

DEALING WITH PROTECTIONIST PRESSURES



CHAPTER 5

DEALING WITH PROTECTIONIST PRESSURES

A. GLOBAL LANDSCAPE OF PROTECTIONIST MEASURES

This chapter provides a picture of post-crisis trade and investment interventions in the Asia-Pacific region. It focuses not only on restrictions on merchandise trading, but also on new obstacles to services trade and movements of people, including service providers.

The recent trends in discriminatory measures imposed worldwide and the risks of increased protectionism have been regarded with growing concern. Several recent reports (WTO, 2012b; WTO, 2012c; Global Trade Alert, 2012) have emphasized an increase in protectionist measures; even if estimates of the number of measures implemented differ, it is commonly agreed that there has been an increase of “murky protectionism”,¹ that is, a shift from traditional forms of protectionism, such as tariff measures and trade defence measures, to less transparent forms.

Since the onset of the global economic crisis at the end of 2008, several international institutions have been monitoring protectionist trends. Overall, these reports have found that the rise in protectionism – at least of the traditional forms such as tariff increases and trade defence measures – has been much milder than expected and feared. However, the

¹ This term was introduced by Baldwin and Evenett (2009), who defined murky measures as “abuses of legitimate discretion which are used to discriminate against foreign goods, companies, workers and investors”.

most recent report by the WTO secretariat (2012c) warns of the increased duration of implementing discriminatory measures, the effects of which on trade may therefore start to bite more strongly.

The lack of economic revival in the most developed economies as well as financing difficulties in emerging economies have provided fertile ground for the growth of protectionist actions. From October 2010 to April 2011, WTO members and observer governments implemented 339 measures that restrict or can potentially restrict trade. Subsequently, between October 2011 and May 2012, 182 such measures² were implemented (WTO, 2012c). Among those measures, the most common were trade remedies, (anti-dumping investigations, countervailing duty investigations and safeguard investigations), import tariff increases and other forms of border controls.

These measures affected some 0.9% of world merchandise trading from mid-October 2011 to mid-May 2012, which is marginally more than the entire previous one-year period (0.87%).³ Nevertheless, the restrictive measures are piling up and the WTO secretariat (2012b) estimates that the measures

² Referred to in the Global Trade Alert database as trade defence measures.

³ The value of trade covered is calculated using the United Nations Comtrade database, and is counted at the 6-digit tariff line level. For anti-dumping and countervailing measures, the trade value included is the amount of imports from the trading partners affected by the relevant measure. When more than one measure affects the same product from the same origin, the value of imports is counted only once (WTO, 2012c).

Table 5.1. HS chapters most affected by import restrictive measures, October 2011-May 2012

(Percentage)

HS Chapters	Share in total number of restrictive measures	Share in total world imports
Agricultural products	9.2	
HS 02 – Meat and edible meat offal	4.0	0.61
HS 17 – Sugar and sugar confectionary	1.3	0.27
Industrial products	90.8	
HS 90 – Optical and other precision instruments	36.1	2.83
HS 87 – Vehicles	9.6	7.03
HS 84 – Machinery and mechanical appliances	8.0	11.6
HS 85 – Electrical machinery and parts thereof	6.9	12.0
HS 72 – Iron and steel	5.0	2.5

Sources: Calculations of (a) the share in the total number of restrictive measures are based on 2010 data from WTO 2012c, and (b) the share in total world imports are based on 2011 data from the online WITS database.

implemented since the outbreak of the global financial crisis and still in place covers around some 3% of global merchandise trade. Despite that modest WTO estimation, the amount is already a matter of concern, especially in view of their concentration on particular products and countries as well as their slow pace of removal – only 18% of the 802 restrictive measures implemented since October 2008 have been terminated. Evenett and Fritz (2010) proposed an alternative benchmark for the impact of post-crisis protectionism, estimating that the trade coverage of the most harmful measures was already above 10% in July 2010.

The measures are mostly aimed at protecting industrial products (90.8%), with less than 10% of all measures targeting agricultural products (table 5.1). Within these two sectors, there is a wide variety in the distribution of measures per specific economic activity. The most affected in terms of a share of all restrictive measures is “optical and other precision instruments”, which accounted for some 36% of the total number of restrictions, followed by vehicles, machinery and mechanical appliances, electrical machinery and parts thereof, and the iron and steel sectors (table 5.1).

B. PROTECTIONIST DYNAMICS IN ASIA AND THE PACIFIC

According to the Global Trade Alert⁴ (GTA) database, the Asian and Pacific region⁵ has contributed some 42% of the 1,365 measures classified as almost certainly discriminatory (also referred to as the “red” measures)⁶ and implemented globally since November 2008.⁷ This number includes:

⁴ GTA is an initiative monitoring state policies affecting international trade since November 2008.

⁵ The “Asian and Pacific region” in the analyses of data from the GTA database comprises 51 members of ESCAP, i.e.: Afghanistan; Armenia; Australia; Azerbaijan; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; China; Fiji; Georgia; Hong Kong, China; India; Indonesia; Iran (Islamic Republic of); Japan; Kazakhstan; Kiribati; Democratic People’s Republic of Korea; Republic of Korea; Kyrgyzstan; Lao People’s Democratic Republic; Macao, China; Malaysia; Maldives; Marshall Islands; Micronesia (Federated States of); Mongolia; Myanmar; Nauru; Nepal; New Zealand; Pakistan; Palau; Papua New Guinea; Philippines; Russian Federation; Samoa; Singapore; Solomon Islands; Sri Lanka; Tajikistan; Thailand; Timor-Leste; Tonga; Turkey; Turkmenistan; Tuvalu; Uzbekistan; Vanuatu; and Viet Nam. See also annex 5.1 to this chapter.

⁶ See annex 5.1 to this chapter for the GTA colour code criteria.

⁷ GTA database online, accessed 2 October 2012.

- (a) Traditional forms of protectionism (tariff measures and trade defence instruments, such as anti-dumping, countervailing duties and safeguards); and
- (b) Less transparent forms of protectionism (bail-out/state aid measures, competitive devaluations, consumption subsidies, export subsidies, export taxes or restrictions, import bans, import subsidies, intellectual property protection, investment measures, local content requirements, migration measures, non-tariff barriers (not otherwise specified), other service sector measures, public procurements, quotas (including tariff rate quotas), sanitary and phytosanitary measures, state trading enterprises, state-controlled companies, subnational government measures, technical barriers to trade, and trade finance.

Because it takes time for many measures to become apparent and be reported, the most recent data often under-estimate the real level of protectionism. For this reason, the analysis in this chapter uses data from the most recent two-year period, starting from January 2010. The contribution of the region to generating protectionism did not change much in those two years, and the region accounted, on average, for 42.5% of the 832 measures classified as almost certainly discriminatory.⁸ The

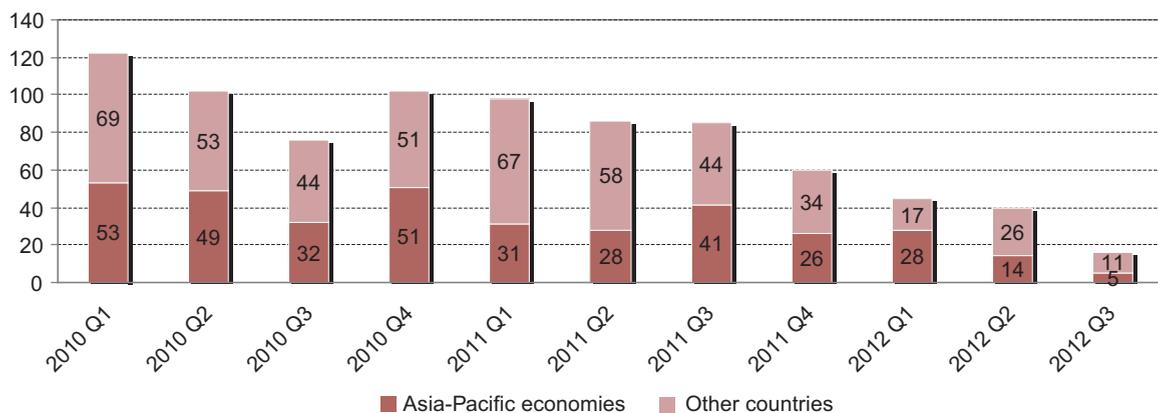
⁸ The almost certainly discriminatory measures considered in this chapter are all those implemented since 2010, including those repealed or withdrawn.

quarterly analysis shows a falling trend in the use of protectionist measures (figure 5.1).

