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G-20 Protection in the Wake of the Great Recession

An International Chamber of Commerce (ICC) research report

Prepared by the Peterson Institute for International Economics (PIIE)

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Executive Summary

Key messages of the report

1. Levels of unemployment in high-income G-20 countries will remain near 10 per cent through 2011 and into 2012, creating extreme pressures for recourse to protectionist barriers to trade.

The PIIIE report compares the recovery of G-20 countries after the Great Recession with the recovery of the Asian countries and the big three developed countries (Europe, Japan, and the United States) from previous economic crises (Asian financial crisis and Dot.com crisis). The G-20 recovery period will be longer and more painful.

2. Protectionist trade measures meant to protect jobs have the opposite effect, because of emulation and retaliation.

An example of the destructive potential of the protectionist approach is the estimate that if foreign emulation or retaliation to “Buy American” legislation causes US companies to lose just 1 per cent of the potential sales opportunities created by foreign stimulus programs, US exporters will lose over 200,000 jobs. The gain of 43,000 jobs that the US government claims are being saved by the “Buy American” approach could be wiped out completely by “blowback” job destruction.

3. The sweep of protectionist policies already implemented in the wake of the Great Recession is alarming.

All G-20 countries have implemented protectionist trade measures over the past two years, but so far without provoking the global cycle of retaliation that was so destructive of trade and jobs

in the Great Depression. Protectionist measures since 2008 have been recorded by the Global Trade Alert (GTA) project which was launched by Professor Simon Evenett of the University of St. Gallen. According to GTA figures, by September 2009, the G-20 were responsible for 172 of the initiatives with protectionist overtones. The record contrasts sharply with the repeated commitments of G-20 countries to avoid protectionism.

4. Hundreds of new protectionist measures in the G-20 “pipeline” threaten to derail global economic recovery, trade and employment.

G-20 governments have hundreds of protectionist measures “in the pipeline”, ready for implementation. The report provides detailed lists of these measures for each of the G-20 countries. It concludes that if only half the measures already foreseen are implemented in 2010 and 2011, the world economy will face a serious protectionist problem.

5. Avoiding the destructive spiral of protectionism of the 1930s requires more than words by G-20 governments.

There is a serious risk that the pressure of millions of workers unemployed over many months between now and 2012 will provoke a destructive round of protection, emulation, and retaliation, putting at risk the slow recovery of trade and employment which is currently underway. The report recommends actions that can be taken by G-20 countries to guard against protectionism, and sustain the delicate transition from high unemployment to renewed growth through trade.

6. The export-driven recovery and growth strategies of G-20 countries will not work if protectionist measures continue to be implemented.

Trade has been a central pillar of economic growth for 60 years. The recovery strategies of many G-20 countries emphasize export expansion to spur job creation. The US government, to take a leading example, has set the goal of doubling US exports over the next five years to create 2 million new jobs. The report warns that the pressures of sustained high unemployment between now and 2012 could undermine the potential role of trade expansion to spark economic recovery by provoking a new wave of protectionism.

7. The winners of the protectionist Olympics 2008-2009 are

The report provides rankings of G-20 countries ranging from most to least protectionist based on the number of measures implemented and the number of products and countries adversely affected. Rankings are based on protectionist measures either implemented during the Great Recession (2008-2009), or measures which are now in the “pipeline”. The composite country ranking is derived from averaging the ranks of countries across the three metrics for *both* final and pipeline measures. The top five protectionist champions based on the composite country rankings are Russia, the United States, India, Argentina, and Brazil. The least protectionist countries amongst the G-20 are Mexico, Turkey, Australia, Republic of Korea, South Africa, and Saudi Arabia.

8. The G-20 must build upon its record of success in coordinating global crisis management and live up to its rhetorical commitment against protectionist measures.

The report urges G-20 leaders to take four initiatives. First, conclude the WTO Doha Development Agenda. Second, appoint a G-20 Group of “Trade Wisemen” to establish the “I Know It When I See It Doctrine” against trade protectionism. Third, expedite the WTO’s dispute settlement mechanism. Last but not least, establish a regular G-20 Trade Ministers Meeting.

After the Great Recession

The global experience of the Great Recession is often compared to the Great Depression of the 1930s. The Great Depression fostered a global protectionist response of massive proportions, with destructive consequences for trade and employment around the world. This report documents that G-20 governments have implemented hundreds of measures that are barriers to trade and are holding additional serious protectionist measures “in the pipeline”, ready to be implemented.

