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ABSTRACT

Mapping Crisis-Era Protectionism in the Asia-Pacific Region*

This paper provides an account of the resort in recent years by governments in the Asia Pacific region to discrimination against foreign commercial interests. As in previous systemic economic crises, policymakers altered the mix of discriminatory policies employed. This time around governments of higher income economies in the region frequently softened the budget constraints of firms, offering a range of financial incentives that went beyond high-profile bank sector bailouts. Meanwhile, many developing countries in the Asia Pacific relied more on traditional forms of protectionism. The result is a more fragmented set of markets in the Asia Pacific region than before the crisis.

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Introduction.

During the past 30 years many governments in the Asia Pacific region sought to integrate their national markets into the global economy. One consequence is that cross-border trade in goods is less and less the principal mode for supplying for foreign customers. Cross-border flows of services, investment, intellectual property, and employees have grown in prominence, potentially adding to the gains from international commerce.

The dependence of living standards in Asia Pacific region on international commerce is widely acknowledged, in particular in discussions about “export-led” development strategies, rebalancing of national economies, and the fallout from economic crises. As a result, many argue that the Asia Pacific region has a substantial stake in the proper functioning of an open world economy. In addition to supporting the multilateral trading system, governments in the Asia Pacific have been active in promoting regional integration, as witnessed by the number of regional trade agreements signed or under negotiation (ADB 2013a,b). Still, sizeable cross-border price differentials remain, suggesting that integration has some way to go (for recent evidence from East Asia see Moon 2013).

The commitment of governments to open borders was tested during the Global Financial Crisis (GFC) that began in 2007 and spread quickly throughout the world economy. Although not every country witnessed contractions in gross domestic product, almost all were knocked off their previous growth paths. Many countries in the Asia Pacific region witnessed sharp falls in their exports (for evidence from four East Asian nations see Hsieh 2013). Some countries appear to have revisited their development strategies, as discussed in one recent account of developments in Indonesia (Wignaraja 2013).

Compared to a typical recession, the impact of the GFC was deeper, more synchronised, and longer lasting. It is well understood that governments have tended to adjust trade policies during recessions, but to what extent have these three features of the GFC affected the resort to protectionism in recent years? Answering this question, making particular reference to developments in the Asia Pacific region, is one goal of this paper.

Given that tariff hikes and import quotas have had a bad name ever since the 1930s,[3] that there are many policy instruments available to states whose implementation can harm foreign commercial interests, and that during economic crises governments come under considerable pressure to go beyond macroeconomic policy measures and to intervene in specific markets, protectionism need not take the same form in successive crises. This observation has important implications for the monitoring of protectionism, for the analysis of protectionism during systemic economic crises and, ultimately, for the design of international rules relating to discrimination against foreign commercial interests. The case will be made here that is unwise, if not misleading, to have a historically-determined, instrument-based definition of protectionism. A treatment-based definition of protectionism is preferable and, seen from this perspective, the record of government policy choice in recent years is less rosy.

While analysts and policymakers may be more confident of the conclusions that they can draw if they have data on policy choices before and during crises, during a severe downturn the reality is that governments may start employing policy instruments for which there is a sparse, prior empirical base. Inevitably, analysts and decision-makers are going to have to make the most of the data that is available. Here the perfect should not become the enemy of the good. Moreover, analysts and decision-makers should be aware that there may be some--who for whatever reason wish to deny the extent of protectionism--that deliberately exploit the paucity of data.

That the form of cross-border discrimination can change also has implications for assessing whether international initiatives concerning protectionism have altered state behaviour. International initiatives and rules that are form-based, such as those found in many WTO accords, create incentives for policy “innovation” (a euphemism for circumvention) when economies experience severe, prolonged setbacks.

It is argued here that these considerations are relevant when assessing the G20’s public commitments to eschew protectionism and the impact the existing, incomplete set of binding multilateral trade rules. On this logic, expectations of the

[3] This stigma has remained even though protectionism is not viewed by leading macroeconomists and historians as being the cause of the Great Depression. During systemic crises, then, a policy can be widely condemned without being the cause of the crisis.

extent to which international initiatives actually constrain national policy choice during systemic economic crises should be tempered. As a result, the primary focus of efforts to restrain protectionism should remain at the national level.

The remainder of this paper is organised as follows. The next section explores the notion of protectionism that is relevant for the early 21st century, rejecting many previous notions in favour of a treatment-based definition. The latter approach has weaknesses and these are discussed as well. The third section describes the data set used (compiled from the Global Trade Alert monitoring initiative) to map crisis-era protectionism. The main findings that relate to developments in the Asia Pacific region are summarised in section four and an explanation offered for them in section five. Concluding observations can be found in section six.

1. What notion of protectionism is relevant for the early 21st century?

Before protectionism can be mapped it must be defined. But what are the characteristics of a useful definition? One desirable feature of a meaningful definition is that it can be readily applied to the diverse forms of international commerce in the 21st century, not just cross-border trade in goods. In a world with considerable cross-border foreign investment and movement of persons, as well as cross-border provision of services, definitions of protectionism must keep up with the new ways in which customer needs are met by the private sector. Care must also be taken not to define the "problem" away by too restrictive a notion of protectionism. Moreover, there are significant interests—both commercial and official--at stake here and it would be unwise to take at face value every claim made about crisis-era protectionism. Other desirable features are that the definition be objective and implemented independently and expeditiously. Are these characteristics reflected in the definitions of protectionism used in recent years?

Since the Global Financial Crisis began notions of contemporary protectionism have been advanced based on the following five elements:

1. Specific policy instruments, such as import tariffs and quotas.
2. Policy instruments covered by WTO accords.
3. Intent of the policymaker.

4. Effects-based criteria based on estimates of harm done.
5. Effects-based criteria based on differential treatment.

The first two definitions of protectionism are form-based. The first is typically based on readings of history as they relate to prior outbreaks of protectionism. A leading example is the association of protectionism with across-the-board tariff increases and import quotas in the 1930s. The second is based on the policy instruments covered by existing multilateral trade disciplines. Given disagreements between experts as to which policies are covered by the general disciplines of WTO membership (in particular, those relating to national treatment), the second definition is not quite as unambiguous as some observers might think.

For the purposes of monitoring contemporary protectionism during a systemic economic crisis, the principal drawback, however, of the first two definitions is that they create incentives for desperate governments to choose forms of beggar-thy-neighbour policy instruments that fall outside the set of policies deemed to be protectionist. History shows that governments have often altered the mix of protectionism employed from crisis to crisis, so a backward-looking, form-based definition could miss such "innovation" on the part of policymakers. For example, had 1930s experience led analysts to define protectionism solely in terms of resort to tariffs and import quotas then the application of that definition to the sharp global economic downturn in the early 1980s would have missed the substantial resort to voluntary export restraints.

Definitions of protectionism based on intent are difficult to implement in an uncontroversial manner because what (little?) is known about the motives of a policymaker may not be accurate. Using intent to identify policies that are protectionist also has the drawback of encouraging policymakers to misrepresent their rationale for intervening.

Defining a measure as protectionist if the quantum of harm done to foreign commercial interests exceeds a certain *de minimus* level has, at a conceptual level, some appeal. After all, why trawl for minnows? Arguably, given the small amount of trade involved in many trade defence investigations, having a *de minimus* standard for effects might focus deliberations in policy circles on the state measures "that really matter." But there are problems with this approach, not least concerning which effects are to be considered—trade-related, investment-related or, as many economists would no doubt prefer, welfare effects?