As illustrated by a breakdown of measure types (figure 5.2), the region is responsible for more than half of the traditional forms of protectionism implemented since 2010 and classified as red (56%), while its influence is lower for less transparent forms of protectionism (37%). Despite the lower share of the less transparent measures, the region is responsible for all the consumption subsidies, import subsidies, intellectual property protection measures, measures supporting state-owned trading enterprises and subnational government measures reported by GTA during this period. Its influence is also extensive for trade finance measures, state aid to state-controlled companies, and quotas (including tariff rate quotas). In contrast, the region only contributed a few or none of the sanitary and phytosanitary measures, non-tariff barriers (not otherwise specified) and migration measures implemented since 2010.

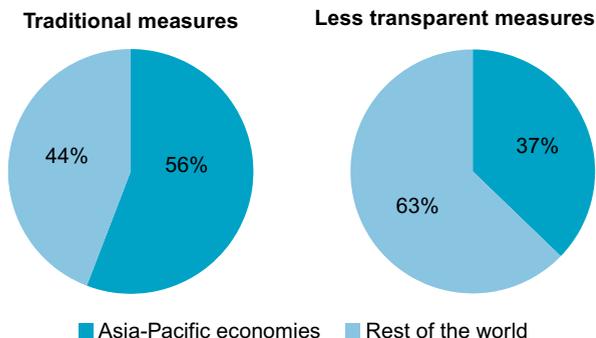
Compared with the first wave of post-crisis protectionism in 2008 and 2009, the contribution of Asia and the Pacific was relatively stable measure-wise from 2010 until present. A more marked change can be detected only in two cases: (a) an increase of the region's share of bail-out/state aid measures; and (b) a fall in the use of public procurement.

Figure 5.1. Contribution of the Asia-Pacific region to worldwide red measures, 2010-2012



Source: GTA database, accessed 1 October 2012.

Figure 5.2. Contribution of the Asia-Pacific region to worldwide red measures, by type of measures, 2010-2012



Source: GTA database, accessed 2 October 2012.

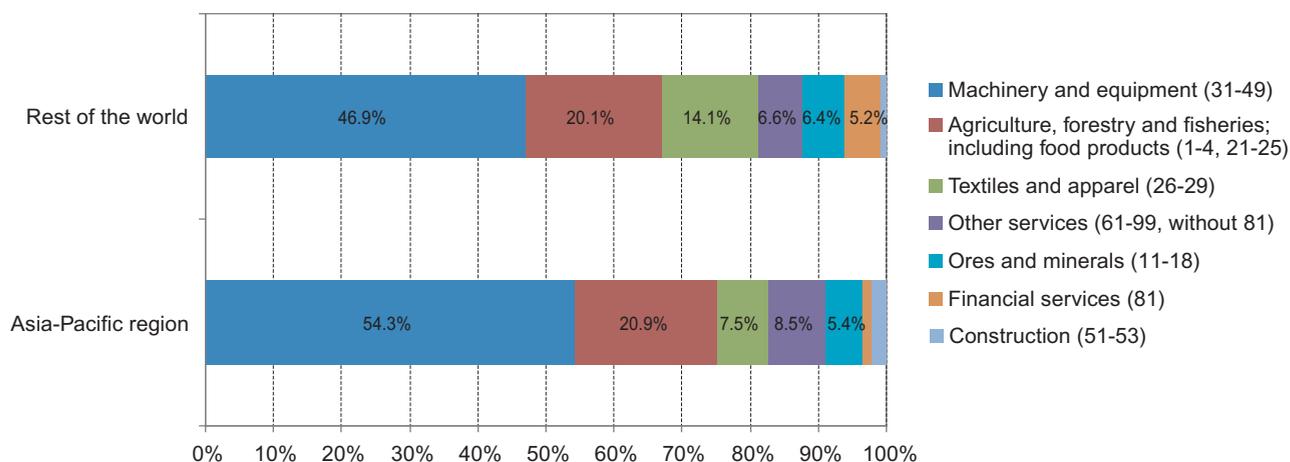
The protection of the manufacturing sector drew the most attention by Governments in the region and globally, attracting more than 61% of all discriminatory measures, both almost certainly discriminatory (or “red” measures) and likely to be discriminatory (also referred to as “amber” measures)⁹ (figure 5.3). Most of those measures

⁹ The likely to be discriminatory measures considered in this chapter are those implemented since 2010 that likely involve discrimination against foreign commercial interests, or those measures announced or under consideration that would (if implemented) almost certainly involve discrimination against foreign commercial interests. For the GTA colour code criteria see annex 5.1 to this chapter.

targeted machinery and equipment, with a larger share in Asia and the Pacific than in the rest of the world (54.3% and 47%, respectively). The region was less protective of the textiles and apparel sector, which attracted only 7.5% of all measures (compared with 14.1% for the rest of the world). The agricultural sector was protected by 81 discriminatory measures regionally and 101 measures in other countries, accounting for 21% and 20% of the total measures imposed, respectively. In general, the Asia-Pacific region was less protective in services, especially the financial services sector, which regionally attracted only one quarter of the measures compared with the level in the rest of the world (figure 5.3).

By using the GTA indicators of harm, it is possible to identify the individual countries inflicting the most harm by their policies as well as the most adversely affected countries. The GTA uses four indicators of harm: (a) the overall number of red measures imposed; (b) the number of tariff lines affected by red measures; (c) the number of sectors affected by red measures; and (d) the number of trading partners affected by red measures. The top 10 offenders in the region according to the four indicators are listed in table 5.2. Based on the overall number of measures, the Asian BRICS countries (China, India and the Russian Federation)

Figure 5.3. Use of discriminatory measures by the Asia-Pacific region compared with the rest of the world, by sector group, 2010-2012



Source: GTA database, accessed 2 October 2012.

Note: Sectors are classified according to the United Nations Provisional Central Product Classification (CPCProv).

Table 5.2. Ranking of Asia-Pacific countries according to GTA indicators of harm caused by red measures, 2008-2012

Overall number of red measures	Coverage in terms of tariff lines	Sectoral coverage	Geographic coverage
Russian Federation (173)	Viet Nam (931)	China (52)	China (192)
India (82)	Kazakhstan (732)	Russian Federation (45)	India (153)
China (62)	China (704)	Kazakhstan (43)	Indonesia (153)
Kazakhstan (52)	Russian Federation (446)	Indonesia (40)	Viet Nam (148)
Indonesia (47)	India (407)	Viet Nam (39)	Russian Federation (144)
Turkey (34)	Indonesia (398)	Republic of Korea (34)	Republic of Korea (122)
Australia (24)	Republic of Korea (195)	India (33)	Japan (116)
Japan (24)	Japan (141)	Australia (23)	Kazakhstan (109)
Viet Nam (23)	Iran (Islamic Republic of) (65)	Turkey (20)	Malaysia (104)
Republic of Korea (20)	Turkey (44)	Japan (15)	Thailand (104)

Source: GTA database, accessed 28 September 2012.

are among the top offenders in the period under observation. These three countries accounted for slightly more than half of the total measures implemented regionally.

