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PROTECTIONISM IN LATIN AMERICA
AND THE CARIBBEAN**

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*INTERNATIONAL TRADE AND
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ABSTRACT

Mapping Crisis-Era Protectionism in Latin America and the Caribbean*

The resort to discrimination in the Latin American and Caribbean (LAC) region against foreign commercial interests is documented in this paper and compared to aggregate statistics for worldwide policy choice and for a comparator group of developing countries in the Asia Pacific region. LAC protectionism spiked later than in the rest of the world and, on average, the former nations resorted more to traditional protectionist tools than the latter. Within the LAC region, the heavier users of protectionism employed different cocktails of discriminatory policy instruments. An exploratory cross-country analysis of the potential macroeconomic drivers and substitutes for protectionism in LAC was undertaken. During the crisis era, resort to protectionism tended to be greater in nations that cut tariffs more during 2000-7 and that employed less aggressive fiscal stimulus packages once the crisis hit. Exchange rate depreciation appears to have complemented, rather than substituted, for protectionism.

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1. Introduction.

Commercial policies have long been controversial in Latin America and the Caribbean (LAC).² Nevertheless, in the years running up to the global financial crisis that began in 2007, there was a clear tendency towards trade liberalisation, undertaken both unilaterally and in the context of signing regional trade agreements. According to the World Bank's *World Development Indicators* database, between 2000 and 2007 the median fall in the average applied tariff rate collected by LAC governments was 4.7 percentage points.³ Even during the pre-crisis years, some Latin American governments began to question the wisdom of opening up domestic markets to greater international competition. For those advocating alternatives to trade liberalisation, the global financial and economic crisis that unfolded from 2007 on afforded an excellent opportunity to advance their cause.

To what extent did LAC governments change tack and resort to protectionism from the onset of the global financial crisis? The purpose of this paper is to characterise the changes in policies towards openness taken, comparing across countries and over time. Moreover, once the broad changes in policy stance have been identified, an exploratory analysis of the factors that drove the resort to protectionism is conducted. Was resort to protectionism during the crisis era greater in those nations that had liberalised more before the crisis, indicating a reversal of trade reforms? Was the resort to protectionism tempered by other policy tools that might be available to governments during the crisis, such as exchange rate depreciation and fiscal stimulus packages?

The answers to these questions are of considerable policy and academic interest. Many policymakers and some journalists claim that restraining protectionism has been one of the successes in international cooperation in recent years. Is that true? Is it true of every country? And, if not, what needs to be done about it? Academics will be interested in policy choice during times of extreme economic stress. Do the insights from the Great Depression concerning, for example, the

² Bianchi (2013) assess contemporary protectionism in Latin America in light of the history of debates over commercial policymaking in the region.

³ This statistic refers to the weighted average tariff applied to all imported products.

substitutability of policy choice carry over to the present era?⁴ Is resort to protectionism counter-cyclical?⁵

In addition to its contested history of trade and investment reforms, certain similarities across the Latin America and the Caribbean region in their multilateral trade obligations make an analysis of crisis-era policy response in this region of potentially more general interest. Almost every LAC country that is a member of the WTO has bound nearly 100 per cent of its tariffs. Yet, at most, only a small percentage of products have tariffs bound at zero.⁶ Moreover, the differences between the bound and applied tariff rates in the region are substantial—indeed, in many countries they are multiples of the Smoot Hawley tariff increase witnessed in the 1930s. Consequently, if analysts and policymakers were looking for a region of the world economy where, as far as the size of tariffs are concerned, pre-crisis WTO obligations might have had little bite, then LAC could be one place to start. LAC governments had the opportunity to raise their tariff markedly during the crisis without breaching their maximum allowed tariffs—but did they avail themselves of this option? Did some governments raise tariffs by more than others? If so, what factors appear to have driven—or substituted for—tariff hikes?

The remainder of this paper is organised into several sections. The next section describes the dataset used to characterise crisis-era policy responses. Section three contains an account of LAC government policy choice towards foreign commercial interests, making comparisons to summary statistics for the developing countries of the Asia Pacific region and for the world. Section four reports on an exploratory data analysis of the factors that may have influenced the resort to protectionism against foreign commercial interests and the mix of protectionist measures employed. Caveats are offered here too—no claim is made that this analysis is definitive. Still, the findings may well stimulate further analysis. Implications for policymaking and for

⁴ See Eichengreen and Irwin (2009) and Irwin (2012) for recent analyses of trade policy choice during the Great Depression.

⁵ Rose (2012) challenges the view that resort to protectionism rises during economic recessions.

⁶ For those products where tariffs are bound at zero the government cannot ordinarily reintroduce tariffs unless some exception to WTO rules is invoked. In principle, binding a tariff at zero implies a government forgoes the right to raise tariffs ever again on the product in question.

characterising and analysing commercial policies during the recent systemic economic crisis are presented in the final section of this paper.

2. Data employed.

Practitioners have long recognised that international commerce involves far more than trade in goods. Cross-border flows of services, investments, intellectual property, and even employees are part and parcel of 21st century international exchange. Unfortunately, the data collected on policies towards these different forms of commerce have not kept up with developments on the ground. These deficiencies became all the more apparent during the recent global economic crisis as it wasn't just firms that faced import competition that sought favours from their governments. While online data is available on traditional tools of protectionism—tariffs and measures taken against dumped imports, subsidised imports, and import surges⁷-- little was available about the many other ways in which governments could confer an advantage on domestic firms over foreign rivals.

Once it became apparent in 2008 and 2009 that governments were not confining themselves to the relatively more transparent, traditional forms of protectionism, efforts were taken to widen the scope of monitoring of government policy choice during the crisis era.⁸ Numerous official agencies have produced reports on protectionism in recent years, including the European Commission, the OECD, UNCTAD, the World Bank and the World Trade Organization.⁹ For its part, the WTO secretariat began to issue reports whose coverage has expanded over time in terms of policy instruments covered. Separate reports on investment policy changes have been published as well. What these official reports never specified explicitly and defended was the notion of protectionism employed. As I have argued elsewhere, historically-motivated definitions of protectionism and definitions that focus on certain

⁷ The latter three measures being referred to (primarily in European circles) as “trade defence” measures. Some prefer the terms “unfair trade” measures and “contingent protection”. These terms are encountered frequently in the literature.

⁸ In particular, the World Bank created a Temporary Trade Barrier database that tracked the use of trade defence instruments before as well as during the global economic crisis.

⁹ It should not be forgotten that several industrialised countries' governments produced reports on the trade barriers of other nations before the crisis. In addition, the WTO devoted its 2012 *World Trade Report* to an overview of the latest thinking about non-tariff measures (see WTO 2012).

specific policy instruments may miss important ways in which governments can favour domestic commercial interests (Evenett 2013a).

An independent initiative to monitor protectionism was also established in the first half of 2009 when fears of a widespread protectionist outbreak were at their peak. This initiative, the Global Trade Alert (GTA), employed a differential treatment test to classify a policy instrument liberalising, neutral, or protectionist. On this view, a policy instrument is deemed protectionist (liberalising) if it improves (worsens) the treatment of domestic firms vis-à-vis at least one rival foreign commercial interest. This definition of protectionism is, therefore, not form-specific. Any policy instrument implemented in a manner that discriminates against a foreign commercial interest in favour of domestic rivals falls in principle within the remit of the Global Trade Alert's reporting.

This approach, therefore, is not confined to any one mode of trade, to (potentially arbitrary) choices of what state acts constitute protectionism, to (often contested) readings of history of what constituted protectionism, and to policies covered by accords at the WTO. The independent nature of the GTA ensures that diplomatic and bureaucratic considerations do not taint the reported findings. As argued elsewhere (Evenett 2013a), the differential treatment standard is not perfect, but many of its deficiencies can be taken care of during implementation. Some have even contended that the "competition" from an independent monitoring source might have resulted in improved official monitoring of protectionism.

Given the wide range of policies that must be investigated and the high level of interest in policy choices during the crisis era, the GTA has focused on policies announced or implemented since November 2008, the month when the G20 nations first committed not to engage in protectionism.¹⁰ A total of 3836 announced state

¹⁰ Sometimes the concern is raised that the GTA data does not go back before the crisis, frustrating certain types of "before and after" comparisons. The paucity of data cuts both ways, something that certain critics tend to overlook. If the absence of pre-crisis data should make one cautious about claims that protectionism increased during the crisis, then it should also make one cautious about attempts to dismiss the significance of protectionism during the crisis era. Moreover, just because some pre- and post-crisis comparisons are not possible does not mean that none can be conducted. See, for example, Evenett, Fritz and Yang (2012), a paper that examines the extent to which certain Chinese fiscal incentives for exporting expanded over time. That paper showed that over \$1.1 trillion dollars of Chinese exports were eventually eligible for these incentives, hardly a trivial amount.

measures have been reported on the GTA website¹¹ since then. Access to this website is free and it has been designed to generate different statistics upon demand concerning common categories of protectionism, national resort to protectionism, and the number of times a nation's commercial interests have been harmed by foreign protectionism. Reports of liberalising measures are also available from this website. This dataset is used by scholars, international organisations, and government officials. According to Google Scholar, the phrase "Global Trade Alert" has can be found in over 525 entries in that database. Separately, over 500 media reports, including those found in every major newspaper and business magazines, have mentioned the GTA's findings.

In addition to collecting and disseminating data, the GTA produces periodic reports on policy stance, shedding light on global trends, actions by the G20 countries in particular, and the developments in certain regions. In its latest report, the GTA introduced six indicators of aggregate trade policy stance for the G20 nations.¹² Moreover, of particular relevance to this paper, several authors from Latin America used GTA data to compile studies of different aspects of the policy responses by governments in the region during the crisis era (see the contributions to Evenett 2013c).

The GTA database is updated on a regular basis. With reporting lags, that arise in part because evidence on some government measures is not made readily available and can take time to properly document, the data reported for any given country tends to be augmented over time. This implies that the conclusions drawn from any particular study, including this one, should be suitably qualified. Still, since all of the data employed here is available online, the calculations performed for this paper can be replicated.