Moreover, there are practical objections. Analysts will squabble over how to conduct empirical analyses of such effects. Plus, there is simply not enough analyst time available to conduct evaluations of all of the potentially important measures introduced since the GFC began.[4] Demanding that the impact of crisis-era policy interventions be estimated before possibly classifying them as protectionist sets too high a bar given constraints on analyst time. None of this is to discourage empirical studies of crisis-era commerce-related policy interventions, rather the reality is that there probably won't be enough of those studies to generate a comprehensive account of protectionism.

This leaves differential treatment as a basis for defining protectionism. Here a government measure is deemed protectionist if *de facto* or *de jure* the measure worsens the relative treatment of a foreign commercial interest vis-à-vis a like domestic interest or a like, rival foreign commercial interest. Discrimination against rival suppliers on the basis of their nationality can be introduced or increased, both constitute protectionism on this definition. An increase in the tariff charged on an imported good, for example, worsens the treatment of suppliers from abroad as compared to suppliers located inside the jurisdiction responsible for the tariff increase. Export subsidies, tax breaks, and other incentives benefit domestic firms that ship goods to third markets at the expense of rival foreign firms that are not eligible for the same financial inducements. State measures that treat the profits on foreign greenfield investments better than the profits of domestic, rival firms do not involve worse treatment of foreign commercial entities and, therefore, do not constitute protectionism on this definition.

There are pros and cons to a treatment-based definition of protectionism. The pros are, first, that the definition is not tied to any pre-determined set of policy instruments or to any mode of supplying foreign customers and, second, that its

[4] As described in section four of this paper already nearly 4,000 implemented or announced government measures have been identified since November 2008 that could have implications for cross-border commerce.

implementation typically requires less resources than conducting an empirical analysis of a measure's effects.

The fact that a differential treatment standard can be implemented without reference to specific policy instruments and modes of supply is a major advantage given the history of "policy innovation" during crises and the varied nature of 21st century international commerce. Innovations on the part of policymakers that result in the use of new policy tools to discriminate against foreign commercial interests—or greater use of existing, previously lower profile tools to discriminate—will be picked up by this definition of protectionism. Moreover, given that nations differ markedly in their commercial interests and in the modes of supply to foreign markets, a differential treatment standard is going to be relevant to more jurisdictions than a standard based on a pre-determined set of policy instruments.

The principal con is that certain government measures that worsen the treatment of some foreign commercial parties may been deemed to have a legitimate public policy purpose, such as promoting financial stability or protecting consumers against unsafe food or manufactured goods. State measures such as regional trade agreements, sanitary and phyto-sanitary standards (SPS), and technical barriers to trade (TBT) would fall foul of an unqualified differential treatment standard. One, perhaps inelegant, way to address this concern is to exclude regional trade agreements from any list of protectionist measures drawn up on a differential treatment standard and to include only those SPS and TBT measures imposed for which there is no evident scientific basis.[5]

Proper implementation of a differential treatment standard, however, requires monitoring and investigating measures that fall outside the remit of many trade ministries. Industrial policy, public procurement, visa and migration initiatives—to name just a few—need to be monitored and this adds to implementation costs.

[5] This is very close to the approach taken by the Global Trade Alert. The Global Trade Alert does include steps taken by governments to renege on previously agreed obligations under regional trade agreements on the grounds that the legitimate expectations of the affected commercial parties have not been met. Even so, there are only a few such measures, relating to Argentina and Brazil. As a percentage of the nearly 4000 measures included in the Global Trade Alert database few relate to SPS and TBT. It was decided early on by the Global Trade Alert team to include only reports on major changes in SPS and TBT legislation and regulations. There is no assumption that any change in legislation or regulation must be classified as protectionist in the Global Trade Alert. For example, a state measure that reduced the administrative burden on foreign firms during SPS and TBT compliance might be classified as liberalising in the Global Trade Alert database.

Given the focus of this paper is on the Asia Pacific region, the prominence attached to a plethora of industrial policies requires careful monitoring to obtain as complete as picture as possible about contemporary protectionism.

There are two other important implications of adopting a differential treatment standard for classifying contemporary protectionism. First, measures that discriminate against foreign commercial interests need not be trade-restricting, like tariffs and quotas. It may have been appropriate to associate protectionism with declining world trade in the 1930s but, on a differential treatment standard, it is possible that some discriminatory policy interventions increase trade, such as export subsidies and other incentives. Therefore, the fact that world trade did not collapse in recent years as much as it did in the 1930s should not be taken as evidence of the absence of differential treatment or protectionism. Indeed, the considerable resort to subsidisation, more generous trade finance schemes, and export incentives by leading economic powers early in the GFC may well have helped stabilise, and possibly increased, trade during 2010 and after.

Second, a differential treatment standard could apply to government initiatives that involve policy instruments not be covered by existing WTO agreements or that are governed by weak WTO rules. If patterns of circumvention or evasion of the WTO's rules are detected then this may be useful in deliberations over whether to strengthen the WTO accords and in which policy domains.

In sum, before monitoring protectionism or commenting on the data presented by others, it is worth considering the pros and cons of different approaches to classifying policy instruments as protectionist, not least because the term "protectionist" has such bad connotations. In this section a case has been made for the differential treatment standard over four alternative approaches. Having said that, the differential treatment standard is not perfect, yet many of its pitfalls can be avoided during implementation. The remainder of this paper refers to the data assembled by the Global Trade Alert, an independent monitoring initiative that has sought to implement the differential treatment standard.

3. Mapping protectionism in the Asia Pacific Region using the Global Trade Alert database.

It would be wrong to give the impression that there was no data available on the trade policy stance of Asia Pacific governments before the GFC. Selected indicators of trade policy stance—principally associated with average tariff rates and measures taken against dumped and subsidised imports[6]—were available in the online databases of the World Bank and the International Monetary Fund. The World Trade Organization's *World Tariff Profiles*, an annual publication containing information on many territories, contains useful data on the distribution as well as the average tariff levels for agricultural and non-agricultural goods. In principle, the United Nations Conference on Trade and Development's TRAINS database contains information on non-tariff measures (NTMs), but there are concerns about this dataset's coverage and whether the data reported is up to date. A useful overview of the latest research and data on NTMs can be found in WTO (2012). In addition, the relevance of NTMs to the ASEAN region and associated reforms has been described recently by Pasadilla (2013).

Given discrimination against foreign commercial interests is possible using a wide range of policy instruments the reality was that analysts and government officials were not well placed to monitor the full range of potentially relevant policy developments at the start of the recent crisis. The inadequacy of data became a greater concern in the first half of 2009 when fears multiplied[7] that governments might resort to protectionism on a scale not seen since the 1930s.

The Global Trade Alert (GTA) was launched in June 2009 to provide independent, freely and readily available information online[8] about policy developments likely to alter the relative treatment of foreign commercial interests. From the beginning it was understood that improvements in the relative treatment of foreign commercial interests would be reported as well as the converse. Information on government measures that were announced but were pending implementation

[6] In this regard the creation of the Temporary Trade Barriers Database by the World Bank early in the GFC was a welcome advance.

[7] Many references to protectionism were made by national premiers and heads of state in the run up to the April 2009 G20 Leaders Summit in London.

[8] See globaltradealert.org

were reported also, so as to alert users about measures that might soon affect foreign commercial interests. The GTA's reporting of measures went back to those announced on or after the first crisis-era G20 summit in Washington DC on 14-15 November 2008, partly to facilitate monitoring of the adherence of the G20 members to their pledges to eschew protectionism.