If the period of observation is shortened to cover only post-crisis period (2010-2012) there is only small change in the top 10 users of protectionist measures (table 5.3). Based on the total number of red measures used, Kazakhstan overtook China to rank third. It is important to note that only 19 countries in the region have imposed protectionist measures in these past two years;¹⁰ therefore the

¹⁰ Since the onset of the crisis, 24 countries have been implementing discriminatory measures in the region.

Table 5.3. Ranking of Asia-Pacific countries according to overall number of red measures implemented, 2010-2012

Implementing jurisdiction	Number of red measures
Russian Federation	110
India	53
Kazakhstan	42
China	40
Indonesia	28
Turkey	25
Viet Nam	16
Australia	14
Republic of Korea	13
Japan	11

Source: GTA database, accessed 2 October 2012.

protectionist actions are concentrated in less than half of the countries of the region.¹¹

Regarding the countries that were targeted by those measures, China continues to be the most affected in the region (and the world) with a total of 403 discriminatory measures against its commercial interests in the past two years¹² (table 5.4). With less than half of the measures targeting their trade, the countries immediately following China in the list are Japan and the Republic of Korea, which are

¹¹ See annex 5.2 to this chapter for the complete list.

¹² China has been targeted by 83 countries since the onset of the global financial crisis.

Table 5.4. Top 10 targeted jurisdictions in the Asia-Pacific region, 2010-2012^a

Targeted jurisdiction	Number of almost discriminatory measures
China	403
Japan	199
Republic of Korea	193
India	176
Thailand	176
Malaysia	148
Turkey	142
Indonesia	136
Singapore	116
Russian Federation	95

Source: GTA database, accessed online 2 October 2012.

^a See annex table 5.3 to this chapter for the complete list.

also ranked globally as seventh and ninth most affected countries, respectively.¹³

Many Asia-Pacific countries did not impose discriminatory measures, but they still experienced the impact of such measures implemented by their trading partners. Since 2010, only five Asia-Pacific countries have escaped the protectionist impact, yet more than half of the countries in the region have not imposed any measures. Moreover, except for the Russian Federation, all other countries in the region have a “deficit” in terms of protectionist actions, meaning that they have all been targeted by more discriminatory measures relative to the number they imposed. This has been the case during the past two years as well as for the whole period since the crisis started in November 2008.

The Asia-Pacific Trade and Investment Report 2011 (ESCAP, 2011a) confirmed that countries attracting the greatest number of discriminatory measures were those that exported large volumes before the crisis.¹⁴ Similarly, countries that are most targeted also tend to be among the countries with the highest number of measures used against other

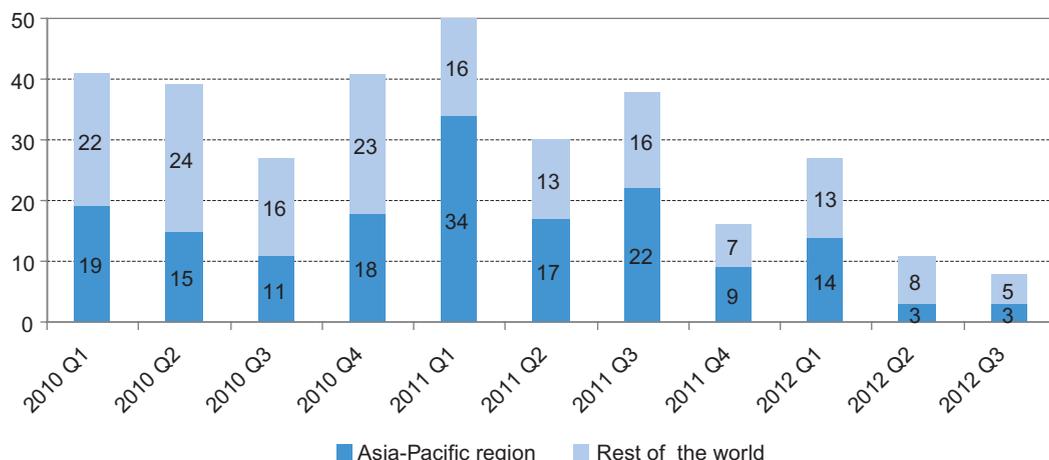
countries.¹⁵ Despite this relationship, affected countries do not appear to retaliate when other countries impose such measures on them. There is in fact strong evidence that the probability of a protectionist measure affecting exports of a trading partner is significantly smaller when the partner imposes a protectionist measure on home exports (Boffa and Olarreaga, 2012).

In order to gain a more complete picture of the contemporary protectionist tendencies, it is important to investigate the interaction of discriminatory and liberalizing measures. The GTA database reports a group of measures referred to as “green” measures, which includes those measures involving liberalization on a non-discriminatory basis (i.e. most-favoured-nation basis), those found not to be discriminatory and those improving the transparency of a jurisdiction’s trade-related policies.¹⁶ The quarterly data show a decreasing trend in the amount of green measures since the first quarter of 2011 (figure 5.4), which may be due to the delayed recognition of the new measures, as suggested above.

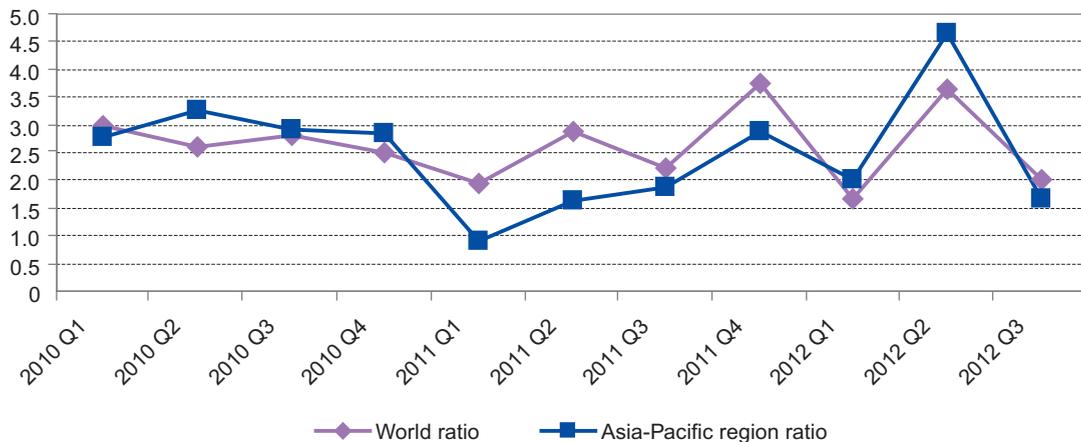
¹⁵ The correlation coefficient of the number of discriminatory measures imposed and the number of discriminatory measures faced by the countries in Asia-Pacific region since November 2008 is 0.24.

¹⁶ See annex 5.1 to this chapter for the GTA colour code criteria.

Figure 5.4. Contribution by the Asia-Pacific region to worldwide green measures, 2010-2012



Source: GTA database, accessed online 1 October 2012.

Figure 5.5. Interaction of discriminatory and liberalizing measures, 2010-2012

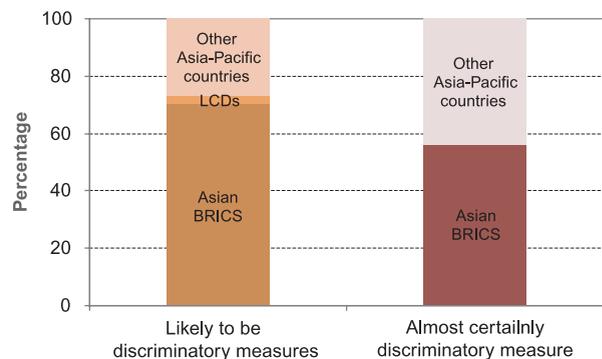
Source: GTA database, accessed online 1 October 2012.

