariff bindings on non-agricultural goods have been associated with higher levels of murkier forms of protectionism during the crisis. It is, therefore, of little comfort that WTO members did not violate their tariff bindings if protectionist pressures are displaced rather than curtailed (see Evenett and others, 2010).

30 It should, however, be noted that the number of government interventions did not increase when new threats emerged from the currency and debt crisis in 2010).
Figure 19. Changes in protectionism, quarter-by-quarter

Panel (a) Protectionism implemented globally

Panel (b) Protectionism implemented by the Asian and Pacific region

Panel (c) Protectionism against the Asian and Pacific region

Source: Global Trade Alert, April 2011.
Notes: Tariff-related measures include tariff and trade defence measures. Non-tariff measures at-the-border include quotas, import bans, technical barriers to trade (TBT), non-tariff barriers (not otherwise specified). Non-tariff measures behind-the-border include consumption subsidies, local content requirements, public procurement, bailout/state aid measures, export subsidies, trade finance support, support to state-owned trading enterprises and state-controlled companies. Others include investment, migration, intellectual property protection and other service sector measures.
D. MANUFACTURING SECTOR TARGETED MOST FREQUENTLY

A sectoral analysis of protectionist measures reveals that the manufacturing sector, and in particular machinery and equipment, is targeted most frequently (figure 20). Globally, more than 40% of all protectionist measures target the machinery and equipment industry. Regionally, this number is almost 50%. Unsurprisingly, this industry is – with 55% of all measures – targeted relatively more in (emerging) economies of the Asian and Pacific region than globally. Many countries supported their manufacturing sectors during the crisis and thus reduced demand from their suppliers – most likely in East Asia.

The analysis also shows that protectionism in agriculture and related industries does exist and that some 20% of all measures, both globally and regionally, are implemented to protect this sector at home or target the sector in other countries (figure 20). With regard to measures in the financial sector, it should be noted that bailouts of banks and other financial institutions have been used relatively less by countries of the region, while these countries have also been less affected by such measures than the rest of the world. Finally, an analysis of targeted sector groups over time reveals that the patterns are relatively constant, except that financial sector support measures were used predominantly at the beginning of the crisis.31

Figure 20. Which sector groups are targeted most often?

Source: Global Trade Alert, April 2011.
Notes: Sectors are classified according to United Nations Statistics Division CPCprov. This classification is used by the Global Trade Alert.

E. "GREEN" CLAUSES MOST FREQUENTLY USED IN ASIA AND THE PACIFIC

The Asian and Pacific region has experienced an enormous economic expansion during the past decade, which was largely driven by an export-led growth strategy. This development has led to a sharp increase in (fossil fuel-intensive) production and cargo transportation, resulting in a significant surge in greenhouse gas emissions that are likely to accelerate climate change and its potentially devastating impacts. There are at least two key factors why governments in the region are (and should be) concerned about climate issues. Firstly, countries in the region are expected to be hit hardest by these changes, inter alia, due to their limited environmental carrying capacity and large coastal populations. Secondly, international attention to environmental and climate issues has recently intensified and pressure has increased on businesses to use more energy-efficient technologies in order to remain competitive on world markets. This

31 See chapter 3 annex, figure III.1.
presents an important challenge for governments and exporters in the Asia-Pacific region. Wermelinger and Barnes (2010) critically discussed to what extent climate policies could contribute to a low-carbon and trade-enhancing development path, without introducing new discrimination against trading partners.

This chapter shows that many governments implemented measures to help and rescue domestic industries during the global economic crisis. This section examines to what extent these measures constitute "murky" protectionism, i.e. implemented under the pretext of pursuing "green growth" strategies in the region and elsewhere, and whether these measures are likely to be beneficial for both trade and the environment. In part II, chapter 5 explores in more detail the trade and investment opportunities in climate-smart goods and services.

Figure 21 shows that "green" clauses were used most frequently by the Asia-Pacific economies in their measures, both by introducing new discrimination against commercial interests of their trading partners, and by liberalizing trade or introducing beneficial effects for their partner countries.

A closer look at these measures reveals at least four patterns. Firstly, "green" clauses were introduced by many economies and, in combination with discriminatory measures (implemented and pending measures), were most prominently used in the Republic of Korea (four measures), China (three measures), Japan (two measures) and the Russian Federation (two measures).

Secondly, discriminatory measures under the "green" clause category were most frequently introduced through "murky" forms of trade discrimination, particularly bailouts. In contrast, "green" liberalization measures were most frequently enacted in the form of tariff cuts or tariff exemptions.