Consistent with being an independent initiative, the Global Trade Alert team comprised trade policy experts from around the world that were not affiliated with a government, international organisation, or with a directly government-sponsored research institution. To avoid double counting the unit of analysis in the Global Trade Alert monitoring is the announcement of a government initiative. An initiative could involve a decree that changes the tariff on a single item—while in other cases the initiative could be an official budget speech containing dozens of policy changes affecting foreign commercial interests. It is for this reason that each report includes information on the tariff lines, sectors[9], and trade partners likely affected by a measure---so counts of measures undertaken by governments are not the only proxies for potential impact that can be constructed from the Global Trade Alert database. Subsequent analysis revealed a high positive rank correlation coefficient between listings of countries on the basis of the number of protectionist measures imposed, number of tariff lines affected, number of sectors affected, and number of trading partners affected.

Each measure in the Global Trade Alert database was classified according to the impact of its implementation on the relative treatment of domestic and like foreign commercial interests. Measures that improve the relative treatment of the latter or improve the transparency of trade-relevant regulations were coded green. Measures that are almost certainly discriminatory---that is, whose implementation almost certainly worsened the relative treatment of foreign commercial interests—were classified red. An amber coding was given to *announced* measures that, if implemented, would almost certainly discriminate against foreign commercial interests and to those *implemented* measures that are likely[10] to discriminate against

[9] Including information on the sectors affected is important for measures—such as those relating to investment and services---where the impact is unlikely to be felt in cross-border imports and exports.

[10] Notice the difference between "likely" and "almost certainly." To be classified red a measure must meet the latter standard, which is usually met when the official description of the measure involves *de*

foreign commercial interests. The date a measure came into force is also reported. Furthermore, implementation of measures is monitored so that those measures still in force and those that have lapsed could be distinguished.

With information on the identity of the implementing jurisdiction, type of government policy intervention, tariff lines, sectors, and trading partners affected, colour coding on the basis of likely differential treatment, the date a measure came into force, and implementation status, users of the Global Trade Alert database can recover immediately summary statistics concerning all, and combinations, of these variables. The Advanced Search page of the Global Trade Alert has been configured so as to enable users to undertake detailed searches across products, sectors, countries, trading partners, and time. Searches by certain groups of countries (G20, G8, EU members, and Least Developed Countries) are possible too. No alternative source of data on contemporary trade policy choice, covering nearly 4,000 reports on government acts, can be accessed so easily. Consequently, it may not be surprising to learn that, as of this writing, the phrase “Global Trade Alert” can be found in over 525 studies and reports on Google Scholar after less than four and a half years of operation.

The Global Trade Alert is, however, not the only initiative to monitor protectionism since the onset of the GFC. On a regular basis the WTO and the European Commission have released useful reports. These official sources tend to use a form-based definition of protectionism, although it has been argued that the scope of their reporting has improved over time. Moreover, their reporting tends to focus on the larger trading economies (the European Commission’s reports state as much.) In effect, the Global Trade Alert’s coverage of policies and countries is wider than these official sources. Still, when apples-to-apples comparisons have been made in recent years between the Global Trade Alert and European Commission reports the number of protectionist measures found are similar. This finding is reassuring, but also not terribly surprising—the Global Trade Alert website is updated frequently (typically at least weekly) and the European Commission officials

jure discrimination against a foreign commercial interest. (In such cases the official document used by the GTA team to make the determination is referred to on the Global Trade Alert website.) The Global Trade Alert team has insisted on a higher evidential standard to classify as red a measure involving *de facto* discrimination.

can access the reported protectionist measures on the Global Trade Alert website, just like anyone else.

Over time acceptance of the information collected by the Global Trade Alert has grown. Reports by the World Bank and by UNESCAP frequently make reference to the Global Trade Alert's data (see for example UNESCAP (2012a, 2012b, 2013)). Leading public officials including, amongst others, the President of the World Bank and the Secretary-General of UNCTAD, have referred to Global Trade Alert data in their speeches. Likewise, ambassadors to the WTO have referred to GTA findings in deliberations at that body. Finally, as of June 2013, 505 media reports made reference to the Global Trade Alert's reports and findings, including reports in major newspapers and business magazines.

In principle, the Global Trade Alert covers measures taken by national and subnational governments as well as other state bodies—such as state owned enterprises—in any customs territory. For the purpose of this paper, the group "Asia Pacific" refers to all of the regional members of the Asian Development Bank, including industrialised country members, plus the Russian Federation.[11] The grouping "Developing Asia Pacific" includes all of the Asia Pacific customs territories except Australia, Hong Kong, Japan, New Zealand, Russia, and Singapore. The latter six are referred to below as the "High Income Asia Pacific" economies.

4. Resort to discrimination in the Asia Pacific region: A comparative analysis.

To what extent, if at all, does the resort to discrimination against foreign commercial interests in the Asia Pacific differ from patterns observed worldwide? Furthermore, does resort to protectionism differ among Asia Pacific nations according to level of economic development? The purpose of this section is to answer these questions, making reference to the charts and tables reported at the end of this paper and assembled from the Global Trade Alert database on 6 October

[11] For a list see http://www.adb.org/about/members. In total, data on 49 jurisdictions was used to compile the statistics presented in this paper.

2013. That is, the statistics refer to state measures announced or implemented between 14 November 2008 (the start of the first crisis-era G20 summit) and 6 October 2013, a period covering almost five years.

Table 1 reports the totals for measures that benefit and harm foreign commercial interests, with and without the traditional protectionist instruments of tariffs and trade defence.[12] Worldwide, a total of 3228 state measures were reported in the Global Trade Alert database as having been implemented, of which 832 and 591 measures relate to measures implemented by governments in Developing Asia Pacific and High Income Asia Pacific countries, respectively. Therefore, in total the Asia Pacific region accounts for 44 per cent of the measures implemented worldwide.

There are clear differences between countries in their tendency to resort to protectionism as measured by the ratio of the total number of protectionist measures imposed to the total number of liberalising measures implemented (which can be derived from data reported in Table 1). Worldwide this ratio is nearly three (3.1 in fact). In the Developing Asia Pacific group this ratio is 2.45 and the comparable ratio for High Income Asia Pacific group is 3.58. To the extent that counting measures makes sense and assuming that there are no biases in undercounting, these ratios indicate a differential willingness to engage in beggar-thy-neighbour behaviour in the Asia Pacific, with the richer countries engaging in proportionally more discriminatory actions during the crisis. Perhaps some developing country governments in Asia took the view that implementing protectionist measures would scare off foreign investors. Policymakers in high income Asia Pacific jurisdictions may have reasoned that the longer standing advantages of their economies might offset any tarnishing of their reputation that could follow from implementing beggar-thy-neighbour policies during the GFC.

There also appears to be differences between Asia Pacific nations in the resort to non-traditional forms of protectionism. Comparing the total number of protectionist measures implemented with the total that involve the use of tariffs or trade defence,

[12] Trade defence is a European term covering state measures taken against dumped imports, subsidised imports, and import surges. Some refer to measures taken against dumped and subsidised imports as unfair trade measures.

half of the measures implemented by the Developing Asia Pacific nations were of the latter types (Table 1). In contrast, traditional forms of protectionism accounted for just 28.2% of the protectionist measures taken by governments of the high income Asia Pacific economies, a percentage well below the comparable statistic for the world. Part of the difference is due to the resort to bailouts and subsidies by the richer countries in the Asia Pacific, whose governments presumably have deeper pockets. Together, the six high income Asia Pacific economies have implemented 244 schemes that provide financial support to national firms operating at home or abroad.

An alternative explanation may be that, with the exception of the recently acceded developing countries of Asia, the jurisdictions with lower per capita incomes had larger tariff binding overhangs and thus had more leeway to raise their tariffs significantly during the GFC without violating their WTO obligations. This hypothesis is explored further in the next section of this paper.