For the purposes of this study the LAC region is taken to include all of the countries south of the United States plus the Caribbean, excluding Cuba. Consequently, 32 customs territories are taken to constitute the LAC region. Occasionally, comparisons are made between the LAC countries and the developing countries in

¹¹ www.globaltradealert.org

¹² See Evenett (2013b). Figure 8 of this paper reproduces a spiral diagram summarising the performance of the three LAC members of the G20 on these six metrics.

the Asia Pacific region. The latter are taken to be the developing country members of the Asian Development Bank.¹³

3. An account of protectionism in the LAC region since the onset of the global financial crisis.

The first order of business is to characterise the aggregate policy stance of countries in the LAC region. Given the focus in much of the policy debate in recent years on the G20, totals were prepared for the three LAC nations that are members of the G20 (referred to in the tables and figures as G20 LAC), for the other countries in LAC (referred to as “Rest of LAC”), for the region as a whole (“LAC”) and for the world (“World.”) Table 1 summarises what is known about how many state measures were implemented that altered the relative treatment of foreign commercial interests from November 2008 to the end of September 2013, a period of almost five years during which the world economy went through different phases of a global economic crisis.¹⁴

The LAC region implemented a total of 880 state measures that affected foreign commercial interests. Nearly two-thirds of those measures (63.4 per cent to be precise) were protectionist. The G20 members in LAC imposed over 500 measures, 70.4 per cent of which were protectionist. Even that percentage was below the comparable figure for the world economy (75.6%). The LAC region is responsible for over 20 per cent of the protectionism implemented worldwide and just over 40 per cent of the liberalising measures worldwide.¹⁵

¹³ For this purpose Korea and Singapore are not treated as developing countries.

¹⁴ Data, therefore, was collected for measures taken during November and December 2008. An annualised rate for 2008 was calculated on the basis of these two months, facilitating comparisons with 2009. If protectionism intensified as 2008 wore on, then computing an annualised rate on the basis of the last two months of the year will overstate the amount of protectionism in 2008. This in turn implies that the jump in protectionism witnessed from 2008 to 2009 is greater than that reported in the tables and figures in this paper. Like many of the design choices associated with the Global Trade Alert, this one probably understates the adverse changes seen in the world economy as the crisis erupted. For 2013 data was collected for the first nine months of the year and converted to an annualised rate.

¹⁵ These statistics are based on counts of measures taken and not on the commerce affected. While computations of the latter would be instructive, recall the many different forms of trade that exist today and the fact that data on international trade flows (noisy as they are) are far better than the limited information available on other forms of international commerce.

One interesting feature of protectionism in LAC is that it relies much more on tariff increases and trade defence measures than in other parts of the world. Just under half of LAC protectionism involves these more traditional forms of protectionism. In contrast, only 36.3 per cent of protectionism worldwide involves the use of tariffs and trade defence measures, for which analysts have better data and for which there exist longstanding and relatively stricter binding WTO disciplines. Still, over half of the time LAC countries have chosen to use discriminatory policy instruments not traditionally associated with protectionism.

Like other nations, LAC nations have unwound less than 15 per cent of the protectionism that they had imposed since November 2008 (Table 1). This is significant as one feature of previous systemic economic crises is that it often took years—literally decades in some cases—before commercial policy stance was thought to have returned to the status quo ante.

Next, key features of the intertemporal variation in LAC protectionism are portrayed in Figures 1-5. Figure 1 shows that the annual rate of protectionist measures imposed by LAC nations taken together peaked in 2011, two years after the worldwide peak. The reasons for this differential timing are worth further analysis. Still, it is worth bearing in mind that the annual totals reported in this Figure are potentially biased downward due to reporting lags, in particular for the most recent years. The most recent GTA report¹⁶ showed that, at similar stages in the reporting cycle, the total number of protectionist measures implemented worldwide in 2012 exceeded those for 2009, the peak shown in Figure 1. At a minimum, upward revisions in the 2012 totals reported for each region of the world economy, including the LAC region, can be expected.

Given the total number of protectionist measures imposed by a region or group of countries, Figure 2 shows its distribution over time. Worldwide and among the developing countries of the Asia Pacific region, the annual distribution of protectionism imposed is spread out quite evenly since monitoring began. In contrast, for the LAC region the amount of protectionism imposed is skewed towards 2010 and 2011. Indeed, as noted earlier, the number of protectionist measures imposed peaked in 2011, two years after the peak worldwide. A somewhat similar

¹⁶ Evenett (2013b), in particular the Executive Summary and Chapter 5.

pattern is found when attention is restricted to the imposition of tariff increases and trade defence measures (referred to here as “traditional protectionism”), although the peak for LAC is now in 2010 (see Figure 3). Interestingly, the peak in the developing country group of Asia Pacific nations is in 2010 as well. Overall, the intertemporal dynamics for traditional and other forms of protectionism appear to be different.

Figure 4 shows, year by year, the percentage of protectionist measures imposed that are traditional, breaking out the G20 members of LAC from the rest. Doing so reveals that the initial protectionist response of Argentina, Brazil, and Mexico was heavily skewed towards traditional protectionism (witness the peak in 2009) and then falls off—indicating possible diversification in the protectionist tools used as the crisis wore on. In contrast, every year in the rest of LAC the percentage of traditional protectionist measures implemented varied within a narrower range. Such findings beg questions about the relationship between the choice of protectionist mix and country size.

Figure 5 shows that the propensity to unwind protectionism rises with the number of years from implementation and that the intertemporal pattern followed within LAC and for the region as a whole is in line with that for the rest of the world.

Cross-sectional variation among LAC countries is portrayed in Figures 6-8. Nine LAC countries are responsible for the bulk of protectionist measures implemented in the region. Figure 6 shows the distribution of the discriminatory instruments used by these nations and the figure is organised so that as one moves from left to right the total number of protectionist measures imposed increases. Among these heavier users of protectionism, there appears to be no apparent relationship between resort to protectionism and the mix of policies used. The only commonality is that these nations used discriminatory bailouts infrequently, in contrast to many industrialised countries outside LAC. Otherwise some use a lot of traditional protectionist tools (e.g. Paraguay, Colombia, Mexico, and Brazil) and others have implemented a high proportion of investment measures (Bolivia and Venezuela). Even within MERCOSUR, purportedly a customs union, there is considerable variation in the set of tools used to discriminate against foreign commercial interests. Such findings caution against over-generalising the forms of the protectionist response—certainly a

focus on tariff increases, quotas, and trade defence would miss plenty of relevant policy developments.

In analyses of the G20 and the Asia Pacific nations I have found that those nations that implement proportionally more protectionist (as opposed to liberalising) measures tend to resort more to non-traditional forms of protectionism (Evenett 2013a,b). Figure 7 casts doubt on whether that finding carries over to the LAC nations. Admittedly, care is needed when making claims based on variation across the 18 LAC nations for which data could be assembled for these particular calculations¹⁷, but still the variation across LAC in the proportion of measures that are protectionist only accounts for 1.1 per cent of the variation of the proportion of protectionist measures that were tariff increases and trade defence measures. In other writings I have argued that constraints on the capacity of countries to legally raise their tariffs without violating their WTO obligations might account for the substitution towards discriminatory non-tariff measures. As argued in the next section, there may be good reasons for thinking that this point has less force in Latin America and the Caribbean.

While this overview of the resort to protectionism has used counts of protectionist measures, the GTA database also contains information on the number of tariff lines affected, number of sectors covered, and the number of trading partners likely affected by the protectionist measures that a nation imposes. Six metrics were compiled from this data and Figure 8 reports “spiral” diagrams for the three LAC nations that are members of the G20. In these diagrams the closer is a point on one of the six axes (each representing a different metric) to the centre of the diagram, the less protectionist is the behaviour of the government in question. To provide a benchmark the average for all of the G20 countries is also included in this Figure.

On the six metrics employed here, Mexico outperforms the average for the G20. In contrast, Argentina’s commercial policy mix is skewed more towards protectionism, used murky (non-traditional) protectionism more often, and has unwound a smaller percentage of its crisis era protectionist measures than the G20 average, Mexico, and Brazil. Brazil’s record falls short on the range of tariff lines affected by its

¹⁷ This sample being relatively small for statistical purposes. Still, this cross-sectional sample is the largest possible given the data available.

discriminatory measures. Even among the largest three economies in LAC, there is considerable variation in the scale of protectionism imposed.

The purpose of this section was to summarise the main elements of the variation across countries and over time in the crisis-era propensity to discriminate against foreign commercial interests by governments in the Latin American region. Attention was not confined to a limited class of traditional trade policy instruments, although they are a significant part of the story for some countries. Protectionism in LAC appears to be concentrated in the (relatively speaking) large and medium sized trading nations, assuming there was no tendency to under-report protectionism by nations with smaller economies. In addition, LAC protectionism appears to follow different temporal dynamics than developing countries in the Asia Pacific region and the rest of the world. The next section contains an exploratory data analysis of some factors that could have accounted for the variation within the LAC region in the resort to discrimination.

4. An exploratory analysis of the protectionist responses by LAC governments.

The first, and ultimately unsuccessful, step taken here was to explore whether indicators of the resort to protectionism (both the proportion of measures implemented that were protectionist and the proportion of protectionist measures that were tariff increases or trade defence measures) were correlated with indicators of macroeconomic performance in the early years of the crisis. As was noted earlier, protectionism by LAC nations peaked later than in other parts of the world, raising the possibility that poor macroeconomic outcomes in 2010 as well as 2009 might account in part for national commercial policy choices since 2008.

To that end, data from the *World Development Indicators* was collected on changes in national unemployment rates and real GDP levels from 2007 to 2009 and 2010. A total of four macroeconomic impact variables were therefore constructed. Separate regressions were run taking the indicators of resort to protectionism as the dependent variables and, one by one, the four indicators of initial crisis-era macroeconomic impact. These regressions performed miserably, often accounting

for no more than 2 per cent in the cross-country resort to protectionism. Data availability did limit the sample size for these regressions and this should be borne in mind when interpreting these findings. Having said that, as will become clear below, other variables in similar sample sizes have much greater explanatory power.