After declining from its peak in the first quarter of 2009 (ESCAP, 2012), the ratio between discriminatory and liberalizing measures, increased again during the past year, both globally to a ratio of 3.5 and regionally to a ratio of 4.5 (figure 5.5). This trend is likely to be related to the recent slowdown of the global economy, reflecting the linkage between higher GDP growth rates and smaller ratios of discriminatory to liberalizing measures, shown for Asia-Pacific countries in ESCAP (2011a).

1. Least developed countries face more restrictions than large emerging Asian economies

The Asia-Pacific region includes three large emerging economies that are also members of BRICS¹⁷ (China, India and the Russian Federation, referred to as the Asian BRICS countries in this chapter). Asia and the Pacific is also home to 13 least developed countries (LDCs).¹⁸ The contribution by these two groups of countries to the total number of discriminatory measures is (expectedly) different (figure 5.6). The Asian BRICS group has dominated the protectionist actions taken in the region since 2010, accounting for 56% of the

total number of red measures and 70% of the total number of amber measures. In contrast, the LDCs have implemented only two measures out of a total of 440 discriminatory measures, neither of which is classified as red.

Figure 5.6. Contribution by Asian BRICS and Asian LDCs to discriminatory measures imposed in the Asia-Pacific region, 2010-2012^a

Source: GTA database, accessed online 1 October 2012.

^a See annex 5.4 of this chapter for a breakdown, by type of measure and country group.

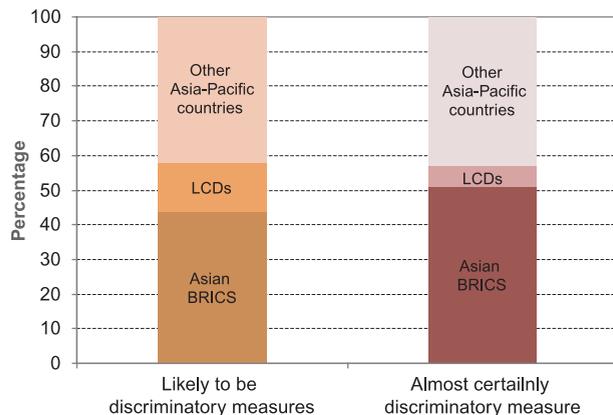
All measures entailing state trading enterprises and consumption subsidies undertaken regionally in the period under consideration have been implemented by the Asian BRICS. These countries also have a prominent share in other discriminatory measures such as state-controlling companies,¹⁹ bail-out/state

¹⁷ The BRICS group also includes Brazil and South Africa.

¹⁸ The group comprises Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao People's Democratic Republic, Myanmar, Nepal, Samoa, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu.

¹⁹ All implemented by the Russian Federation.

Figure 5.7. Share of discriminatory measures affecting Asian BRICS and LDCs in the Asia-Pacific region^a



Source: GTA database, accessed 3 October 2012.

^a See annex 5.4 of this chapter for a breakdown by group of countries.

aid measures, quotas (including tariff rate quotas), other service sector measures and export subsidies. On the contrary, these countries have not implemented any competitive devaluation, import subsidy, or any intellectual property protection, migration, subnational government or trade finance measures in the past two-year period.

Looking at the measures that have been imposed against the commercial interests of the Asia-Pacific region, the Asian BRICS' share is 44% for likely to be discriminatory measures and 51% for almost certainly discriminatory measures, while Asian LDCs face around 14% and 6%, respectively. Among the LDCs in the region, Bangladesh has attracted the most protectionist measures – 43 discriminatory measures out of a total of 58 affecting all 13 countries, followed by Myanmar (13) and Cambodia (12).

When expressed as a number of discriminatory measures faced per \$1 million worth of exports,²⁰ the results raise concern. The LDC group is targeted 7.5 times more heavily than the Asian BRICS countries by red measures; this number

²⁰ Export values were retrieved from the *ESCAP Statistical Yearbook 2011*, available online at www.unescap.org/stat/data/syb2011/index.asp. The data used in the calculation are the latest available for each country.

rises to 19.5 times for amber measures. This is worrying as, despite the international community having committed to give the LDCs special and differential treatment to help them use trade as an engine of growth, these countries have been disproportionately targeted by protectionism during times of crisis.

2. Traditional forms of protectionism: use or abuse?²¹

As a result of eight multilateral negotiation rounds, the tariffs in industrialized countries have fallen to about one tenth of their level at the time of GATT's creation. The developing countries have also reduced tariffs substantially. The level of bound tariffs for all products is lower in Asia and the Pacific²² (29.6%) than for the world (40%). In principle, average applied tariffs are lower everywhere. Average applied MFN tariffs for Asia-Pacific are 7.5% and 9.6% at the global level. However, not all tariff lines are covered by bindings. Since the creation of WTO in 1995, the share of imports covered by bound tariff rates has risen from 78% to 99% in developed countries, while the binding coverage in developing countries has increased from 21% to 73%. Despite this increase, the level reached by developing countries is still considered low, given that it leaves the possibility of unrestricted tariff increases for the products not covered, which are generally sensitive products.

²¹ All the calculations are based on data from the WTO/ITC/UNCTAD *World Tariff Profiles 2011*. Data from the online WITS database were also used when MFN applied tariffs data were not available in the WTO/ITC/UNCTAD *World Tariff Profiles 2011*.

²² "Asia-Pacific" in the WTO/ITC/UNCTAD *World Tariff Profiles 2011* comprises: Armenia; Australia; Azerbaijan; Bangladesh; Brunei Darussalam; Cambodia; China; Fiji; Georgia; Hong Kong, China; India; Indonesia; Japan; Kazakhstan; Republic of Korea; Kyrgyzstan; Macao, China; Malaysia; Maldives; Mongolia; Myanmar; Nepal; New Zealand; Pakistan; Palau; Papua New Guinea; Philippines; Russian Federation; Samoa; Singapore; Solomon Islands; Sri Lanka; Tajikistan; Thailand; Tonga; Turkey; Tuvalu; Uzbekistan; Vanuatu and Viet Nam. Data from the online WITS database have also been used for Armenia, Bangladesh, Cambodia and Myanmar, because MFN applied tariffs data are not available in the WTO/ITC/UNCTAD *World Tariff Profiles 2011*.

Five of the Asia-Pacific economies²³ are offering especially low binding coverage (lower than 50%).

The difference between the levels of applied and bound tariff rates could be considered as an “insurance policy” for the times when additional trade protection is needed (as, for example, during the recent crisis), as the multilateral trading rules provide this option. Most WTO members have secured such policy space through previous multilateral negotiations, both for agricultural and for