Comparing the total numbers of protectionist measures that have been removed with those still in force sheds light on the extent to which crisis-era protectionism has been unwound by October 2013—and how much further unwinding is needed to restore commercial conditions to the pre-crisis status quo. Worldwide, 14.3 per cent of all discriminatory measures implemented since November 2008 had been unwound by October 2013. That percentage falls to 11.9 for the higher income Asia Pacific countries and to 9.6 for the developing countries in the Asia Pacific. In sum, while the lower per-capita income countries in the Asia Pacific have implemented proportionally fewer protectionist measures than their richer counterparts, the former have unwound approximately the same percentage of those measures as the latter (Table 1).

The annual variation in the resort to protectionism in the Asia Pacific region and elsewhere is revealing and is portrayed in Figure 1. To facilitate comparison, the raw data for 2008 and (year to date) 2013 were annualised. Worldwide, a spike in protectionism was recorded in 2009, with the number of protectionist measures implemented in that year rising more than 40 per cent above the annualised rate for 2008. Although the annual totals since 2009 have fallen, they have yet to fall below levels seen in 2008.

Interpreting these annual totals requires care, however. The very nature of less transparent—or murky—forms of protectionism is that they are difficult to document. Consequently, there can be substantial reporting lags. These reporting lags can create the impression that the resort to protectionism was lower in more recent years when, in fact, as more evidence becomes available, the totals for later years are revised upwards. The matter of reporting lags was explored in the 14th report of the Global Trade Alert, where it was shown that, evaluated at comparable stages in the reporting cycle, the reported worldwide totals for protectionism in 2012 were higher than those observed in 2009 (Evenett 2013a).

Figure 1 also reveals interesting differences in the annual resort to protectionism by the high income and developing nations of the Asia Pacific region. The former's annual resort spiked in 2009, fell in 2010 and 2011, and picked up subsequently. In contrast, the developing nations of the Asia Pacific region increased their resort to protectionism in 2009 and 2010 and then the rate plateaued, with between 110 and 130 protectionist measures being implemented in every year since. Similar differences between the higher and lower per capita income members of the G20 have been observed (Evenett 2013a).

As information on tariff changes and investigations into dumped imports, subsidised imports, and import surcharges is easier to come, by many observers have paid greater attention to these forms of protectionism. This is unfortunate as Figure 2 shows. In no year since 2008 has resort to these traditional forms of protectionism accounted for more than half of the protectionist measures implemented by the high income Asia Pacific nations and by the Rest of the World. Even in the Developing Asia Pacific group resort to tariff increases and trade defence measures accounts for just over half of all measures taken. This finding is significant as some have sought to downplay crisis-era protectionism by reporting small totals for the amount of trade affected by traditional protectionism, overlooking that the fact that other forms of protectionism were implemented as well.[13]

[13] The evidential base on the amount of trade affected by non-traditional forms of protectionism is growing. For example, over a trillion US dollars of Chinese exports are eligible for trade-related incentives that have been changed since the Global Trade Alert began reporting (Evenett, Fritz, and Yang 2012). Other estimates of the trade affected by "jumbo" protectionist measures can be found in Evenett and Fritz (2011).

There are also differences in the annual variation in the propensity to remove ("unwind" in trade policy parlance) protectionist measures taken since 2008 (see Figure 3). The high income Asia Pacific countries unwound a higher percentage of the measures that they imposed in the early years of the crisis than developing countries from the same region. However, of the protectionist measures implemented since the beginning of 2011, both groups have unwound roughly the same, small percentage (in the range of 5-10 per cent). One implication of these findings is that the stock of crisis-era protectionism implemented in the Asia Pacific (and, for that matter, in the rest of the world) is rising over time, supporting the concern that the crisis-era has witnessed a growing fragmentation of regional and world markets.

Asia Pacific nations have seen their diverse commercial interests adversely affected by state measures taken by trading partners. Table 2 identifies the 10 Asia Pacific nations harmed most often by foreign protectionism. China stands out in two respects. Most obviously, because China has seen its commercial interests harmed over 1,100 times since November 2008. Since the onset of the GFC no other nation in the world has been hit so often by foreign protectionism. The second reason is that half of the foreign protectionism harming Chinese interests is due to tariff hikes and trade defence measures—whereas, for the other countries listed in Table 2, traditional protectionism accounts for between 25 and 40 per cent of total number of times that their commercial interests have been hit. Even in China's case, if steps taken to remove crisis-era protectionism were confined to more traditional forms of protectionism, then half of the hits to Chinese commercial interests would remain in place. Much of the protectionism harming these 10 country's commercial interests has yet to be unwound. One policy implication immediately follows for these countries: they should have an interest in initiatives that seek to remove protectionism imposed during the crisis era.

5. Interpreting the evidence.

In interpreting the resort to discrimination against foreign commercial interests in recent years it is not surprising that many analysts have made reference to the longstanding literatures on the relationship between trade protectionism and the business cycle and to the role that protectionism played in the Great Depression of the 1930s. The former literature often predicts that protectionism is counter-cyclical, with governments offering respite to import-competing firms during downturns, often through the use of trade defence measures. The latter literature showed that the resort to across-the-board protectionism in the 1930s was influenced by macroeconomic policy options (Eichengreen and Irwin 2009). Those countries that left the Gold Standard and devalued their currencies to a greater degree tended to raise their average tariff rates by less, indicating a degree of substitutability across policies (Irwin 2012).

Ultimately, the question that arises is how useful are these perspectives for understanding the decisions taken by governments since the onset of the GFC? To start with it important to bear in mind that the recent crisis had three features: the crisis simultaneously affected many nations; saw financial markets seize up with the immediate consequence that firms had to scramble to find working capital, else they would have to start laying off workers and defaulting on their debts and payments to suppliers; and that the initial downturn in many economies was more severe than in a typical recession. To what extent does our understanding of the determinants of protectionism need to be altered in the light of these circumstances?

On the face of it the fact that governments reacted to the sharp economic downturn of 2009-2010 with expansionary fiscal and monetary policy raises the question of whether these steps might have substituted—in whole or in part--for protectionism. There may be something to this but, as argued below, the substitutability hypothesis needs to be qualified so as to account for contemporary circumstances.

While Smoot Hawley-style tariff increases have been avoided in the early years of the GFC, this does not imply the absence of a considerable amount of discrimination against foreign commercial interests—some of it, in fact, directly associated with the macroeconomic stimulus policies undertaken. Worldwide 50 countries—including 18 in the Asia Pacific region--instituted or expanded “buy national” or other measures that channelled additional government spending to domestic firms. In some jurisdictions local and state governments joined central governments in implementing discriminatory public procurement policies. It would be wrong, then, to think that this time around "clean" fiscal stimulus plans substituted for "dirty" protectionism. The way fiscal stimulus plans were implemented in many countries during 2009 and 2010 actually contributed to discrimination against foreign commercial interests.

Even greater prominence has been given to the adverse knock-on effects for trading partners of expansionary monetary policies, as the discussion of the so-called currency wars shows (Evenett 2013b). To the extent that expanding a central bank's balance sheet leads ultimately to a depreciation of its national currency, then this will shift expenditure towards domestically produced goods and away from foreign goods. Concerns that such depreciations might trigger reactions by trading partners are real—in recent years a currency depreciation by one major trading nation has been emulated.[14] Such concerns persist—witness the reaction of Japan's trading partners to the implementation of its policy of monetary easing in 2013.

In the case of monetary policy under a floating exchange rate regime there appears to be a policy dilemma. One of the accepted lessons of the 1930s is that the central bank should make whatever liquidity is necessary to stabilise the national banking system. Yet doing so creates a by-product—a depreciation of the national currency, which hurts trading partners. However, had governments combined a non-discriminatory fiscal policy stimulus with a lax monetary policy then some of the adverse cross-border effects would have been reduced (Evenett 2013b). Instead, as governments turned to fiscal austerity measures, trading partners are faced with currency devaluations and reduced prospects for benefiting from public procurement contracts. Under these circumstances, it is not surprising that trade tensions have risen as the effects of the austerity programmes were felt.