The next line of inquiry considered if the WTO obligations of LAC countries constrained their resort to protectionism.¹⁸ Data from the WTO publication *World Trade Profiles 2012* was assembled on different indicators of the degree to which tariff setting by LAC governments is constrained by WTO membership. Interestingly, LAC governments have agreed to legally binding maximums on almost all of the tariffs they set. However, LAC governments have not been prepared to give up their rights to set tariffs entirely, except for a very small percentage (typically less than 5 per cent) of tariff lines or product categories. The principal constraint, then, on LAC tariff setting are the maximum allowable tariffs that have been bound into the schedules of these countries' WTO commitments. However, those allowed maximums are so large that, at present, for almost every LAC country there exists a substantial average tariff binding overhang. That is, on average there is a large difference between the average tariff a government actually charges on imported goods and the average maximum tariff a government is allowed to charge.

Figure 9 indicates the size of the tariff binding overhang for the 30 LAC countries for which data to compute these overhangs was available in the publication *World Trade Profiles 2012*. None of these countries has a tariff binding overhang less than 10 per cent. This implies that each of these countries could implement a tariff increase on the scale of Smoot Hawley (for which the estimated increase in average tariffs was between 6 and 7 per cent) without violating their WTO tariff bindings! In fact, as Figure 9 shows, all but two LAC countries could raise their tariffs by at least double the Smoot Hawley increase and still comply with their WTO obligations. If judging the current era by the Smoot Hawley experience is the right thing to do (and some analysts have made such comparisons), then it is difficult to see how the tariff bindings of LAC countries could have really restrained tariff policy choices of governments. The question is not whether WTO obligations limit the range of policy

¹⁸ For a broader discussion of the different hypotheses concerning the impact of multilateral trade obligations on national policymaking during systemic economic crises see Evenett (2011, 2013a).

options of LAC governments at all, but whether those obligations limit policy choices over the range of tariff increases that governments may be tempted to implement during systemic economic crises.

So have those governments with greater leeway in their WTO tariff obligations resorted to protectionism the most during recent global economic crisis?¹⁹ Figure 10 suggests (note the cautious term used) the answer to this question is “yes.” Approximately 15 per cent of the variation in the proportion of protectionist measures implemented can be accounted for by differences in the size of the average tariff binding overhang. Now one might have thought that where the leeway to raise tariffs is larger the resort to traditional forms of protectionism (of which tariff hikes are one form) would be larger too. However, as Figure 11 shows, there is a no clear correlation between the size of the average tariff overhang and the share of protectionist measures implemented that are of a traditional type. So what is going on?

Much turns on how to interpret a large average tariff overhang. An overhang could be large if a nation has subsequently reduced its tariffs a lot below the legally binding maximums agreed during the Uruguay Round negotiations, that were concluded in 1994. While a sizeable average tariff binding could be seen as an indicator of the unwillingness of a government to accept constraints on tariff use during that negotiation, it may reveal little about a state’s attitude towards cross-border trade in goods in the years that followed. Indeed, the gap between the average maximum tariff agreed long ago and the average tariff rate applied now could be viewed as an indicator of the degree to which a government’s attitude to openness has changed since the Uruguay Round. Rather than see the overhang as “leeway” one could view it as a partial indicator of the change in government attitudes. This observation led to the following thought.

¹⁹ Although the focus here is on the leeway in multilateral trade obligations, it should not be forgotten that many nations in LAC have signed quite a few regional trade agreements with trading partners. The latter accords may well constrain the range of countries for which tariff hikes are possible, although the force of that argument depends on the terms of the regional trade agreements in question and on whether they are actually enforced. Still, further research may want to explore which constrained national policy choice the most during the recent global economic crisis: regional trade agreements or WTO membership?

Perhaps an even better indicator of change in policy stance, in particular during the pre-crisis boom years, is the fall in the average applied tariff rate from 2000 to 2007. Such data was collected on as many LAC countries as possible from the *World Development Indicators* database. It would be interesting to see to what extent trade reform before the crisis was reversed. To that end, the pre-crisis tariff cuts were used as an independent variable in regressions on different indicators of crisis-era policy response. Figures 12-14 summarise some of the key findings in this regard.

LAC nations that cut their tariffs more during 2000-7 adopted a policy mix that was more protectionist during the crisis, see Figure 12. This suggests some backsliding took place. Interestingly, the backsliding tended not to take the form of tariff increases since 2007. In results not reported here, the extent of pre-crisis tariff cuts accounted for very little of the variation in post-crisis tariff increases. In contrast, the degree of pre-crisis tariff cutting is positively correlated with the share of protectionist measures that took the form of trade defence measures. Figure 13 shows that the former alone accounted for 37 per cent of the latter. This finding suggests that, rather than raise tariffs across the board when pressures from local businesses arose during the crisis, LAC governments used more targeted means to limit specific sources of imports. Pre-crisis tariff cutting was also associated with less resort to murky, or non-traditional, forms of protectionism, as shown in Figure 14. Notwithstanding the important caveats concerning sample size mentioned above, these findings suggest that some pre-crisis trade reforming zeal was unwound since the onset of the global economic crisis and that tariff cuts weren't reversed with tariff increases. Instead, tariff cuts were reversed with trade defence measures.

The extent to which macroeconomic policy choices during systemic economic crises relieve the pressure for protectionist measures has been examined in the literature on the Great Depression (Eichengreen and Irwin 2009, Irwin 2012). Is there evidence of such substitutability in the data for the LAC region since the onset of the recent global economic crisis? To explore this matter further, data on the extent of exchange rate depreciation between 2007 and 2010 and on the increase in real government consumption expenditures over the same time frame was extracted from

the *World Development Indicators* database.²⁰ Unlike the Great Depression, where the extent of devaluation of national currencies (often after leaving the Gold Standard) was inversely correlated with the resort to protectionism, as Figure 15 shows, if anything, there is weak positive correlation between the rate of currency depreciation and the proportion of policy initiatives that harm foreign commercial interests. Rather than seeing currency depreciations and protectionism as alternatives, perhaps some LAC governments saw them as part of a package during the earlier years of the recent crisis.²¹

More persuasive evidence of potential substitutability can be found in Figure 16. That figure shows that the resort to protectionism since November 2008 was negatively correlated with the growth in real government consumption expenditures between 2007 and 2010. Variation in the latter alone accounted for a quarter of variation in the former. Should this finding survive further scrutiny, then it would suggest that fiscal stimulus packages limited pressures for protectionism. However, it should be remembered that to the extent that fiscal stimulus measures showered government contracts on domestic firms or foreign firms with a strong local presence, then one form of discrimination of against foreign commercial interests may have substituted for another. If so, it would be wrong to think of “clean” macro policy measures substituting for “dirty” protectionist ones. As I have argued elsewhere (Evenett 2011, 2013a) in the current era, to the extent that substitutability occurred, it might be more accurate to refer to it as “dirty substitutability.”

In sum, given the limitations on inference from cross-country samples that are not that large, the goal in this section was fairly modest. Namely, it was to explore the correlates of crisis-era protectionist response, drawing upon hypotheses concerning the potential impact of multilateral trade obligations and on the substitutability of policy choice during economic crises. If the Smoot Hawley tariffs of the Great Depression are the right benchmark, then the average tariff overhang of the LAC

²⁰ In the LAC context, of course, fears concerning competitive currency devaluations have received plenty of attention in discussions about the so-called currency wars. See, for example, Evenett (2013d).

²¹ In LAC the relationship between currency movements and protectionism may have changed, however, after 2010. As is well known, from September 2010 some Latin American policymakers expressed concerns that an international currency war had broken out. The resultant appreciation of those LAC countries' currencies was mentioned as a reason for discriminating in favour of domestic commercial interests and against foreign ones.

countries is so large that, if they wanted to, their governments could accommodate pressures to raise tariffs to protect domestic interests without breaking their WTO obligations. That calls into question how much bite existing WTO tariff obligations really have, but certainly doesn't show that all WTO rules have no bite (as WTO membership may affect national policymaking in other ways.) Interestingly, there is some evidence that pre-crisis boom time trade reform was reversed, but with tariff cuts resulting not in tariff increases but in greater resort to trade defence measures.

Resort to protectionism during the crisis era tended to be lower in LAC nations that implemented larger fiscal stimulus packages, a finding that may be still relevant if governments implement further austerity programmes before the world economy recovers. If anything, in the LAC region exchange rate depreciation complemented protectionism.

5. Concluding remarks.

The global economic crisis that began in 2007 was the most profound system-wide shock since the Great Depression. Given the general tendency towards trade liberalisation in much of the Latin America and Caribbean region before 2007, the question arose as to whether governments in the region would turn inward. With the potential exception of Mexico, which implemented a far reaching tariff-cutting programme, discrimination by LAC governments against foreign commercial interests was observed from 2008 on. Drawing on a large database of crisis-era policy choice, the purpose of this paper was to document the resort to protectionism in LAC, benchmark that resort to developing countries in the Asia Pacific region, and conduct an exploratory empirical analysis of the factors that might account for differences in protectionist impulse across Latin American and Caribbean countries.

LAC protectionism spiked later than in the rest of the world and in a benchmark group of developing countries in the Asia Pacific. On average, the former resorted more to traditional protectionist instruments than the latter. The LAC region did not stand out in terms of the propensity to unwind protectionism. Overall, the limited pace of unwinding has meant that the stock of crisis-era protectionist measures still in force in LAC continues to grow.

The multilateral tariff obligations of the LAC nations are such that each WTO member in the region²² could impose an across-the-board tariff increase of at least the magnitude of the infamous Smoot Hawley tariff without breaching WTO rules. Given the size of the tariff binding overhangs in LAC it is difficult to see how WTO tariff bindings effectively limited government tariff policy choice during the crisis.

An exploratory cross-country analysis of the potential macroeconomic drivers and substitutes for protectionism was undertaken. Resort to protectionism tended to be greater during the crisis era in nations that cut tariffs more during 2000-7 and that employed less aggressive fiscal stimulus packages once the crisis hit. Exchange rate depreciation appears to have complemented, rather than substituted, for protectionism. Together, these findings sketch the contours of the region's protectionist response to the recent global economic crisis. Filling out that picture with more detailed studies of policy choice and the consequences of those choices is the next step.