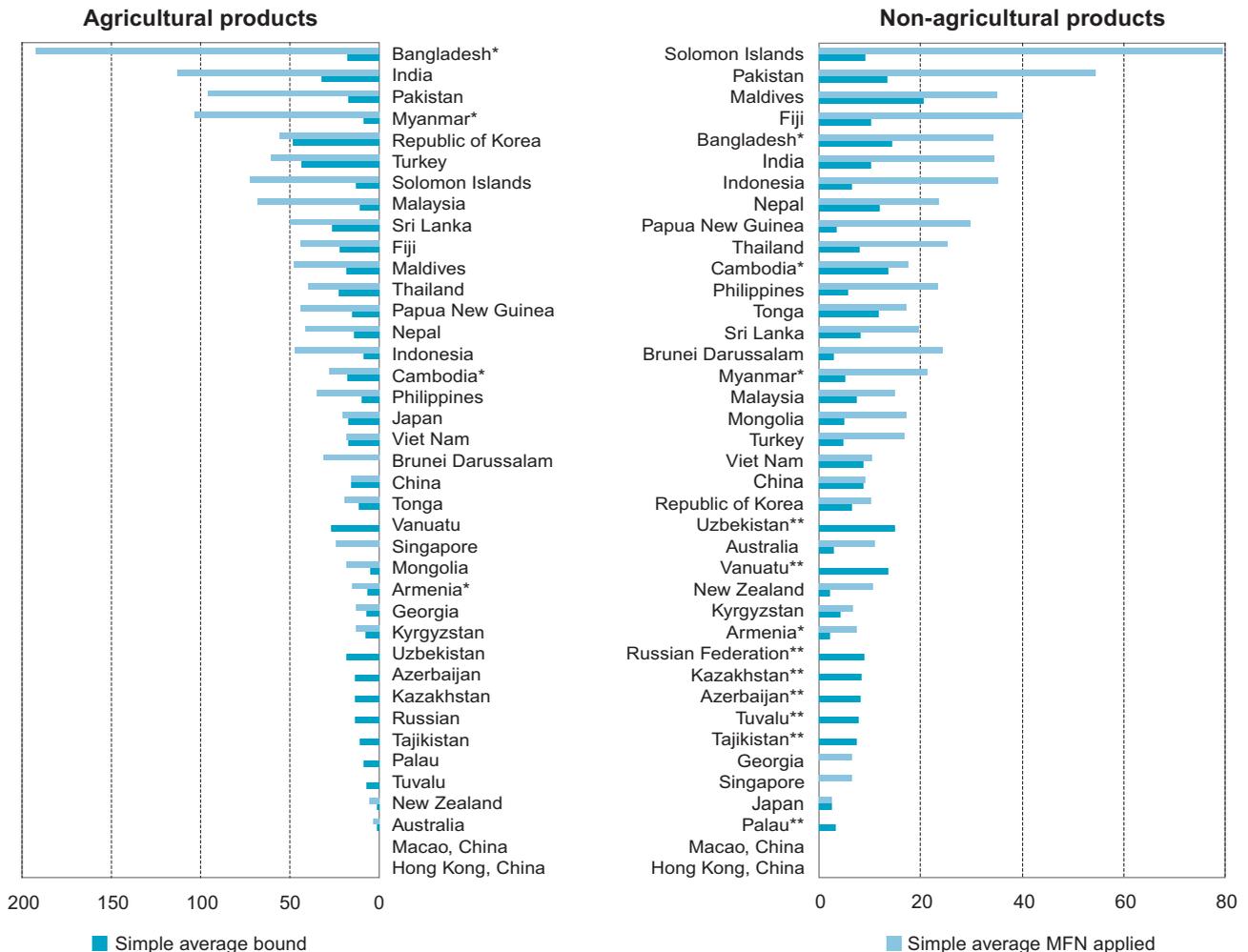
²³ Bangladesh; Hong Kong, China; Macao, China; Myanmar; and Sri Lanka.

non-agricultural goods. The difference in policy space between these two product groups should correspond to countries’ development levels and needs.

This report has explored the levels of average applied and bound rates for agricultural and non-agricultural goods for Asia-Pacific economies (figure 5.8)²⁴ and it was found that, in principle, agricultural products are more highly protected than non-agricultural products (see also box 5.1). Average applied and bound tariffs are at least twice

²⁴ Only imports covered through bindings are taken into account in the calculation of bound tariffs.

Figure 5.8. Remaining policy space for tariff intervention for agricultural and non-agricultural products in the Asia-Pacific region



Source: WTO/ITC/UNCTAD, *World Tariff Profiles 2011* (Geneva, 2011) and online WITS database.

* Simple average MFN data applied from the online WITS database, accessed on 10 September 2012.

** Data for simple average bound tariffs are not available.

as high as for the non-agricultural products (in contrast to newly-used protectionist policies in the aftermath of 2008 crisis, when most protection was given to industrial products, as explained in section A of this chapter). The higher bound rate in both groups implies a large policy space for the observed countries, which allows them to increase their protection level without breaking their commitment to the WTO trading rules. The countries that have lesser policy space for agricultural products than for non-agricultural products are Australia, China, Fiji, Georgia, New Zealand, Solomon Islands, Thailand and Viet Nam.

In general, the region on the whole has low tariffs on average compared with the world average, especially with regard to bound rates for which the world average is 57.5% for agricultural products and 30% for non-agricultural products. The average applied MFN tariff rate is around one point lower than the world average.²⁵

Several studies (including ESCAP, 2011a and Global Trade Alert, 2012) agree that countries have successfully managed to avoid tariff wars during the recent crisis compared to those that flared up in the 1930s. However, increases in tariffs have accounted for an important share of the protectionism, both regionally and globally. Based on the GTA database, tariffs have accounted for 14% of total protectionist measures implemented since 2010 in

²⁵ The world average is 15.2% for agricultural products and 8.8% for non-agricultural products.

the region, with a similar, albeit slightly lower, share globally (11.2%).

The reason why the use of tariffs has not raised reactive mercantilist actions resulting in trade or tariff wars is that the original measures were implemented within the “policy space” secured by members. In other words, all the tariff increases were legally permitted under WTO trading rules as long as they did not break the ceilings agreed upon. The same argument can be applied to trade defence measures, the implementation of which is allowed and regulated within the WTO framework and, therefore, not considered to be a form of murky protectionism.

According to the GTA database, trade defence measures remain the most implemented measures in the Asia-Pacific region and globally in the past two-year period, accounting for 31.4% and 23.7%, respectively, of the total amount of protectionism. Considering the four GTA indicators of harm, although trade defence measures have been harmful in terms of the number of red measures implemented, they have affected fewer jurisdictions, tariff lines and economic sectors than any other types of measures, such as bail-outs. This is because anti-dumping and countervailing duty measures target specific products from specific trading partners (Evenett, 2012).

It is therefore easy to conclude that the traditional forms of protectionism have played an important role in post-crisis protectionism, especially regionally.

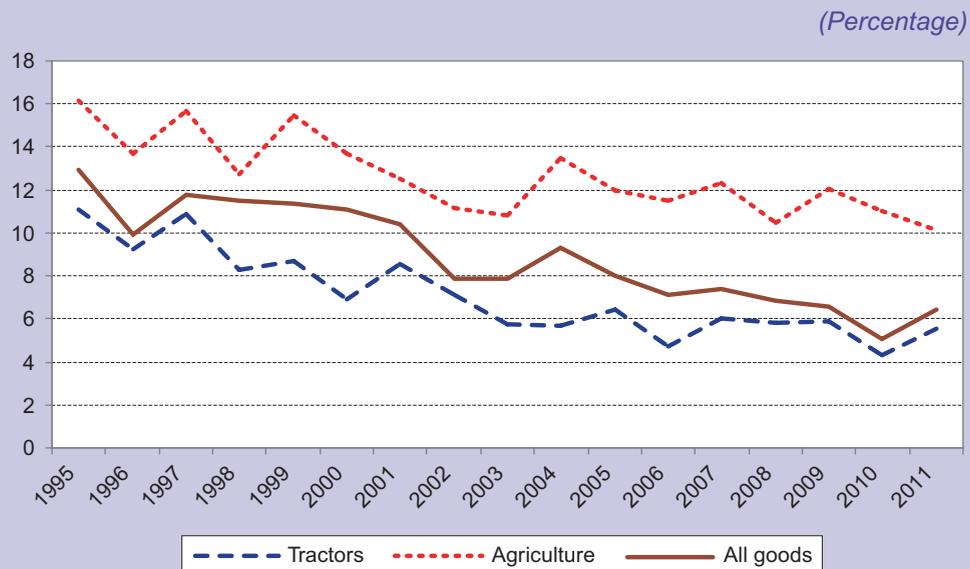
Box 5.1. Low tariffs on agricultural machinery necessary but not sufficient for modernizing agriculture in the Asia-Pacific region

Agriculture is the main livelihood in the Asia-Pacific region, providing employment for some 60% of the workforce. Given its importance to national economic growth, poverty reduction and social development, agriculture is also among the most protected sectors in Asia and the Pacific (Bandara and Yu, 2007; and figure 5.9). Trade distorting policies, among others, for protecting the welfare of domestic farmers are widely adopted. Since the beginning of the crisis in 2008, almost 100 new discriminatory interventions to protect agriculture have been implemented by Asia-Pacific countries, i.e. some 20% of all recently implemented and discriminatory measures in the region.^a

Import duties on agricultural machinery, particularly tractors, are – at around 6% – lower than the average duties for all goods and only half of the average duties for agricultural goods. However, market fragmentation in the agricultural machinery sector has resulted in inefficient allocation of resources and an influx of substandard machinery; this has led to adverse effects on the environment, thus marginalizing the already vulnerable economies in the region.