Thirdly, in two thirds of the discriminatory measures, "green" clauses are combined with several other (harmful) policies that have no climate or environmental purpose. This finding supports the argument that it is more acceptable to use discriminatory measures and to protect domestic producers from foreign producers (particularly during economic downturns and as part of the negotiations on climate change), if some environmental or climate objective is mentioned in the regulation (Aggarwal and Evenett, 2010). Interestingly, the "green" aspect is the main purpose of implementing most liberalizing measures, and thereby clearly shows that climate-friendly and trade-enhancing policies can, in fact, be merged.

Finally, 46 trading partners, 6 sectors and 42 product lines are, on average, affected by distortionary "green" clause measures. This illustrates the likely economic and political importance of these measures.

**Figure 21. Most frequent use of "green" clauses, by region**

![Figure 21. Most frequent use of "green" clauses, by region](image)

*Source: Global Trade Alert, April 2011.*

*Note: Keywords used to find Global Trade Alert measures with a "green" clause are: green; environment; energy; climate; emission; wind; and solar. The "green" clause of each identified measure is carefully studied. Two groups are distinguished: group (a) that includes measures for which the "green" clause is the main purpose of implementation; and group (b) that includes measures for which the "green" clause is of secondary importance.*

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“The Asian and Pacific region used "green" clauses in their measures most often”
## Annex

### Table III.1. Asia-Pacific countries among the biggest offenders

<table>
<thead>
<tr>
<th>Rank</th>
<th>Metric, country specified rank, number</th>
<th>Ranked by number of (almost certainly) discriminatory measures imposed</th>
<th>Ranked by the number of tariff lines (product categories) affected by (almost certainly) discriminatory measures</th>
<th>Ranked by the number of sectors affected by (almost certainly) discriminatory measures</th>
<th>Ranked by the number of trading partners affected by (almost certainly) discriminatory measures</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>EU-27 (198)</td>
<td>Viet Nam (927)</td>
<td>Algeria (62)</td>
<td>EU-27 (180)</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Russian Federation (101)</td>
<td>Venezuela (785)</td>
<td>EU-27 (57)</td>
<td>Argentina (174)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Argentina (78)</td>
<td>Kazakhstan (724)</td>
<td>Nigeria (45)</td>
<td>China (164)</td>
<td></td>
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<tr>
<td>4</td>
<td>India (46)</td>
<td>Nigeria (599)</td>
<td>Kazakhstan (43)</td>
<td>Germany (161)</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Germany (40)</td>
<td>EU-27 (544)</td>
<td>United States (42)</td>
<td>United Kingdom (154)</td>
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</tr>
<tr>
<td>6</td>
<td>Brazil (38)</td>
<td>Algeria (476)</td>
<td>Germany (40)</td>
<td>Belgium, Finland (153)</td>
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<td>Russian Federation (435)</td>
<td>Indonesia (39)</td>
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<td>Russian Federation, Venezuela, Viet Nam (38)</td>
<td>France (149)</td>
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<td>Republic of Korea (43)</td>
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<td>Poland, Spain, Viet Nam (148)</td>
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<td>Italy, Spain (29)</td>
<td>India (365)</td>
<td>Ethiopia (32)</td>
<td>Netherlands (146)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Global Trade Alert database, April 2011.

### Table III.2. Commercial interests of countries still under attack in the post-crisis period

<table>
<thead>
<tr>
<th>Rank</th>
<th>Top 20 targets</th>
<th>Number of discriminatory measures imposed on target</th>
<th>Number of pending measures, which if implemented, would harm target</th>
</tr>
</thead>
<tbody>
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<td></td>
<td></td>
<td>April 2011</td>
<td>Increase from the last 12 months</td>
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<tr>
<td>1</td>
<td>China</td>
<td>402</td>
<td>117</td>
</tr>
<tr>
<td>2</td>
<td>EU-27</td>
<td>385</td>
<td>.</td>
</tr>
<tr>
<td>3</td>
<td>United States</td>
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<td>4</td>
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<td>5</td>
<td>France</td>
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<td>10</td>
<td>Netherlands</td>
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<td>60</td>
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</tbody>
</table>

Source: Global Trade Alert database, April 2011.
Figure III.1. Service sector groups targeted quarter-by-quarter

Panel (a) Protectionism implemented globally

Panel (b) Protectionism implemented by the Asia-Pacific region

Panel (c) Protectionism targeting the Asia-Pacific region

Source: Global Trade Alert database, April 2011.
Notes: Sector classification according to United Nations Statistics Division CPCprov. This classification is used by the Global Trade Alert.