²² For which WTO data is available.

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Table 1: Indicators of the resort to protectionism from November 2008 to September 2013.

Group of countries	Measures imposed from November 2008 to September 2013					Measures still in force on 6 October 2013	
	Total number of liberalising or neutral measures	Total number of protectionist measures	Total number of protectionist tariffs and trade defence measures	Percentage of imposed measures that are protectionist	Percentage of protectionist measures that are tariffs and trade defence measures	Percentage of all protectionist measures still in force	Percentage of tariffs and trade defence measures still in force
G20 LAC	150	357	175	70.4	49.0	89.1	89.7
Rest of LAC	172	201	96	53.9	47.8	84.6	82.3
LAC	322	558	271	63.4	48.6	87.5	87.1
World	787	2441	888	75.6	36.3	85.7	88.2

Source: Global Trade Alert database. Data extracted 6 October 2013. G20 LAC refers to the Latin American countries that are members of the G20, namely, Argentina, Brazil, and Mexico.

Figure 1: Annual totals of protectionist measures implemented by nations in Latin America and the Caribbean and the Rest of the World.

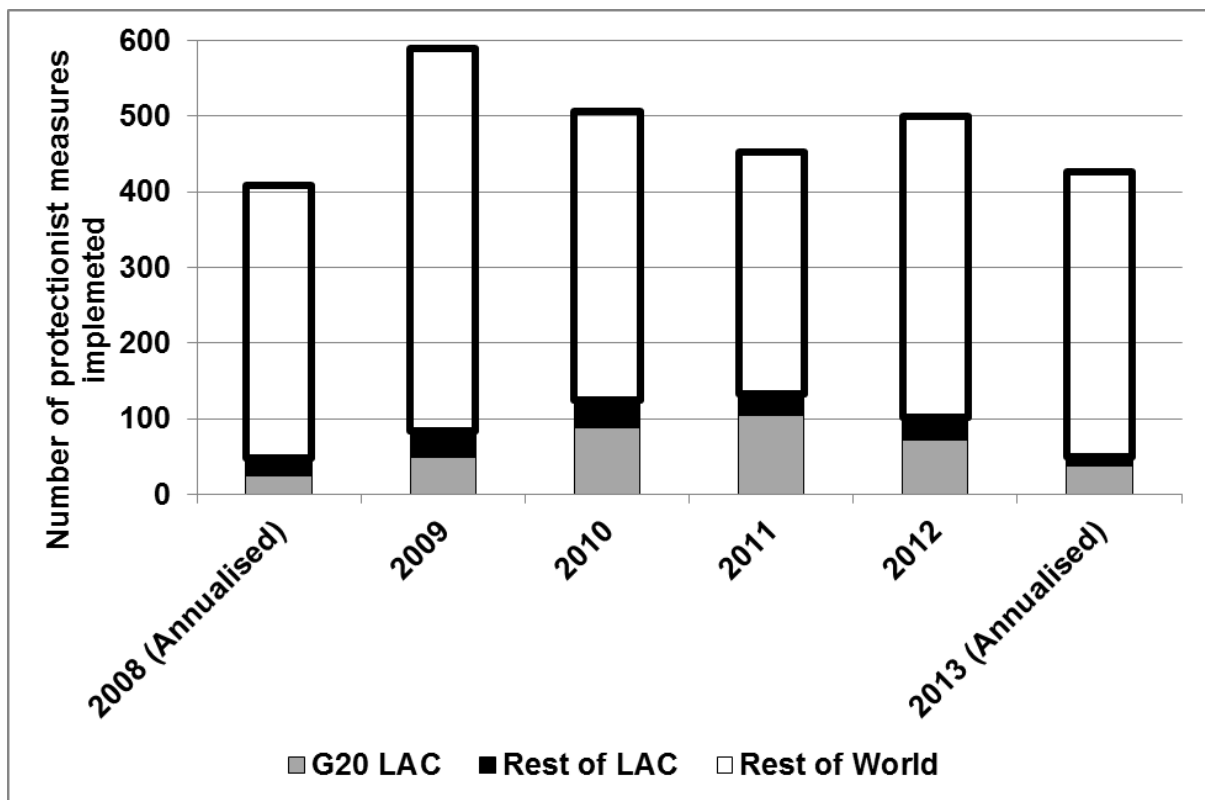


Figure 2: LAC protectionism spikes later than for the world and for the Developing countries in the Asia Pacific.

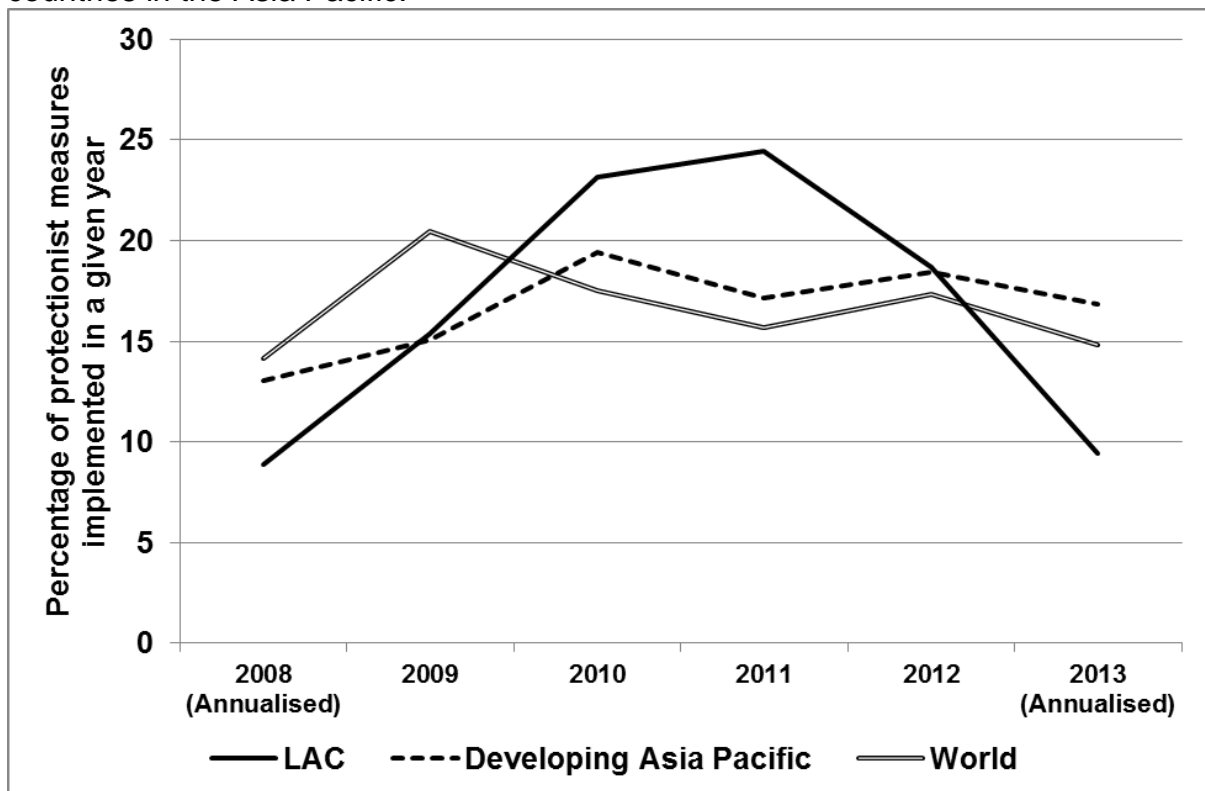


Figure 3: LAC resort to traditional protectionism spikes later than for the world but in the same year as it does for the Developing countries in the Asia Pacific.

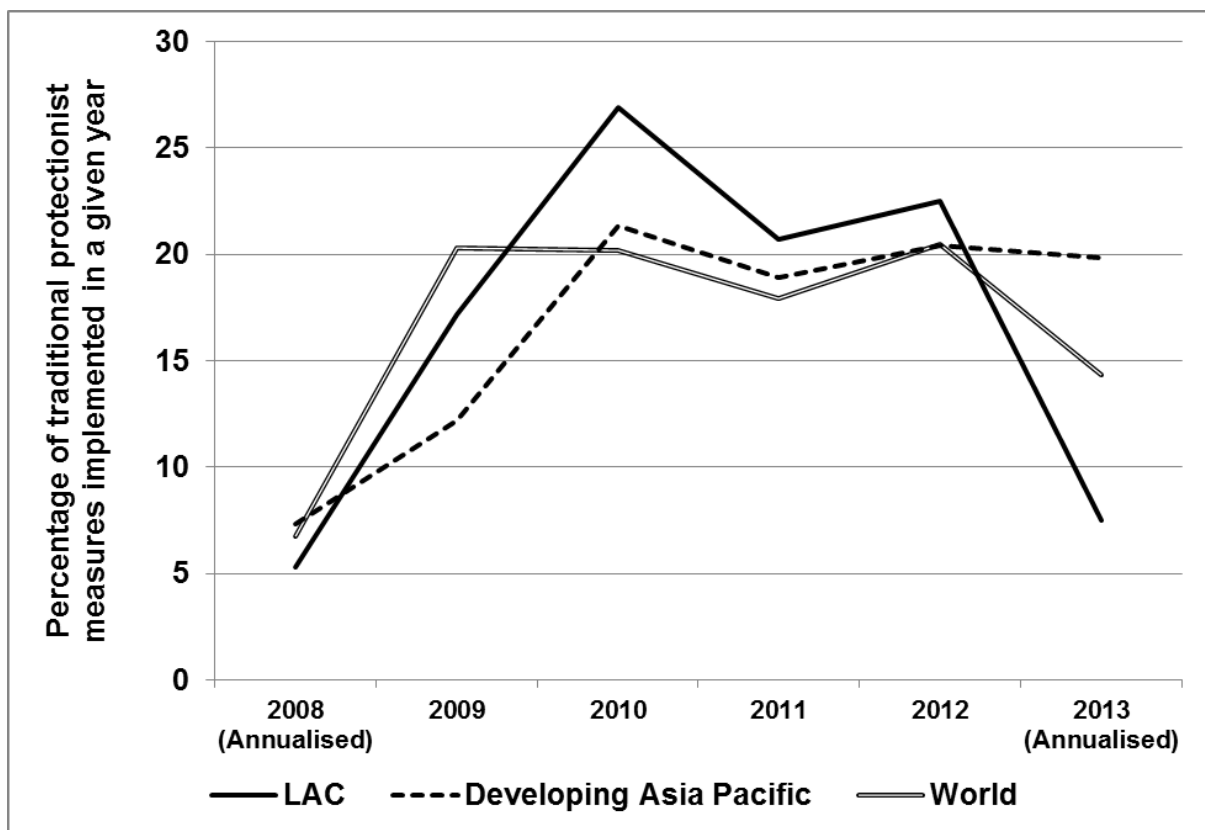


Figure 4: Resort to traditional protectionism is higher in LAC than in the Rest of the World.