Box 5.1. (continued)

Figure 5.9. Declining average applied tariff rates on agriculture machinery in the Asia-Pacific region



Source: ESCAP calculations based on TRAINS database accessed from WITS (September 2012).

Note: Simple average tariff rates are reported.

With regional economic integration gaining momentum, intraregional trade in agricultural machinery under the ASEAN Free Trade Agreement (AFTA) as well as free trade agreements (FTAs) between and among ASEAN, China, the Republic of Korea, Japan and SAARC countries offers huge potential to modernize and mechanize Asia-Pacific agriculture as well as contribute to a new engine of regional economic growth.

Against this background, countries in the region are now forming a network to promote free trade in agricultural machinery by harmonizing testing codes and procedures. The establishment of the Asia-Pacific Network for Testing Agricultural Machinery (ANTAM), spearheaded by the Centre for Sustainable Agricultural Mechanization (CSAM),^b is aimed at enhancing quality, safety and environmental efficiency of agricultural machinery, and at facilitating agricultural machinery trading in the region through the adoption of region-wide unified or mutually recognized standards and procedures.

Initiatives such as ANTAM help to improve the institutional and investment environment for a well-functioning agricultural market. However, more effort needs to be made to reduce any border and behind-the-border discriminatory measures in the agricultural and agricultural machinery sectors. Harnessing the comparative advantage of developing and developed countries in food production, processing and agricultural machinery production, incorporating all stakeholders (particularly small and medium-sized enterprises, and small-scale farmers) will contribute to economic growth and reduce food insecurity.

Source: Based on the inputs from Ai Yuxin and Eric Roeder, CSAM. See also Bandara and Yu, 2007.

^a Numbers retrieved from www.globaltradealert.org on 11 October 2012.

^b CSAM is a new name of the United Nations Asian and Pacific Centre for Agricultural Engineering and Machinery (UNAPCAEM).

3. Less-transparent protectionist measures

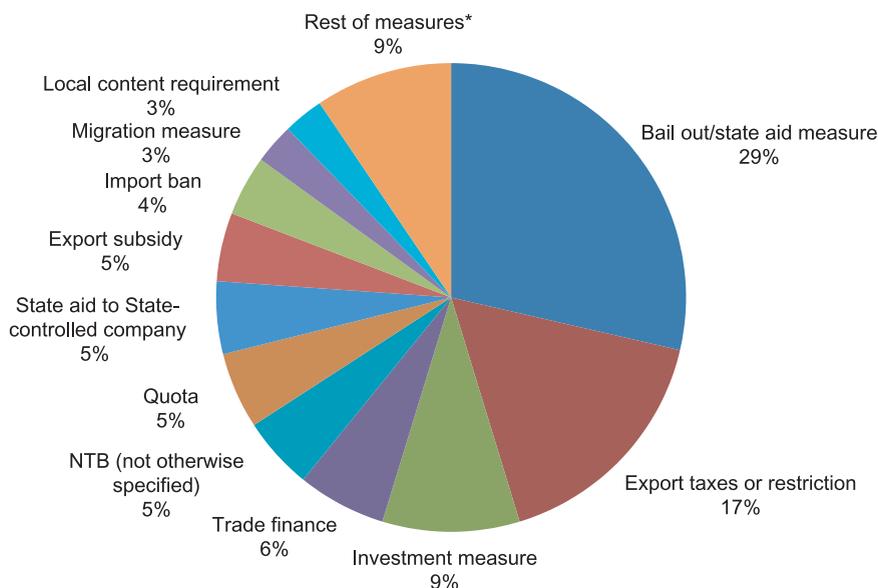
There is much evidence that non-tariff barriers (NTBs) are more harmful to global trade than are the current tariffs.²⁶ This is not to say that tariffs do not create problems; although they do – especially with tariff peaks and escalation – increases in tariffs, while affecting businesses, are transparent. Therefore, if producers are able to absorb them, they might not even affect competitiveness (at least not in a short term). However, other barriers that comprise the big box of murky protectionism (including regulatory barriers such as standards, testing and certification procedures) are much more difficult to detect. Their impact on prices and competitiveness is not direct and immediately obvious, and is therefore likely to be more lasting and damaging.

²⁶ Comprehensive trade costs estimation by ESCAP (2011a) in the *Asia-Pacific Trade and Investment Report 2011* also shows that about 60% of trade costs arise due to non-tariff measures and behind-the-border barriers. See also chapter 4 of this publication.

The different estimates by international institutions of the impact of NTBs show how complex the detection can be of these barriers. A recent UNCTAD analysis (as cited in WTO, 2012d, p. 111) covering more than 30 developing countries, the European Union and Japan shows a prevalence of technical barriers to trade (TBT) as well as sanitary and phytosanitary (SPS) measures in those markets. On the other hand, the GTA database classifies bail-out and state aid measures as the most frequently implemented.

According to the GTA database, the bail-out/state aid measures have been the most implemented measures among the less-transparent forms of protectionism in the region, accounting for 29% of total murky protectionism since 2010 (figure 5.10). The same central role has been played by these types of measures at the global level, outnumbering tariff measures. Even if financial sector bail-outs are excluded, the use of state aid for manufacturing, agriculture and other service sectors occurred more frequently than tariff increases (Evenett, 2012).

Figure 5.10. Less-transparent protectionist barriers implemented in the Asia-Pacific region, 2010-2012



Source: GTA database, accessed 1 October 2012.

* The remaining measures (9%) comprise, in decreasing order, other service sector measures, consumption subsidies, public procurement, TBT, state trading enterprises, competitive devaluation, import subsidies, intellectual property protection, subnational government measures, and sanitary and phytosanitary measures.

An important share of regional protectionism has been additionally covered by export taxes and restrictions (17%) and investment measures (9%). The composition of discriminatory measures reflects the worldwide pattern, except with regard to NTBs (not otherwise specified) and migration measures that have been less implemented in the Asia-Pacific region when compared with the worldwide average.

C. RESTRICTIONS ON SERVICES TRADE

Services trade is currently regulated by the General Agreement on Trade in Service (GATS), and a body

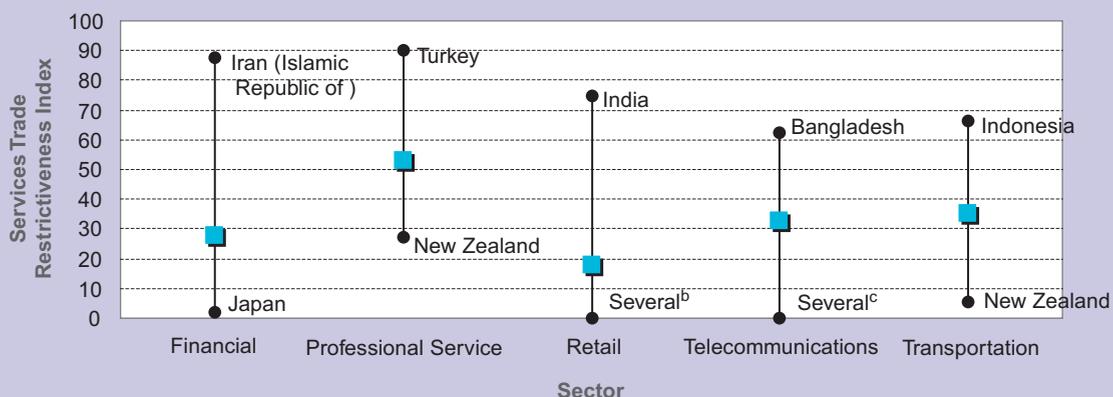
of bilateral and regional preferential trade agreements that cover virtually all countries, binding them to assure national treatment, market access, transparency and domestic regulation. An accurate analysis regarding barriers to service trade would be complicated as the data limitation is more severe than in the case of NTBs, and especially because available data do not differentiate between market access, national treatment and domestic regulation issues (WTO, 2012d).