The dependence of modern capitalism on working capital[15] and the freezing up of financial markets witnessed during the early phase of the GFC poses another question for governments: which tool to use to help firms that could not obtain credit from banks and other financial institutions?[16] Without such credit, widespread layoffs

[14] A good example is the depreciation of the Brazilian Real after its Finance Minister publicly criticised the United States for starting a currency war in 2010.

[15] Many firms must pay their staff and suppliers before being paid by customers.

[16] This argument was developed at greater length in Evenett (2011).

and defaults would soon follow, adding to the economic downturn. For sure, governments could raise import barriers hoping that will switch expenditures to domestic firms that were in financial trouble. However, during a sharp economic downturn customers may rein in their spending, implying there is less buying power to shift in the first place. An alternative policy intervention, that can be targeted more effectively and its impact felt faster, is to offer the firms in question subsidies or bailouts, either directly from the public treasury or through the banking system. Such selective bailouts discriminate in favour of recipients against both domestic and foreign rivals. The Global Trade Alert has documented 545 such bailouts worldwide, 424 of which do not involve recipients in the financial sector. State-led relaxation of corporate budget constraints is an alternative to Smoot Hawley-like tariff increases and, like the latter, the former can be designed to favour domestic over foreign commercial interests.

Some might object that during financial crises the resort to bailouts is inevitable. Even if true, it is not clear that the resort to *selective* bailouts was necessary. Governments could have ensured that bailouts and the like were offered on the same terms to all firms within a jurisdiction. While that would have still involved discrimination against firms located abroad, foreign subsidiaries based in the subsidy-granting jurisdiction would not have been discriminated against. Moreover, to the extent that subsidies were in fact not motivated by providing emergency infusions of working capital but by the desire to limit capacity reductions by local firms, then the latter have a stronger beggar-thy-neighbour character as these subventions seek to shift the burden of adjustment on to rival firms located in trading partners. In addition, it may well be the case that some of the subsidies that began as working capital injections evolved over time into measures to slow down or put off capacity reductions and associated job losses. Therefore, what may have started as a response to market failure (the freezing up of financial markets) could have morphed into another, potentially longer-lasting, form of discrimination against foreign commercial interests.

In the light of the above, what should one make of the contemporary relevance of the 1930s-motivated substitutability argument? At best, it is incomplete—contemporary relevance requires adding softening budget constraints as a viable policy alternative. At worst, it overlooks the fact that many of the macroeconomic policy alternatives to tariffs and traditional protectionism implemented in recent years have also involved discrimination against foreign commercial interests. A modified, less sanguine, version of the substitutability hypothesis is called for if it is to account in part for the resort to protectionism since the onset of the GFC.

While the above accounts account for the resort to bailouts and subsidies, recall from section four that developing countries in the Asia Pacific region employed proportionally more traditional forms of protectionism during the crisis era, such as tariff increases and trade defence measures. It may be that countries with lower per capita incomes cannot afford to offer subsidies from the public treasury[17] or don't have the banking systems necessary to direct credit to favoured firms.

Another consideration, however, is that developing countries tend to have more leeway under existing WTO commitments to raise tariffs. Here Figures 4-6 are relevant, although the relatively small sample sizes necessarily qualify the conclusions drawn. Data was collected from the WTO publication *World Tariff Profiles 2012* on the severity of their WTO obligations, in particular towards tariffs on trade in goods (for which continuous measures of the tightness of WTO obligations can be constructed.) Perhaps it is not that widely known how much variation there is across WTO members in the extent to which governments can raise their tariffs without breaking their WTO commitments. Asia Pacific countries differ markedly in the percentage of their tariff lines that are subject to legal maximums (bindings in WTO parlance) in the first place, in the difference between the maximum tariff allowed and the tariff actually set (the so-called tariff binding overhang), and the percentage of a nation's tariff lines (import product categories) where the right to set tariffs has been given up entirely. It will be interesting to see if countries more constrained by WTO rules in their use of tariffs resort more frequently to non-traditional forms of protectionism.

First, however, it will be helpful to check whether governments that resorted relatively more often to protectionism did so by making greater use of traditional forms of protectionism. As Figure 4 shows, for the Asia Pacific nations this is not the

[17] In another study with colleagues I found that a national government's pre-crisis credit rating was positively correlated with the resort to bailouts during the crisis, suggesting that deep pockets matter.

case. Governments that have skewed their treatment of foreign commercial interests more towards discrimination have tended to use less traditional means of doing so. That the traditional forms of protectionism are subject to the toughest WTO rules is important as this finding suggests that those governments more desperate to protect domestic interests have resorted to policy instruments less constrained by WTO rules.

Apart from the developing countries that acceded to the WTO since 1995 (such as China and Vietnam), others in the Asia Pacific region have plenty of room to raise their MFN tariff rates before reaching their bindings. That leeway appears to have been a factor conditioning policy choice in recent years, as shown in Figure 5. Asia Pacific nations with more room to raise tariffs altered the mix of measures taken towards more traditional forms of protectionism.

The extent to which WTO members have given up the right to charge tariffs at all on imports differs a lot. In the sample of Asia Pacific countries employed here the percentage of tariff lines that WTO members have agreed to forgo tariffs entirely varies from zero to 53 per cent. As Figure 6 shows, there is a negative correlation between the extent to which a WTO member has given up the right to use tariffs and their resort to traditional forms of protectionism. In the light of this evidence it would be naïve to conclude that just because a WTO member has given up certain rights to use tariffs that it could not—and "therefore" did not—resort to protectionism since the onset of the GFC.

High income countries in the Asia Pacific region and China[18] do not have the option of raising their tariffs legally and so have substituted policy instruments for which there are transparent WTO rules for those state measures for which the rules are either less transparent, weaker, or do not exist in the first place. What do we learn, then, about the effectiveness of WTO rules during a crisis? The incomplete nature of the WTO's agreements—that does not prevent substitution between policy instruments—limits the extent to which multilateral trade rules restrain the resort to protectionism during systemic economic crises. Consequently, such incompleteness implies that current WTO rules more likely affected the composition rather than the

[18] Only 9 of the 112 protectionist measures taken by China involve tariff increases.

amount of crisis-era protectionism. To argue that the WTO rules have failed entirely would be going too far. Likewise, so long as the sizeable tariff binding overhangs in many developing countries and the incompleteness of the architecture of WTO rules persist, the expectation that during systemic economic crises the WTO alone could prevent substantial resort to protectionism represents a triumph of hope over experience.

In other writings I have added a further factor that limits the effectiveness of the WTO during systemic economic crises—namely, the fact that the simultaneous pressures on governments to engage in discrimination against foreign commercial interests creates a “glass houses syndrome” (Evenett 2011). According to the saying “people who live in glass houses should not throw stones,” in this instance it means that governments will be reluctant to bring cases to the WTO’s dispute settlement body about crisis-era violations of WTO rules precisely because those governments too have been breaking multilateral trade rules.[19] In this regard, it is worth noting that the number of dispute settlement cases brought to the WTO from 2009 to 2011 was below the trend seen before the GFC began (Evenett 2012). There was a uptick of cases in 2012 and, interestingly, this produced threats of retaliation from the governments of those jurisdictions named in the suits. In sum, then, the experience of recent years should temper what is to be expected from binding multilateral rules during systemic economic crises.[20]

6. Concluding remarks and implications for policy deliberations.

One goal of this paper was to better understand the resort to protectionism in the Asia Pacific region since the onset of the GFC. Interesting differences were found between countries within the region and between the region and the global totals. Not surprisingly no single explanation is likely to fit all of the facts. Still, there

[19] Recall that in the WTO a member government must bring a case against another member government. There is no legal authority independent of the member states who can bring cases, as there is in the European Court of Justice.