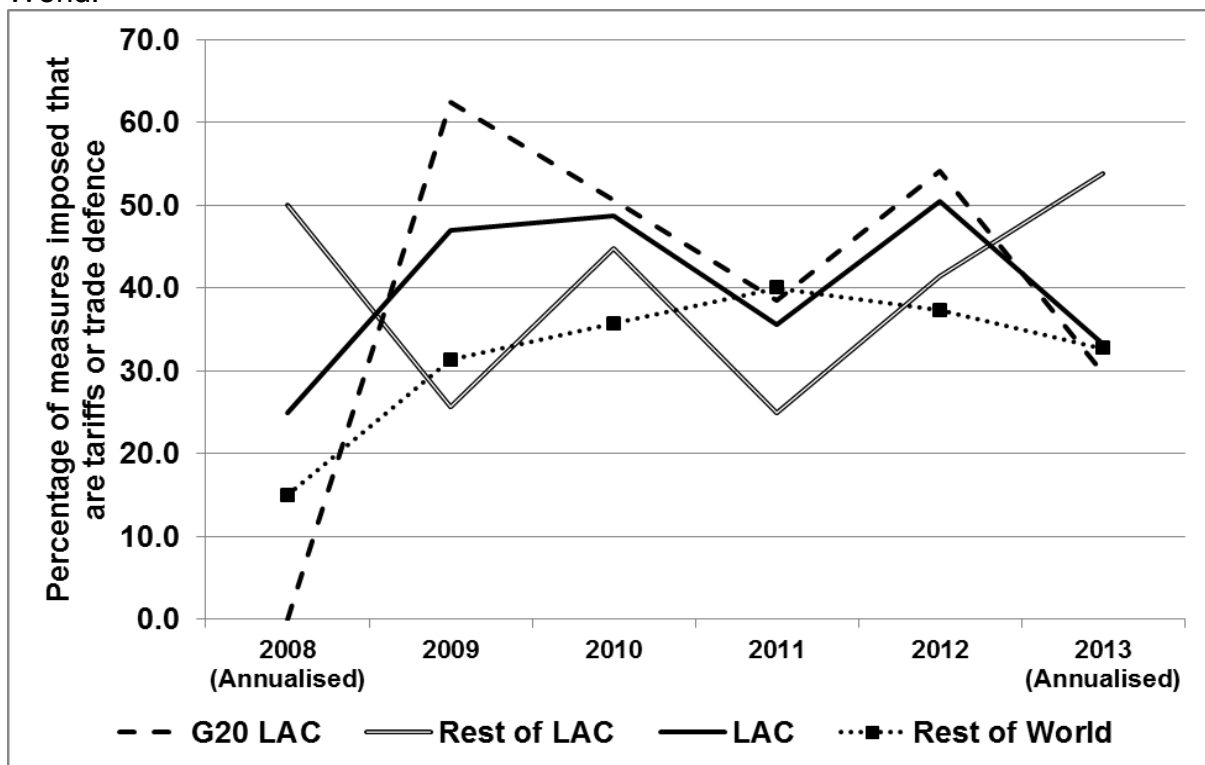


Figure 5: Unwinding of LAC protectionism is roughly in line with the Rest of the World.

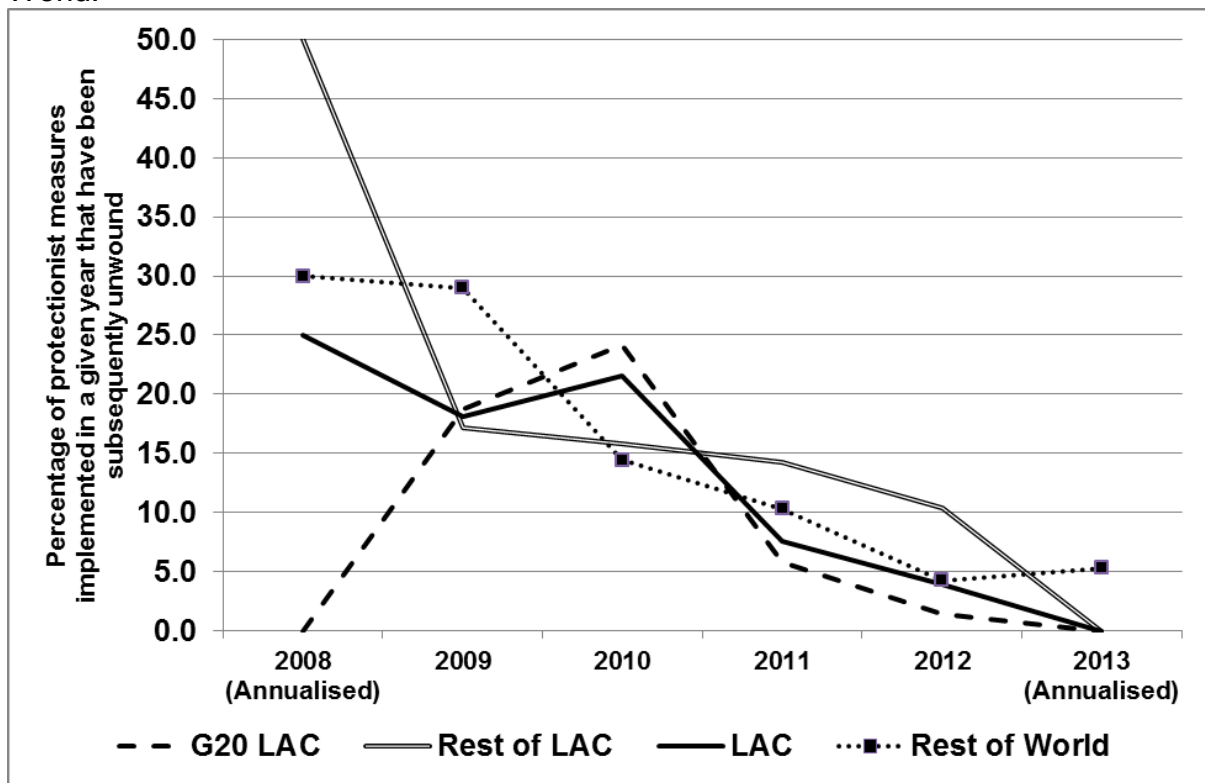


Figure 6: The mix of protectionist measures used varies across LAC.

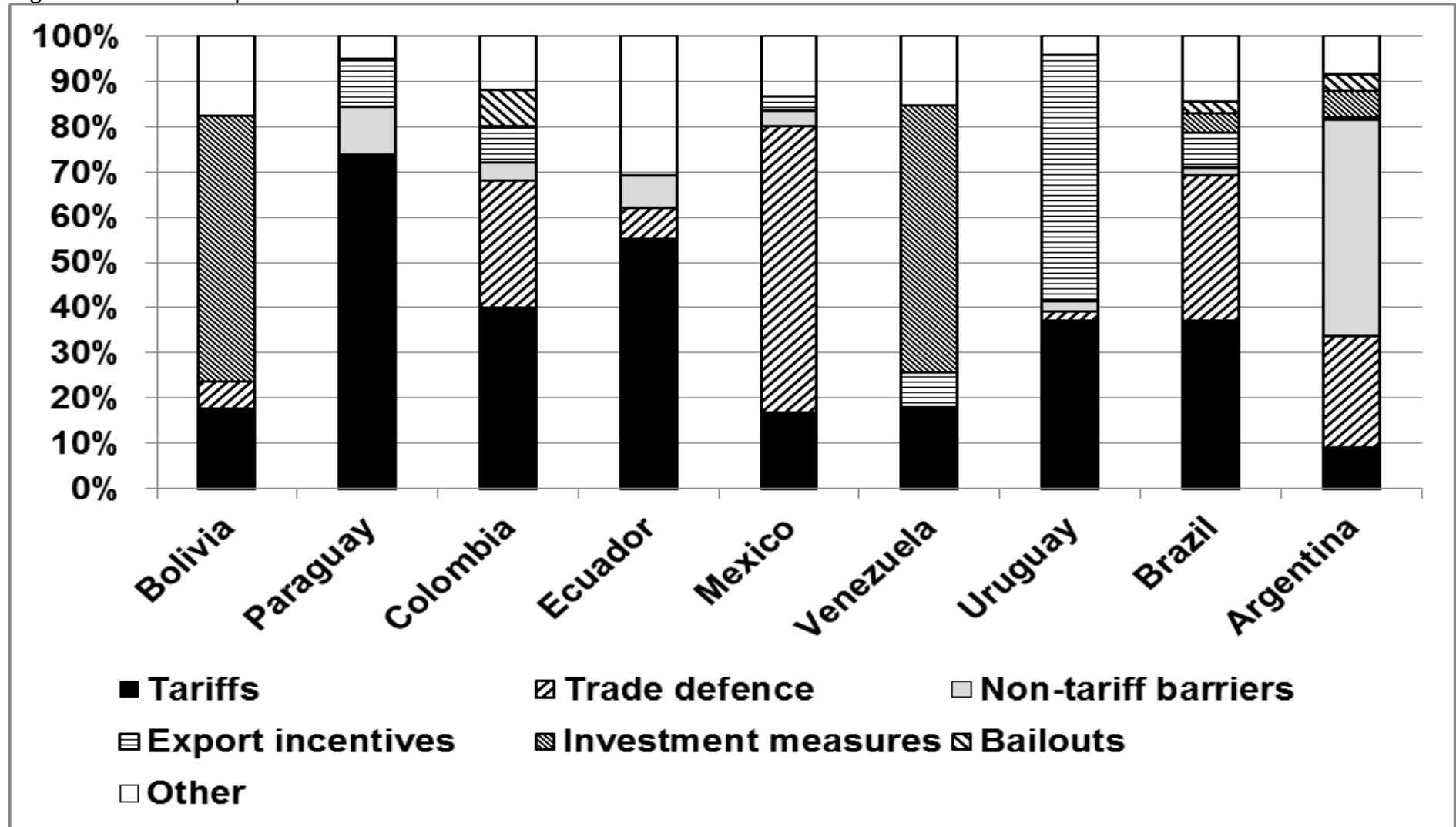


Figure 7: Unlike other regions, there is no clear relationship governments that protect more often in LAC don't necessarily resort to less traditional protectionism.