Molinuevo (2010) suggested that the first wave of post-crisis protectionism had affected services trade less than merchandise trade. He showed that the

Box 5.2. Services Trade Restrictions Database

The World Bank launched the Services Trade Restrictions Database which presents information of service trade policy by sector (covering financial, professional services, retail, telecommunications and transportation) and by mode of supply for 103 countries. The Services Trade Restrictiveness Index expresses the measure of openness of a sector, which can range from 0 (complete openness) to 100 (no entry allowed). The Asia-Pacific region^a mostly shows a high degree of openness in the retail and financial sectors, with an average of 18 points and 27.5 points, respectively (figure 5.11). India has the lowest opportunities to enter and operate in the retail sector (index is equal to 75), while, in the financial sector, the Islamic Republic of Iran shows the lowest degree of openness (87.4). The average Services Trade Restrictiveness Index in the telecommunications sector is 32.5, with Bangladesh showing the lowest degree of openness (62.5). The transportation sector also is virtually open (32.2), with Indonesia registering the highest level of barriers (66.4). Major restrictions were identified in the professional service sector (average for the Asia-Pacific region is 53), with countries such as Turkey, India and the Philippines showing very limited opportunities of entry for foreign providers (90, 87.5 and 80, respectively).

Figure 5.11. Services Trade Restrictiveness Index



Source: World Bank Services Trade Restrictions Database online, accessed 16 September 2012.

^a In the Services Trade Restrictions Database, the Asia-Pacific region comprises: Armenia; Australia; Bangladesh; Cambodia; China; Georgia; India; Indonesia; Iran (Islamic Republic of); Japan; Kazakhstan; Republic of Korea; Kyrgyzstan; Malaysia; Mongolia; Nepal; New Zealand; Pakistan; Philippines; Russian Federation; Sri Lanka; Thailand; Turkey; Uzbekistan and Viet Nam.

^b Armenia; Australia; Cambodia; Georgia; Kazakhstan; Republic of Korea; Kyrgyzstan; Mongolia; New Zealand; Pakistan; Russian Federation; Turkey; and Uzbekistan.

^c Armenia, Georgia, Kyrgyzstan, Mongolia and Turkey.

majority of protectionist measures related to services stemmed from bail-out measures; he found that 49 of the 104 almost certainly discriminatory measures implemented between September 2008 and November 2009 affected services, 44 of which were directed to financial institutions.

For a complete picture of services trade protectionism, it is also necessary to consider adopted liberalizing measures. In its most recent Trade Monitoring Report, WTO (2012c) showed favourable developments in the liberalization of financial services, especially in Asian countries. The position of services providers in the least developed countries could be improved by a decision to allow WTO members to provide them with preferential treatment for 15 years from the waiver adoption.²⁷

D. EVIDENCE OF RESTRICTIONS ON MIGRATION AND TEMPORARY SERVICE PROVIDERS' MOVEMENTS

The role of migration in benefiting both the countries of origin and of destination has been widely supported in theoretical and empirical literature. Migration plays an important role in easing labour shortages, facilitating knowledge exchange and creating business networks. Migration allows for efficient allocation of labour as free migration allows labour to move to a location where it is given the opportunity to be used to the best advantage and rewarded. Moreover, the flow of remittances to countries of origin is beneficial at both the private and the social levels, especially in developing countries where remittances often contribute more in terms of foreign exchange earnings than regular export revenues, aid or other capital inflows (ESCAP, 2011b).

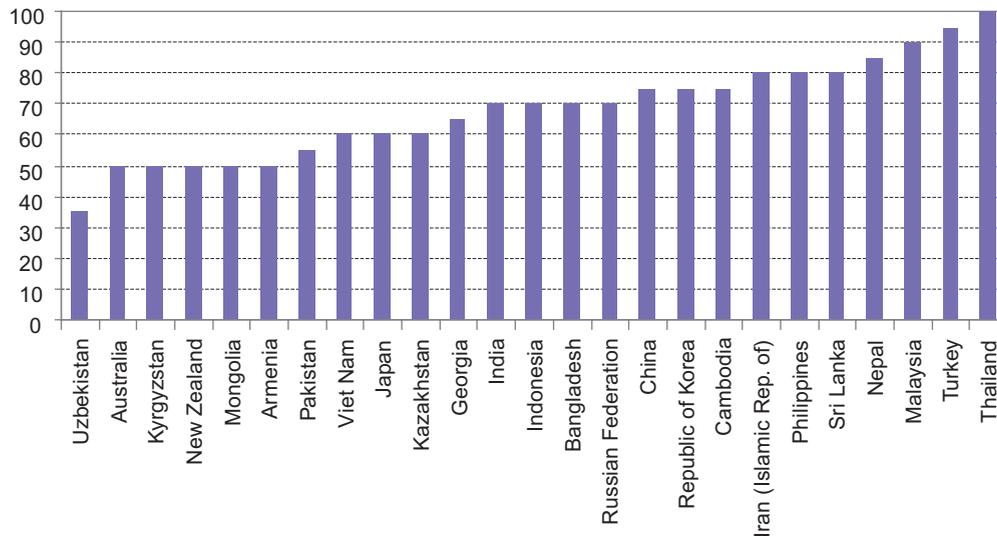
The legal requirements that have to be met for labour migration in the region have already been explained in detail by ESCAP (2011a). For North and Central Asia, the 2005 EurAsEC Custom Union Agreement on visa-free trips between Belarus,

Kazakhstan, Kyrgyzstan, the Russian Federation and Tajikistan is of special importance, together with a series of bilateral agreements on labour migration. The ASEAN Economic Community Blueprint shows the commitment of ASEAN to facilitating professional and skilled labour flows, through the enforcement of Mutual Recognition Agreements (MRAs) for several professional categories (nurses, dental and medical practitioners, engineering and architectural services, surveying professionals and accountants). With regard to the Pacific, some countries are relatively well-connected as a result of historical ties, while Australia and New Zealand have kept their borders relatively open to all the Pacific islands. Throughout the region, attempts have been made to ease migration procedures, such as the establishment of a Memorandum of Understanding by Thailand and the Republic of Korea.²⁸

Although the benefits derived from labour mobility are well known, the global economic crisis has also had an impact on the attitude towards foreign labour flow and in the past few years the use of restrictions on admissions of migrant workers has increased, especially in Asia. The International Migration Organization (IMO) (2009) detailed some of these restrictions that were implemented and/or announced within the first year following the onset of the global financial crisis. For example, Malaysia stopped issuing work permits for the manufacturing and service sectors, Thailand announced that it would not issue new work permits or renew existing permits held by about 500,000 foreign workers, and Australia, Kazakhstan and the Russian Federation reduced the admission of migrants. More examples are provided by the World Bank (2012) such as the Republic of Korea's announcement that it would stop admitting migrants through the Employment Permit System, and the increase by the United States in fees for applicants from India. The World Bank has highlighted the importance of monitoring the evolution of immigration measures in order to assess potential effects on inflows, as the measures to be implemented in the near future could have a strong impact on long-term migration inflows.

²⁷ Decision made during the eighth WTO Ministerial Conference in December 2011. See WTO news online, available from www.wto.org/english/news_e/news11_e/serv_17dec11_e.htm.

²⁸ See also box 6.2 in chapter 6 of this publication.

Figure 5.12. Mode 4 restrictiveness measures for selected Asian countries

Source: World Bank Services Trade Restrictions Database, accessed 12 October 2012.