[20] Not dissimilar reasons can be advanced for doubting the restraint induced by the non-binding G20 pledges on protectionism, first made in November 2008 and repeated often since. For evidence casting doubt on the effectiveness of the G20 accords see Evenett (2013a).

were enough commonalities upon which to formulate possible explanations for the differential resort to protectionism.

Before analysing the evidence it was necessary to reflect on which notion of protectionism is relevant for the 21st century, given the many modes available to supply to foreign markets. The case was made here for a “differential treatment” standard to classify crisis-era policy initiatives. One advantage of this standard is that can be applied to initiatives that improve the treatment of foreign commercial interests, not only measures that disadvantage foreign interests. Another attraction of this approach is that it captures new forms of discrimination against foreign commercial interests, which is important as the recent global financial crisis and its predecessors saw changes in the mix of policies used by desperate governments keen on favouring local firms and industries.

High income economies in the Asia Pacific region were found to resort to bailouts often. Developing countries in the Asia Pacific region tended employ to more traditional forms of protectionism during the crisis, such as tariff increases and imposing trade defence measures. The substantial tariff binding overhang that many developing countries have affords them the leeway to raise tariffs considerably without breaking their WTO obligations. The simultaneous, deep, and financial nature of the recent crisis accounts for the richer countries resorting more to discriminatory bailouts and subsidies, measures that are less constrained by WTO rules than tariffs.

In interpreting this evidence it was argued that our understanding of the factors responsible for protectionism during systemic economic crises needs to be updated from the standard account of beggar-thy-neighbour policy in the 1930s. Moreover, the incomplete nature of the WTO’s rules, and the glass house syndrome induced by the simultaneous nature of the deep economic slump, both limit the bite that can be realistically expected of WTO rules during systemic economic crises. Even if the set of WTO rules were filled out and circumvention became impossible, then the glass houses syndrome could still limit the enforcement of those rules. The appointment of an independent legal “guardian of the treaties” (to borrow a well-known phrase from European Union parlance) willing and able to bring offending governments to the WTO Dispute Settlement Mechanism might banish the glass house syndrome.

Unfortunately, there is little to suggest that governments (that are the members of the WTO) are keen on such a reform.

In conclusion, then, the recent global economic crisis has revealed some of the limitations of current multilateral trade rules and enforcement. This is not to imply that such rules are completely useless. Rather, analysts and officials should temper their expectations of the WTO accordingly. Another implication is that, in the absence of meaningful international restraint, the case for open borders will be won and lost in national capitals. To the extent that WTO membership helps frame national debates on protectionism during crises, then multilateral rules may play an indirect and potentially constructive role. It would be wrong, however, to expect a white knight from Geneva to come over the horizon and save the day.

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

Group of countries	Measures imposed from November 2008 to September 2013					Measures still in force on 6 October 2013	
	Total number of liberalising 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
Developing Asia Pacific	241	591	304	71.0	51.4	90.4	93.4
High Income Asia Pacific	129	462	131	78.2	28.4	88.1	76.3
World	787	2441	888	75.6	36.3	85.7	88.2

Source: Global Trade Alert database. Data extracted 6 October 2013. For definitions of “High income Asia Pacific” and “Developing Asia Pacific” see main text.

Table 2: The ten jurisdictions in the Asia Pacific Region most frequently harmed by other nations' protectionism, sorted in descending order by the number of red (almost discriminatory) measures imposed on a target jurisdiction since November 2008.

Rank	Jurisdiction affected	Number of times commercial interests harmed by foreign protectionism implemented since November 2008	Number of foreign protectionist measures unwound before 1 October 2013	Number of times commercial interests harmed by foreign tariffs and trade defence measures	Percentage of total number of foreign protectionist measures that…	
					…have been unwound by 1 October 2013	…that are tariff increases or trade defence measures
1	China	1103	131	549	11.9	49.8
2	Republic of Korea	602	96	229	15.9	38.0
3	Japan	594	90	218	15.2	36.7
4	India	545	72	183	13.2	33.6
5	Thailand	523	80	194	15.3	37.1
6	Malaysia	429	62	159	14.5	37.1
7	Indonesia	422	59	168	14.0	39.8
8	Singapore	369	60	129	16.3	35.0
9	Australia	350	63	101	18.0	28.9
10	Russian Federation	344	53	89	15.4	25.9

Source: Global Trade Alert. Data extracted 6 October 2013.

Figure 1: Annual totals of protectionist measures implemented by nations in the Asia Pacific Region and the Rest of the World.

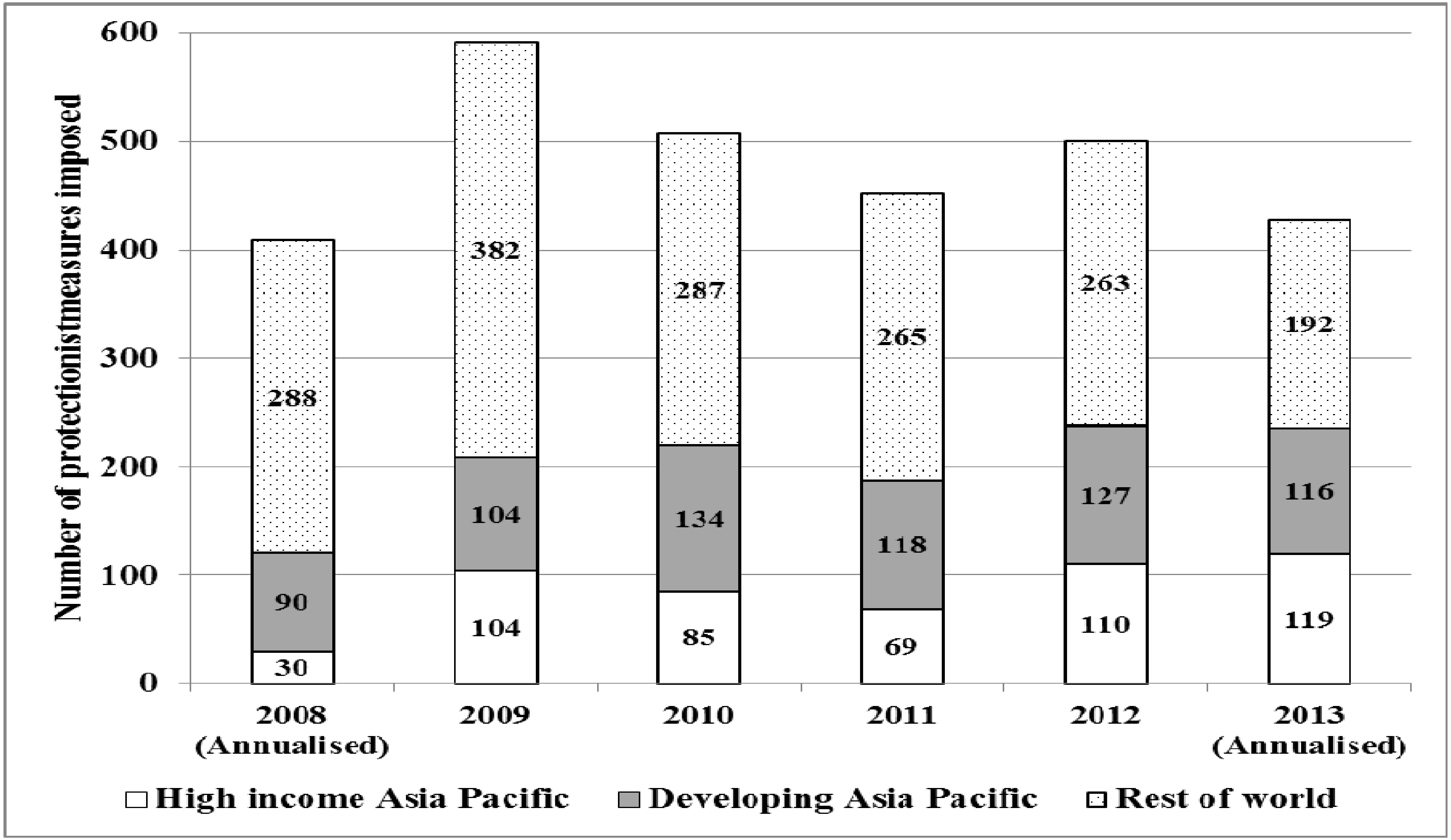

Figure 2: Annual resort to traditional forms of protectionism in the Asia Pacific Region and in the Rest of the World.