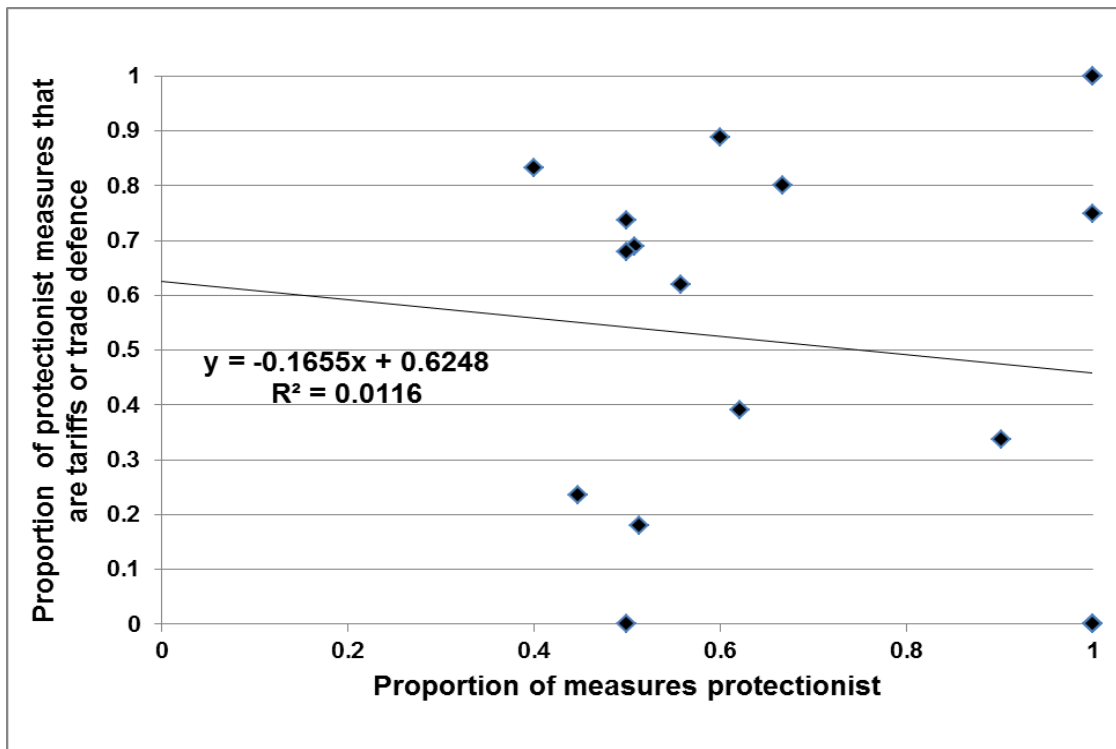


Figure 8: Interventions by the LAC members of the G20 vary considerably in scale.

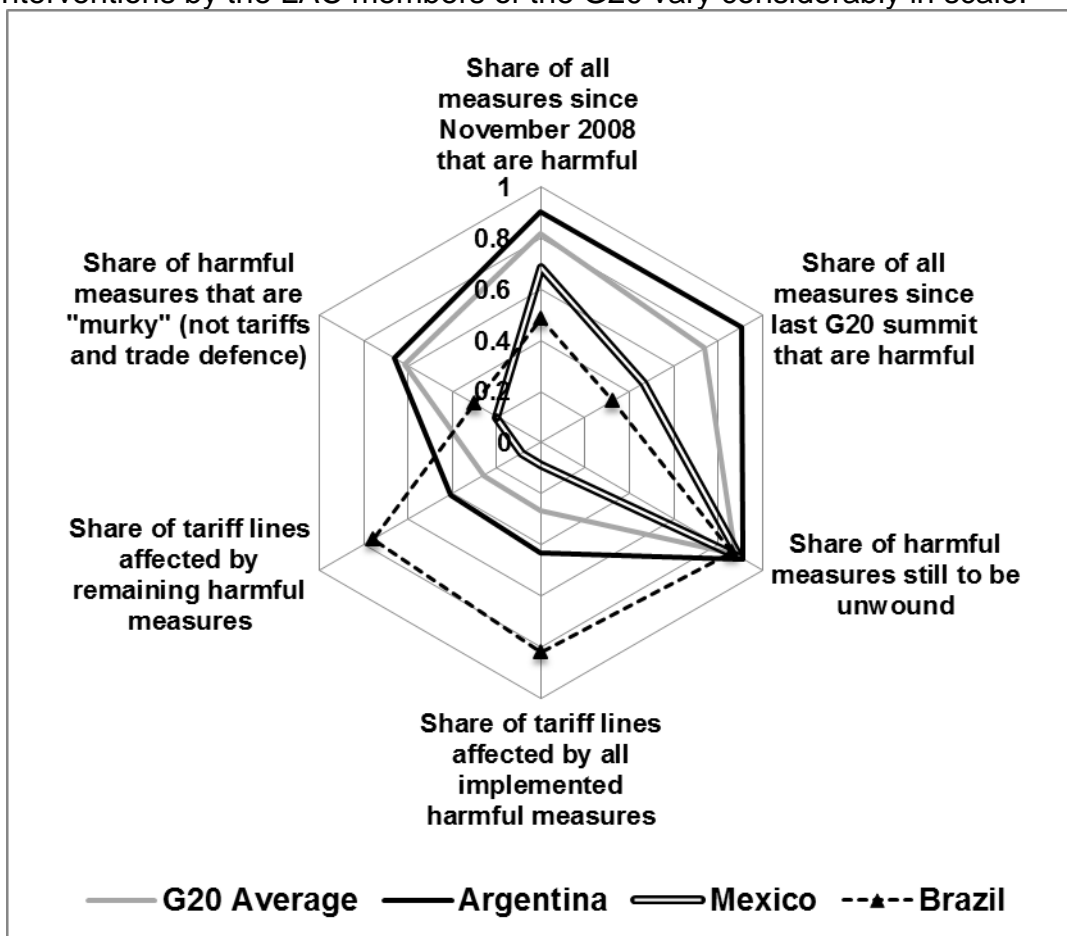


Figure 9: Latin American and Caribbean nations have such large tariff binding overhangs that they could implement multiples of the Smoot Hawley tariff without breaking WTO rules.

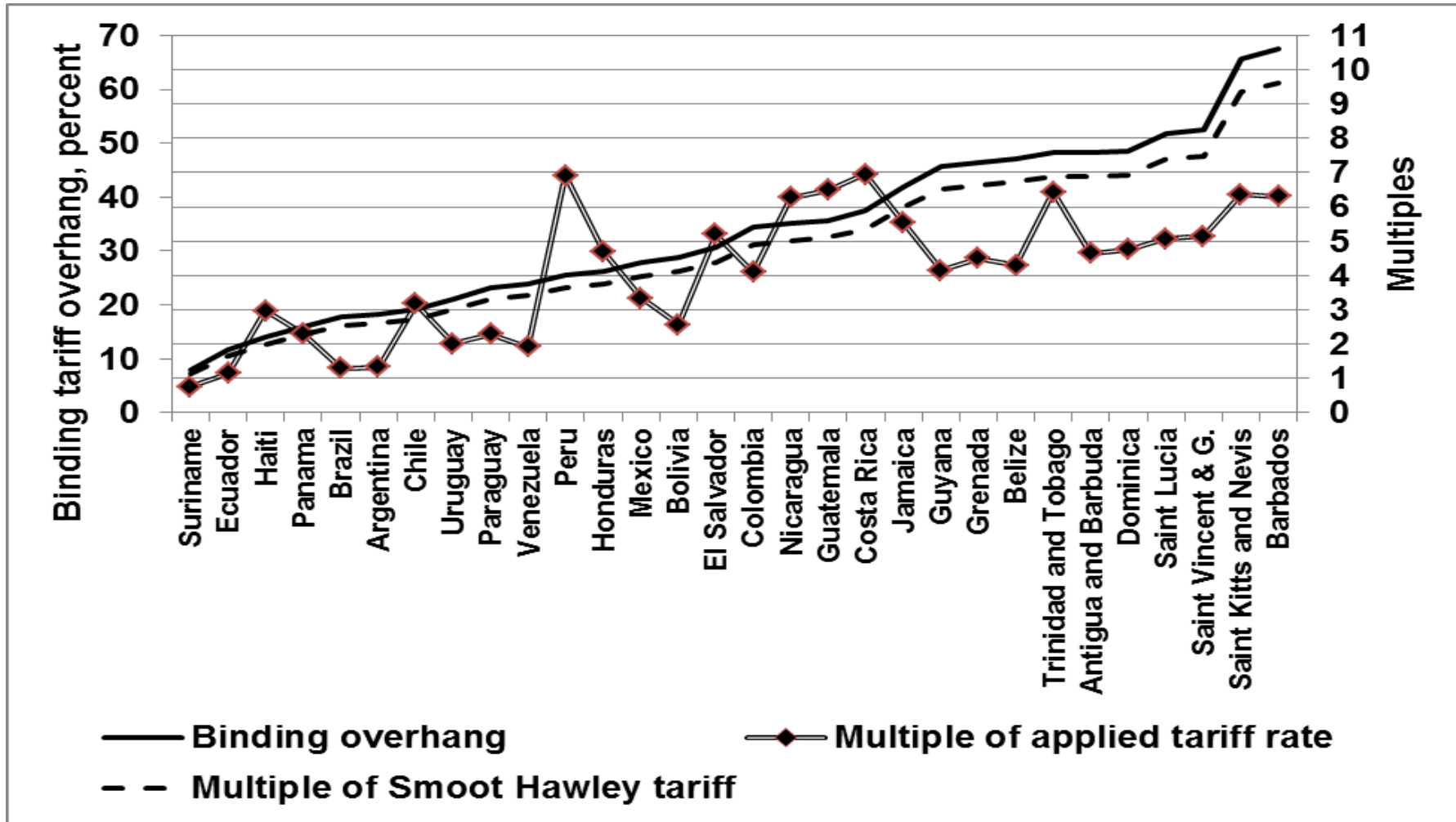


Figure 10: More leeway in WTO tariff obligations, more protectionism.