The GTA database also reports “migration measure” as a trade barrier. From November 2008, 52 discriminatory and 32 liberalizing migration measures have been implemented globally. Of the discriminatory measures, 38 have targeted at least one of the countries in the Asia-Pacific region. At the same time, the countries in the Asia-Pacific region have imposed 15 discriminatory measures and 9 liberalizing measures.²⁹

During the past two years, six red and six liberalizing measures have been implemented. The discriminatory measures comprise: (a) the prohibition of foreign staff in leading positions in Indonesian firms; (b) restrictions in Viet Nam on the recruitment of foreign staff; (c) new entrance visa regulations in Azerbaijan; (d) tax changes of relevance to foreign commercial interests adopted by the Republic of Korea; (e) the reduction of

withholding allowances for foreign workers in the Republic of Korea; and (f) an increase in mandatory medical insurance for foreign employees in Singapore. The Services Trade Restrictiveness Database detailed in box 5.2 allows analysis of the degree of the restrictions on temporary movements of service providers (also known as Mode 4) in the Asia-Pacific region.³⁰ Mode 4 requires the service to be delivered through the temporary presence of the supplier in the territory of a foreign country. The results show a wide variation within the region, from 35 in Uzbekistan (relatively open) to completely closed in Thailand (figure 5.12).

³⁰ In the Services Trade Restrictions Database, the Asia-Pacific region comprises: Armenia; Australia; Bangladesh; Cambodia; China; Georgia; India; Indonesia; Islamic Republic of Iran; Japan; Kazakhstan; Republic of Korea; Kyrgyzstan; Malaysia; Mongolia; Nepal; New Zealand; Pakistan; Philippines; Russian Federation; Sri Lanka; Thailand; Turkey; Uzbekistan and Viet Nam.

²⁹ GTA database, accessed online, 4 October 2012.

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Annexes

Annex 5.1

GTA colour code criteria

Colour code	Criteria
Red	The measure has been implemented after November 2008 and almost certainly discriminates against foreign commercial interests.
Amber	The measure has been implemented after November 2008 and likely involves discrimination against foreign commercial interests; or the measure has been announced or is under consideration, and would (if implemented) almost certainly involve discrimination against foreign commercial interests.
Green	The measure has been announced and involves liberalization on a non-discriminatory (i.e. most-favoured nation) basis; or the measure has been implemented since November 2008 and is found not to be discriminatory; or the measure has been implemented since November 2008, involves no further discrimination and improves the transparency of a jurisdiction's trade-related policies.

Annex 5.2

**Ranking of the Asia-Pacific economies according to the number of
red measures imposed since 2010**

Implementing jurisdiction	Number of red measures	Implementing jurisdiction	Number of red measures
Russian Federation	110	Cambodia	0
India	53	Democratic People's Republic of Korea	0
Kazakhstan	42	Fiji	0
China	40	Georgia	0
Indonesia	28	Hong Kong, China	0
Turkey	25	Kiribati	0
Viet Nam	16	Lao People's Democratic Republic	0
Australia	14	Macao, China	0
Republic of Korea	13	Maldives	0
Japan	11	Marshall Islands	0
Pakistan	10	Micronesia (Federated State of)	0
Sri Lanka	8	Mongolia	0
Philippines	5	Myanmar	0
Thailand	5	Nauru	0
Kyrgyzstan	3	Nepal	0
Uzbekistan	3	Palau	0
Azerbaijan	2	Papua New Guinea	0
New Zealand	2	Samoa	0
Singapore	2	Solomon Islands	0
Iran (Islamic Republic of)	1	Tajikistan	0
Malaysia	1	Timor-Leste	0
Afghanistan	0	Tonga	0
Armenia	0	Turkmenistan	0
Bangladesh	0	Tuvalu	0
Bhutan	0	Vanuatu	0
Brunei Darussalam	0		

Annex 5.3

Number of red measures faced by the Asia-Pacific economies

Affected trading partner	Number of red measures	Affected trading partner	Number of red measures
Afghanistan	9	Mongolia	12
Armenia	10	Myanmar	13
Australia	94	Nauru	0
Azerbaijan	21	Nepal	6
Bangladesh	43	New Zealand	46
Bhutan	2	Pakistan	78
Brunei Darussalam	2	Palau	0
Cambodia	12	Papua New Guinea	9
China	403	Philippines	92
Democratic People's Republic of Korea	23	Republic of Korea	193
Fiji	5	Russian Federation	95
Georgia	18	Samoa	0
Hong Kong, China	84	Singapore	116
India	176	Solomon Islands	1
Indonesia	136	Sri Lanka	34
Iran (Islamic Republic of)	46	Tajikistan	12
Japan	199	Thailand	176
Kazakhstan	29	Timor-Leste	3
Kiribati	1	Tonga	0
Kyrgyzstan	23	Turkey	142
Lao People's Democratic Republic	5	Turkmenistan	9
Macao, China	5	Tuvalu	1
Malaysia	148	Uzbekistan	35
Maldives	1	Vanuatu	2
Marshall Islands	5	Viet Nam	84
Micronesia (Federated State of)	0		

Annex 5.4

**Number of discriminatory measures imposed by type of measures and
by country group since 2010**

A. Asia-Pacific region

Type of measures	Number of amber measures	Number of red measures
Bail-out/state aid measure	17	97
Competitive devaluation	0	2
Consumption subsidy	3	4
Export subsidy	14	24
Export taxes or restriction	24	49
Import ban	6	13
Import subsidy	9	1
Intellectual property protection	1	2
Investment measure	20	22
Local content requirement	7	11
Migration measure	8	15
Non-tariff barrier (not otherwise specified)	13	17
Other service sector measure	5	8
Public procurement	10	20
Quota (including tariff rate quotas)	7	16
Sanitary and phytosanitary measure	3	4
State trading enterprise	0	6
State-controlled company	2	14
Subnational government measure	3	1
Tariff measure	49	119
Technical barrier to trade	3	4
Trade defence measure (AD, CVD, safeguard)	86	169
Trade finance	6	19
Total	296	637

B. China, India and the Russian Federation (Asian BRICS)

Type of measures	Number of amber measures	Number of red measures
Bail-out/state aid measure	8	69
Competitive devaluation	0	0
Consumption subsidy	1	4
Export subsidy	6	19
Export taxes or restriction	17	22
Import ban	3	4
Import subsidy	5	0
Intellectual property protection	0	1
Investment measure	10	9
Local content requirement	4	6
Migration measure	2	2
Non-tariff barrier (not otherwise specified)	5	6
Other service sector measure	2	5
Public procurement	6	7
Quota (including tariff rate quotas)	7	10
Sanitary and phytosanitary measure	0	3
State trading enterprise	0	6
State-controlled company	2	13
Subnational government measure	2	0
Tariff measure	23	55
Technical barrier to trade	2	2
Trade defence measure (AD, CVD, safeguard)	33	90
Trade finance	2	2
Total	140	335

C. Asia-Pacific least developed countries

Type of measures	Number of amber measures	Number of red measures
Bail-out/state aid measure	0	0
Competitive devaluation	0	0
Consumption subsidy	0	0
Export subsidy	1	0
Export taxes or restriction	1	0
Import ban	0	0
Import subsidy	1	0
Intellectual property protection	0	0
Investment measure	0	0
Local content requirement	0	0
Migration measure	0	0
Non-tariff barrier (not otherwise specified)	0	0
Other service sector measure	0	0
Public procurement	1	0
Quota (including tariff rate quotas)	0	0
Sanitary and phytosanitary measure	0	0
State trading enterprise	0	0
State-controlled company	0	0
Subnational government measure	0	0
Tariff measure	2	1
Technical barrier to trade	0	0
Trade defence measure (AD, CVD, safeguard)	0	0
Trade finance	0	0
Total	6	1