The collective G-20 experience, with its roster of advanced and emerging economies, runs the gamut in terms of country experience: the largest decline in global trade, the greatest worsening of labor markets, the biggest deterioration of government fiscal positions, now the fastest recovery and the epicenter of protectionist episodes.

With this range of experience, the G-20 is positioned to lead the world economy towards a solid recovery in trade and employment. The report confirms that restraint has characterized G-20 countries, avoiding the excesses of the 1930s.

Still the sweep of protectionist policies in the wake of the Great Recession is alarming. These have been recorded in the Global Trade Alert (GTA) launched by Professor Simon Evenett of the University of St. Gallen. In September 2009, Evenett outlined the scale of G-20 member violations of their collective pledge against protectionism. According to Evenett’s figures, as of September 2009, the G-20 was responsible for 172 of the initiatives with protectionist overtones since the start of the Great Recession. All the while, the G-20 countries were voicing their commitment to avoid protectionism.

Even after the global recovery was underway in the last quarter of 2009, Evenett reports that beggar-thy-neighbor policies continued to erupt—at a rate of around 100 protectionist measures per quarter worldwide. The PIIE report estimates that G-20 countries accounted for around 35 percent of protectionist measures implemented or considered worldwide. Whatever the share, it is clearly too early for the G-20 to declare victory over protectionist instincts.

A slow, dangerous recovery is forecasted ahead

The Great Recession was centered on the G-20 countries, although it impacted countries worldwide. The report first examines how the Asian countries (covering China, Indonesia, Korea, Malaysia, Philippines, Singapore, and Thailand) and the big three developed countries (Europe, Japan, and the United States) “bounced” back from previous financial crises—the Asian Financial Crisis (from 1997 to 2000) and the Dot.com Crash (from 2000 to 2003). Then a comparison is made with how G-20 countries are “bouncing” back from the Great Recession.

The four economic indicators used for this comparison are: GDP growth; two-way merchandise trade levels; unemployment rates; and stock market performance.

Asian countries rebounded better from the Asian Financial Crisis than did the big three from the Dot.com Crash, or the G-20 countries from the Great Recession. This is true for all four economic indicators that the report examined. Compared to the rebound rates of Asian countries from the Asian Financial Crisis and the big three from Dot.com Crash, the trade rebound from the Great Recession is the smallest. Most alarming, the unemployment rebound rate looks to be *negative* for the majority of G-20 countries following the Great Recession (see figure 4.1 for a comparison of unemployment levels and changes).

Across all four indicators measured, unemployment rates are the slowest to rebound.

Unemployment rates improve much more slowly compared to the other indicators, with a lag anywhere from a quarter to more than a year. This is confirmed by the IMF which estimates that unemployment takes five quarters to reach its worst level after output starts to recover. The highest rates of unemployment consistently hit countries after the troughs in the other indicators. For the purposes of trade policy, this phenomenon portends a bleak outlook through 2010 and into 2011.

National employment measures

The Great Recession plunged the global economy into the worst financial and economic crisis of the past 50 years. Drastic contractions in virtually all industries severely impacted the labor market. G-20 governments responded in a timely manner, letting automatic stabilizers from existing social safety nets operate fully, implementing huge fiscal programs and extraordinary monetary expansion to stimulate aggregate demand, and targeting special support on severely

impacted sectors. However, the recovery measures vary significantly in their scope and scale, and consequently their impact.

The United States, for example, experienced a 3.4 percentage point peak-to-rough decline in output (GDP) which resulted in a 3.9 percentage point peak-to-trough increase in unemployment. By contrast, Germany experienced a much larger 7.0 percentage point decline in output but the German unemployment rate only decreased by 0.3 percentage points. These responses suggest that besides the raw change in output, unique country factors like institutions and policies drove unemployment dynamics.

Among the G-20 low and middle income members, the large Asian members plus Brazil did best in terms of unemployment, while particularly Turkey and Russia with 2.5-3.0 percentage point increases in unemployment did no better than the European Union, although still somewhat better than the United States. In other words, within the G-20 membership, there is no straightforward relationship between labor market performance during the Great Recession and income levels.

This result illustrates why many knee-jerk protectionist sentiments over simplify the facts, especially in high-income countries, where accusations of “wage dumping” by poorer nations are often heard. What matters most are the labor market institutions in individual countries, irrespective of the country’s income level.