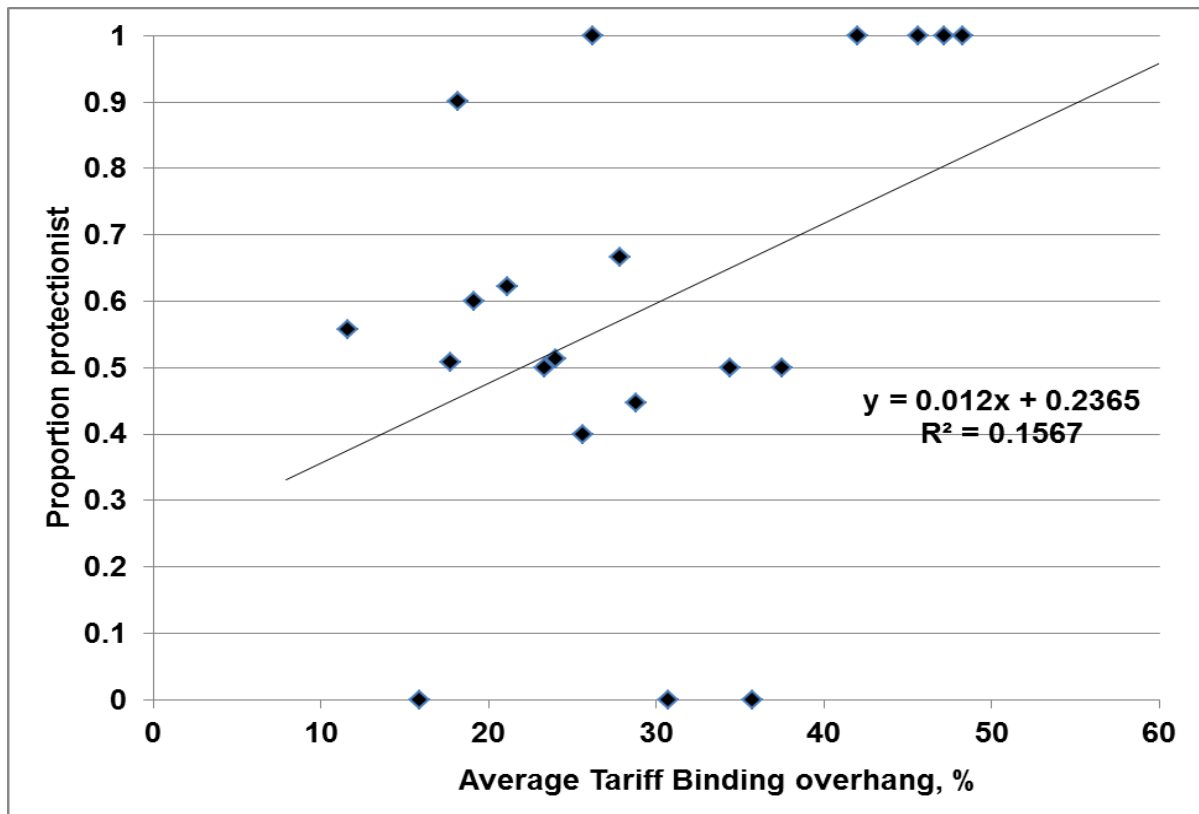


Figure 11: But more leeway does not mean more resort to tariffs and trade defence.

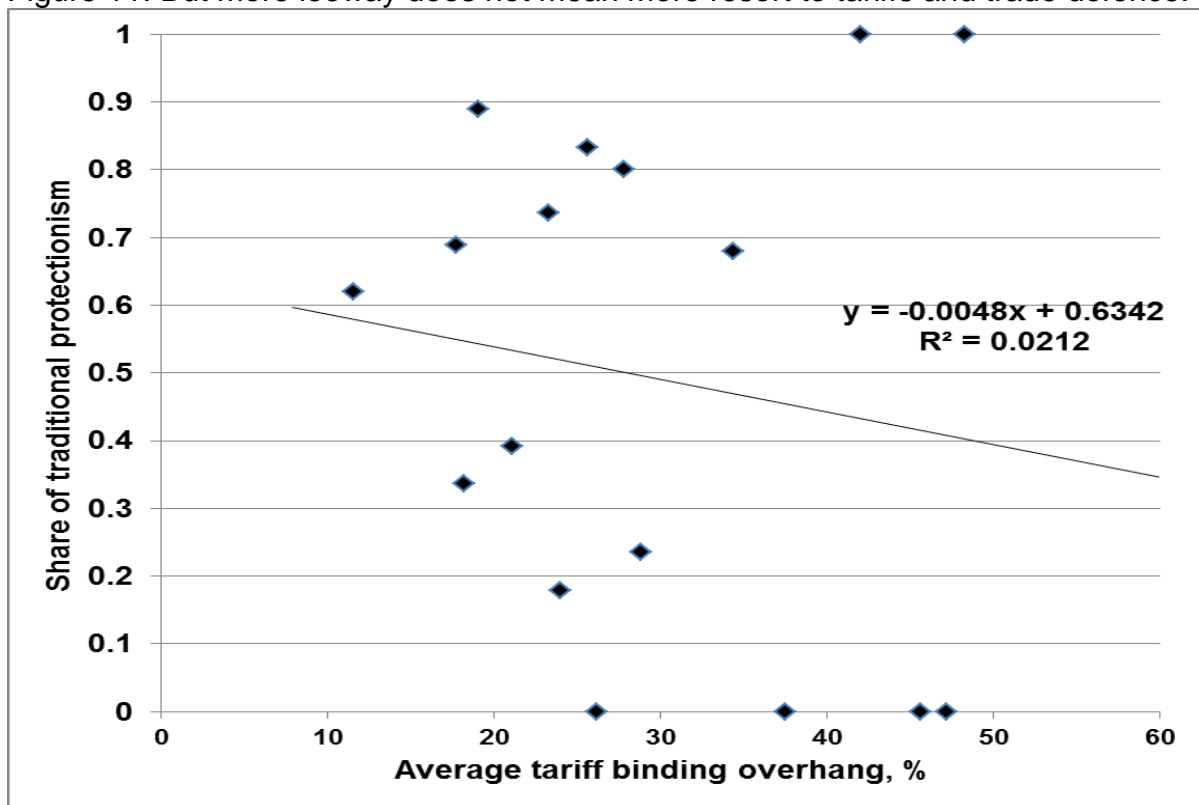


Figure 12: Those governments that cut tariffs the most before the crisis tended to impose more crisis-era protectionism.

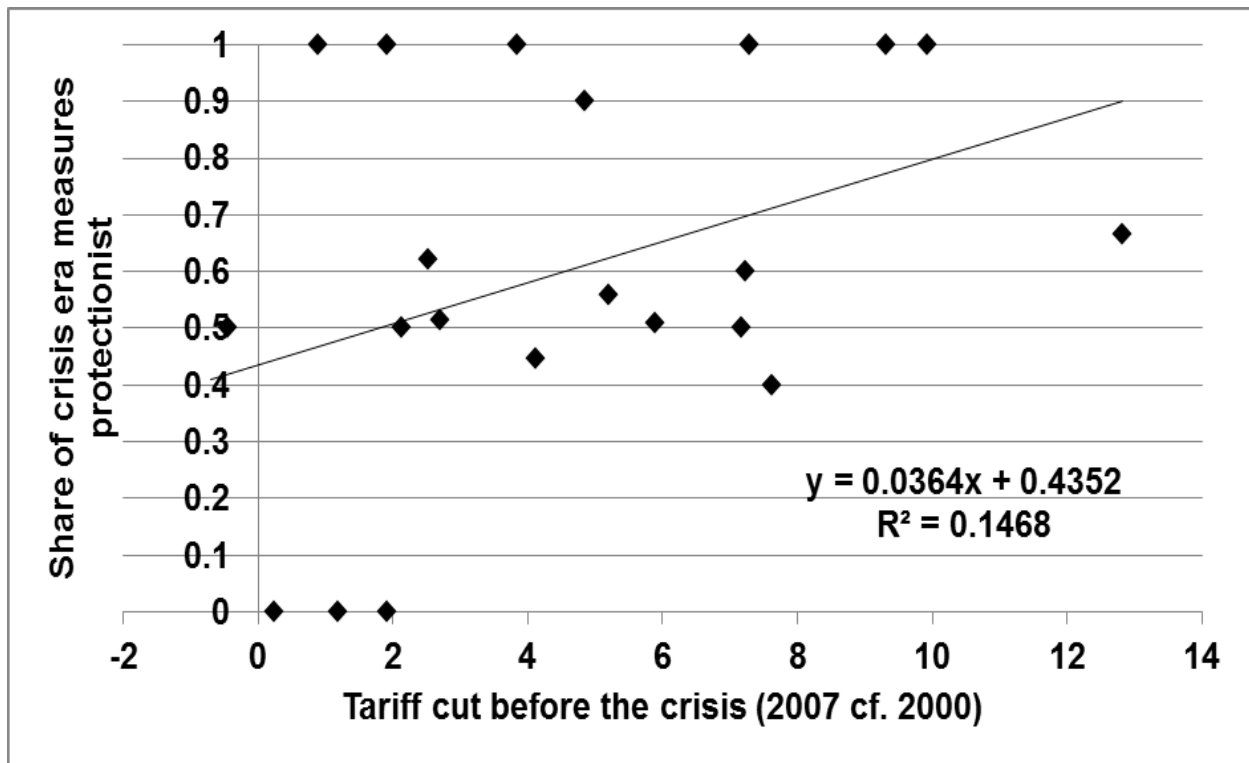


Figure 13: Those that governments cut tariffs the most before the crisis tended to employ trade defence measures more often during the crisis.