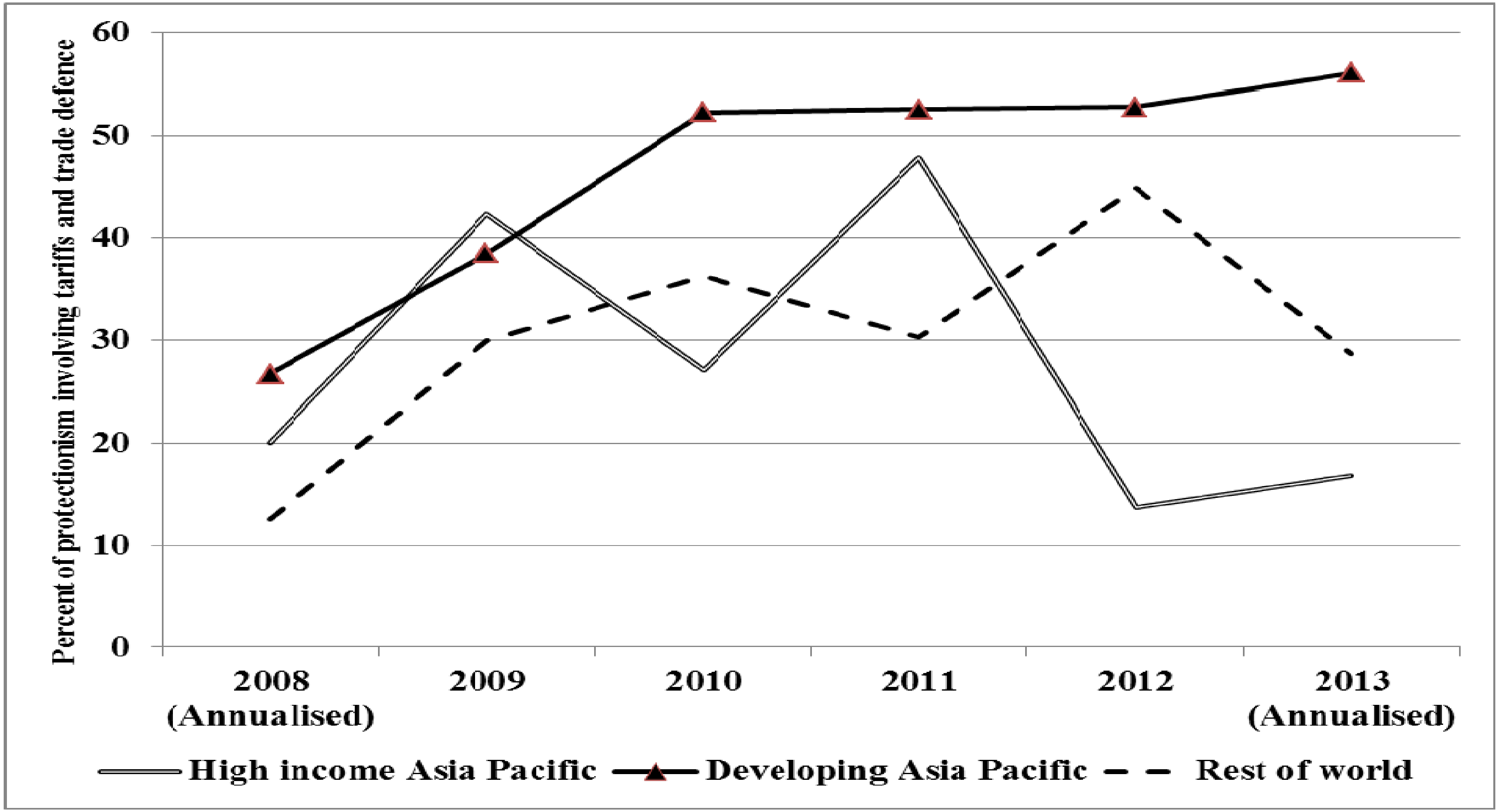

Figure 3: Percentage of each year's protectionist measures that have been unwound by 1 October 2013 for the Asia Pacific Region and the Rest of the World.