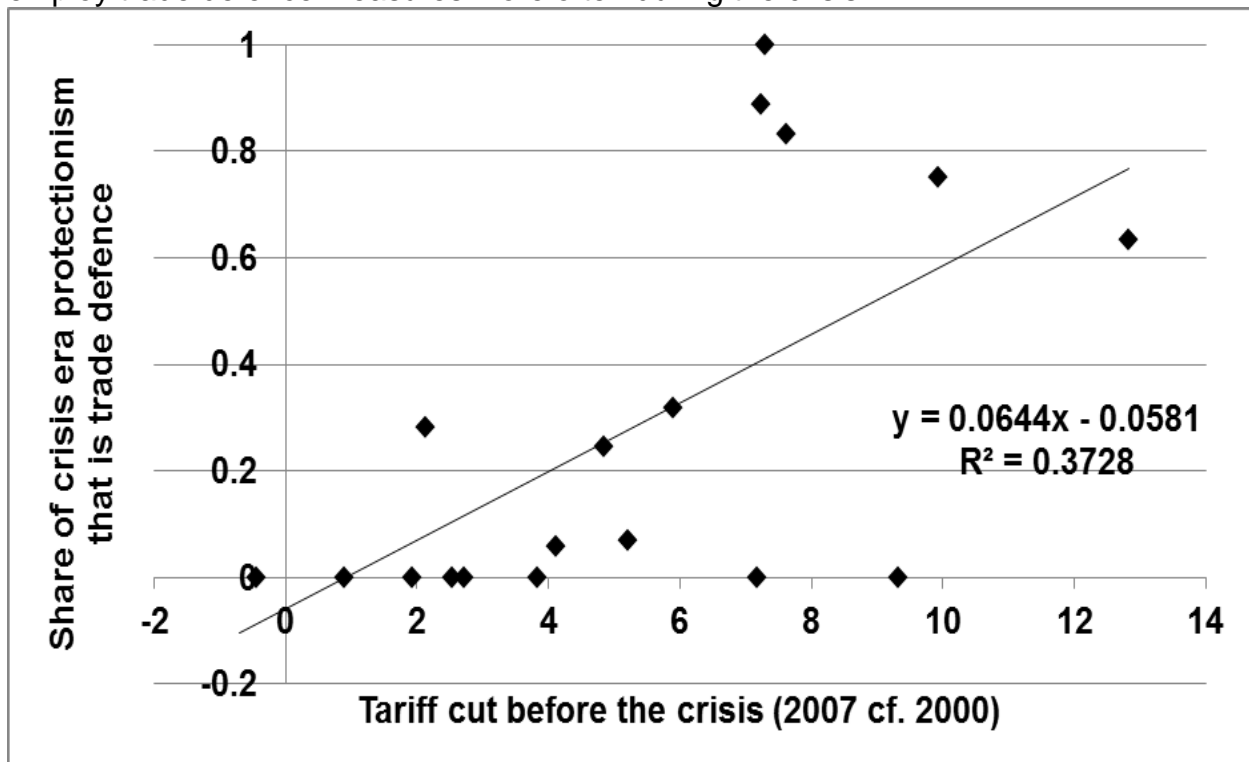


Figure 14: Those governments that cut their tariffs the most before the crisis resorted to murky (non traditional) forms of protectionism less.

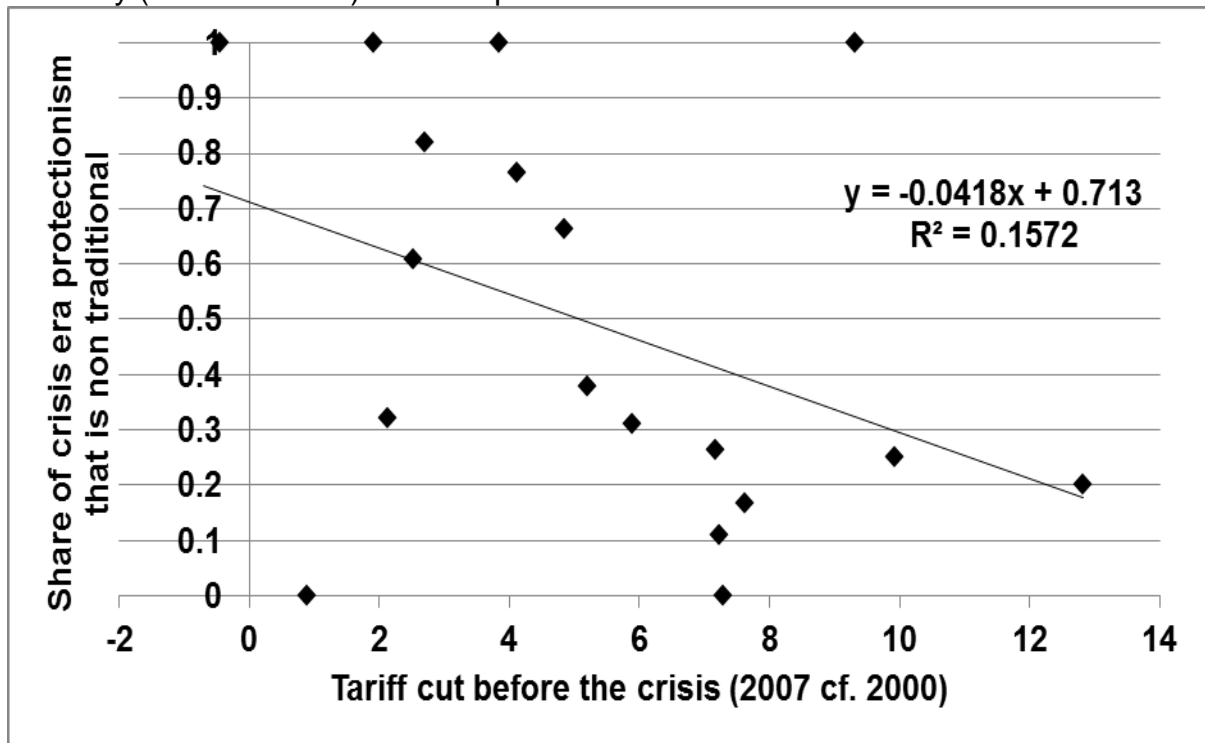


Figure 15: Resort to exchange rate depreciation is associated with more crisis-era protectionism—suggestive of complementarity not substitutability.

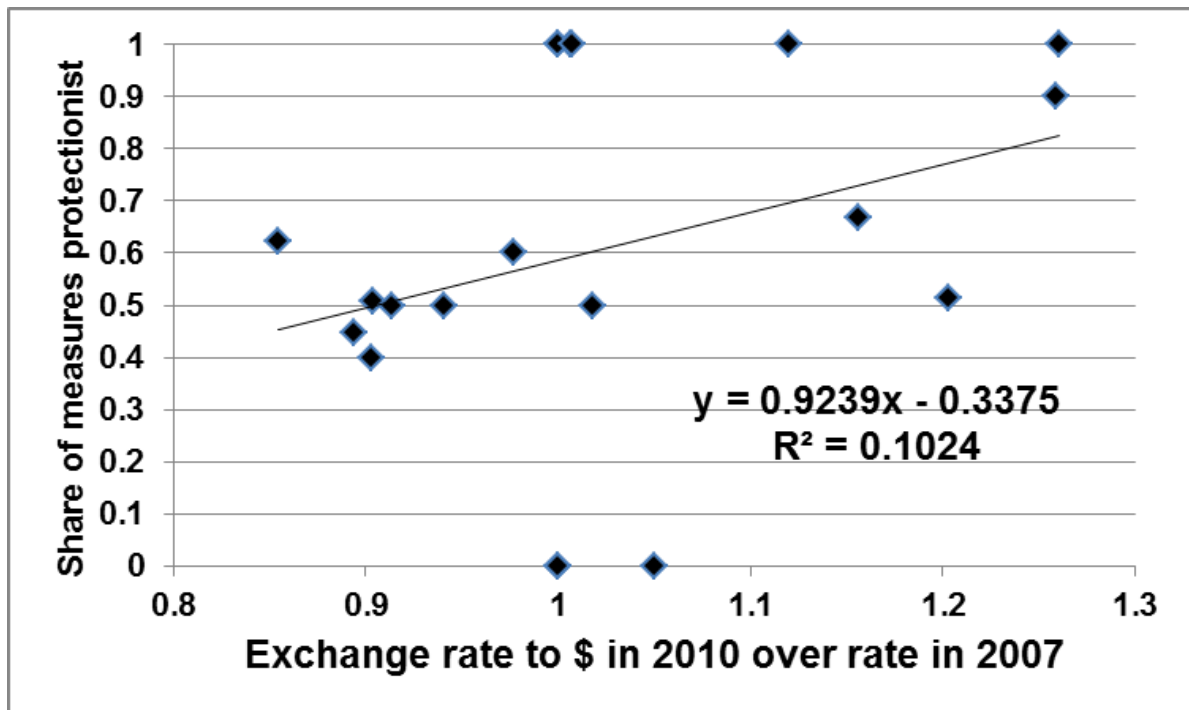


Figure 16: Fiscal stimulus packages appear to have substituted for protectionism.