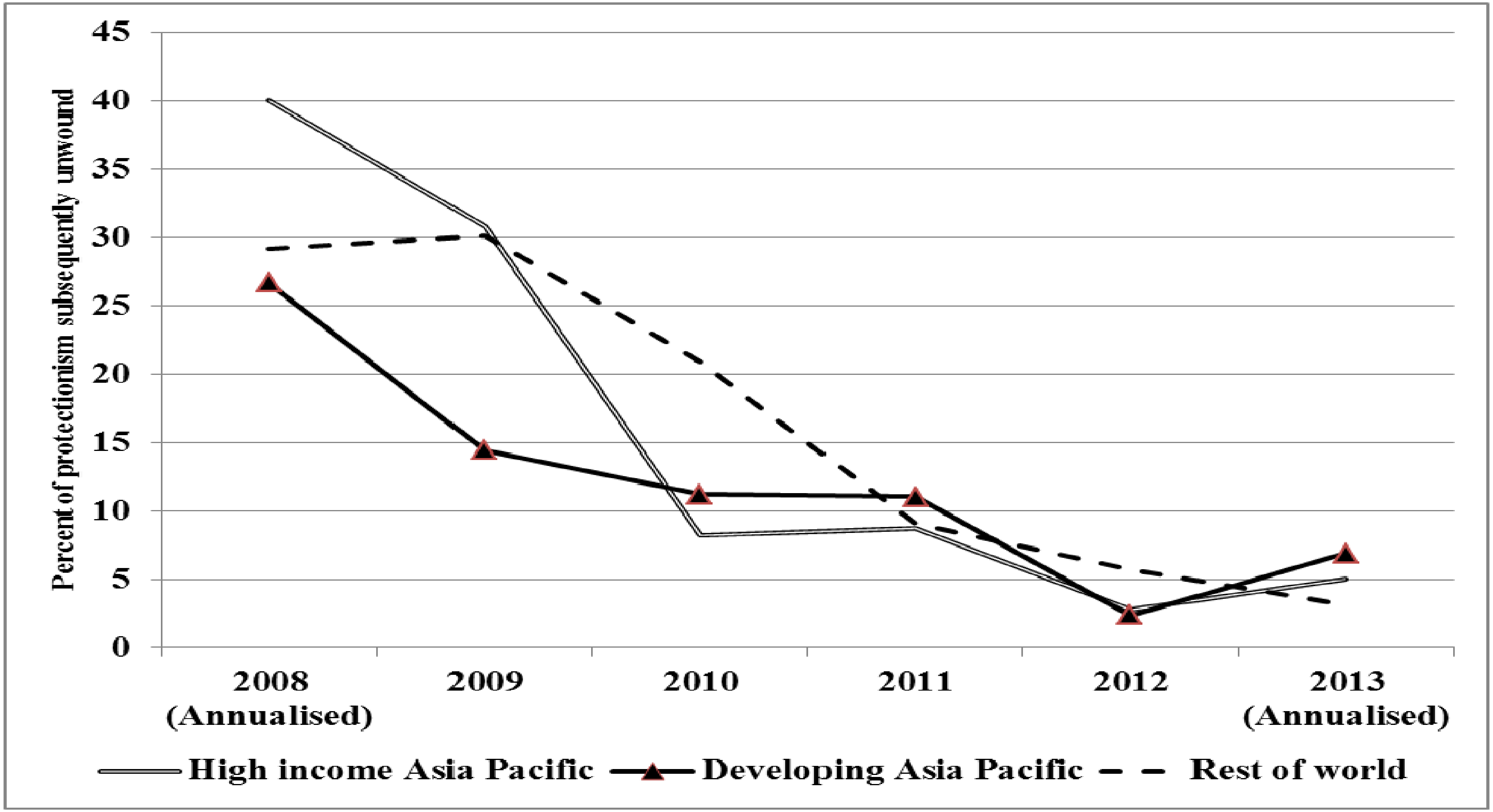

Figure 4: Where the protectionist impulse in the Asia Pacific Region is stronger the less is the resort to traditional forms of protectionism.

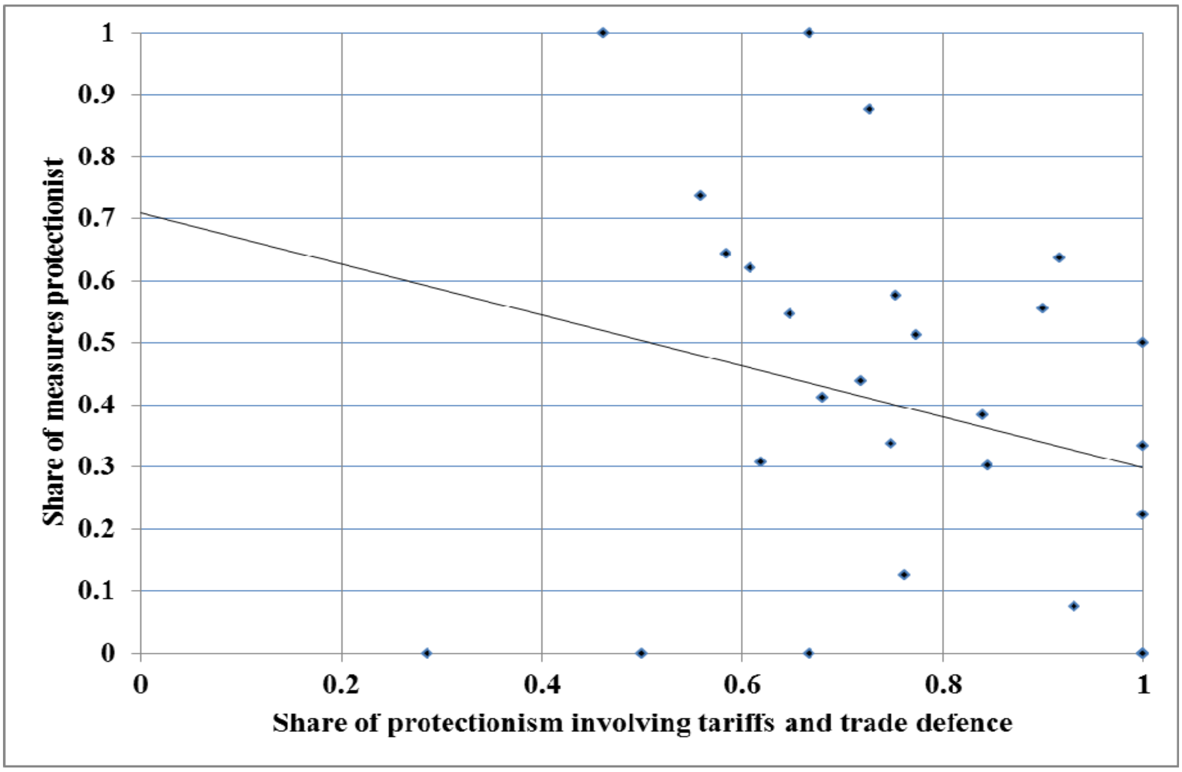

Figure 5: Among Asia Pacific members of the WTO resort to traditional protectionism is greater where tariff binding overhangs are larger.

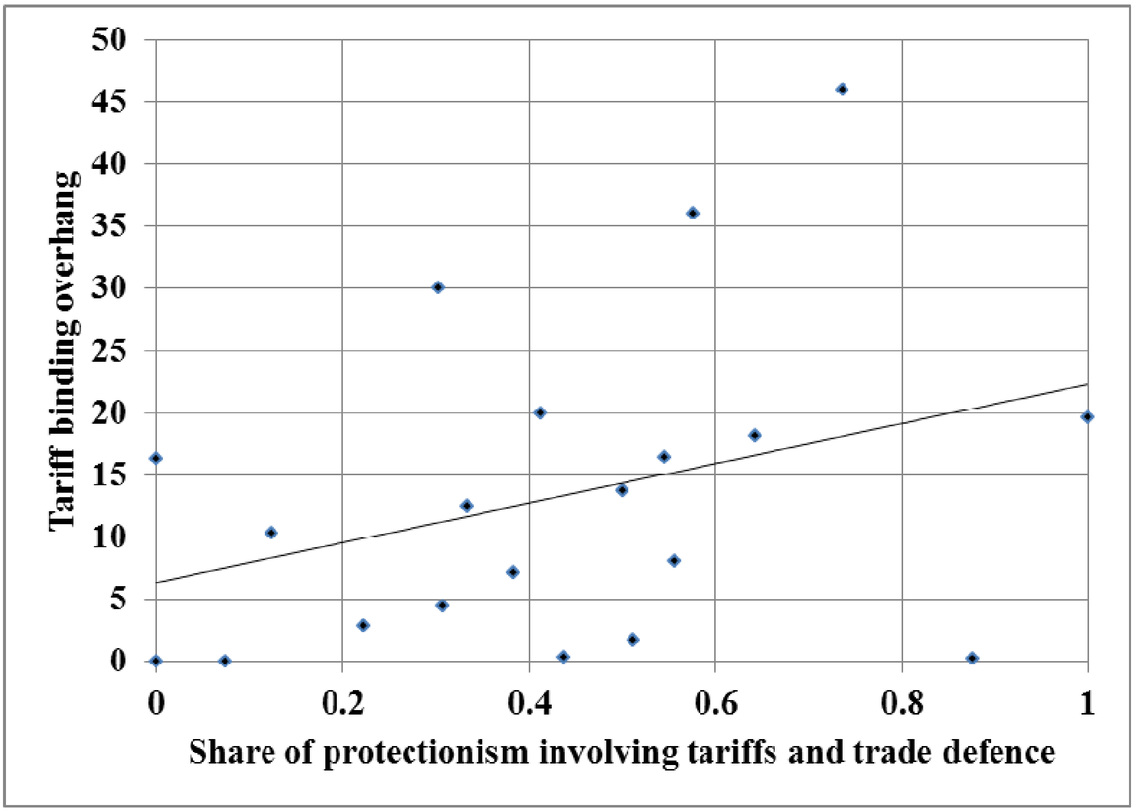

Figure 6: Among Asia Pacific members of the WTO resort to traditional protectionism tends to be larger in jurisdictions that have bound fewer tariff lines at zero tariffs.