One particular program bears mention, the so-called *Kurzarbeiter Program* (Reduced Working Time Program) in Germany, which gave government subsidies to workers if they accepted to work only reduced hours so that their income would not drop, even as business firms paid wages for fewer hours. This program was instituted to minimize the number of layoffs in the German economy, while instead “spreading the reduction in labor demand” among the widest possible number of German workers. Rather than some losing their jobs, many worked fewer hours instead.

Germany has had the lowest increase in unemployment among the high income G-20 members, due in part to the popularity of the *Kurzarbeiter Program*. Program participation rose

rapidly from about 0.1 million to 1.5 million German workers between late 2008 and mid-2009, during a period when overall German unemployment was flat at just over 3 million.

A general lesson that can be drawn from measures to assist job losers echoes principles advocated in the broader debate over fiscal stimulus: packages should be timely, targeted, and temporary. While more generous unemployment benefits can be helpful, these measures need to be carefully designed and implemented so as to minimize adverse effects on work incentives.

A second general lesson is to focus on “work-first” and “train-first” approaches. Scaling up resources primarily devoted to a “work-first” approach, represents a welcome contrast to OECD inaction in deep recessions of the past.

“Final” and “pipeline” protectionist measures

To gauge the extent of protectionist measures actually taken by G-20 countries in the wake of the crisis, the PIIE report groups implemented measures into quarterly totals and examines the trade-weighted average trend across G-20 countries. For this purpose the report records measures that the GTA classifies as “most certainly” discriminatory and already implemented. The report calls these cases “final” measures.

This report also looks at pipeline protectionist measures, those termed “ambiguous” by the GTA. “Ambiguous” cases are so labeled when: (a) the initiative has yet to be implemented, but if put in force will almost certainly discriminate against foreign commercial interests; (b) when the initiative has already been implemented and is “likely” to be discriminatory (but not “most certainly” discriminatory); or (c) when the initiative contains a mix of policies and some are discriminatory and some that are not. The report calls all these cases “pipeline” protection.

Countries are then ranked using three metrics – number of protectionist measures implemented or in the “pipeline”, number of tariff lines affected, and number of trading partners affected. This gives a well-rounded perspective on the general trend of actual protectionist policies over the course of the recession, as well as identifying countries that are more prone to resort to protection.

Trends of “Final” and “Pipeline” Protection

All three metrics for gauging final protectionist measures exhibit two waves, evident in Figure 5.1. They all spiked upwards at the end of 2008, and the number of protectionist measures and trading partners affected all peaked in the first quarter of 2009. The metrics displayed a second and lower peak in the middle of 2009.

Figure 5.2 shows the trend of new pipeline cases reported by the GTA—cases that are either not yet implemented or not clearly trade distortive. All three trade-weighted metrics of pipeline policies spiked much later than the final cases.

The trade-weighted metrics for pipeline cases are all much higher than the metrics for final cases. While pipeline cases show a decline in the first quarter of 2010, compared to peaks reached in the previous quarter, these figures should be taken with a grain of salt. GTA data compilation takes time, and pipeline measures initiated in February 2010 and March 2010 remain to be reported. In order to gauge the potential effects in the first quarter of 2010, the number for January 2010 has been extrapolated to reflect all three months.

While the pipeline cases now show a similar downward trend as the final cases, the phasing differs. Final cases mostly peaked in the first quarter of 2009, coinciding with the trough of the Great Recession (according to the economic indicators discussed in section 2 of this report). However, the peak of pipeline cases occurred towards the end of 2009, roughly coinciding with the second wave of final cases. An observer looking solely at the final cases might conclude that new protectionist policies are no longer a problem. This conclusion is too sanguine. If only half the end-2009 cases are implemented in 2010 and 2011, the world economy still faces a serious protectionist problem.

G-20 Country rankings

The Global Trade Alert database used in this report only provides a “body count” of final and pipeline protectionist measures. Some measures disrupt trade far more than others, but the

data does not distinguish between high impact and low impact measures. Therefore, in ranking countries according to their protectionist tendencies, the PIIE report simply counts the number of measures implemented or considered. There is no attempt to differentiate between minor, moderate, and major measures. A country with a high ranking in terms of final measures, for example, may in fact disrupt trade to a less extent than a country with a low ranking.

Table 5.6 shows composite country rankings, derived by averaging the ranks of countries across the three metrics for *both* final and pipeline measures. The top five most protectionist countries are Russia, the United States, India, Argentina, and Brazil. The least protectionist countries across the metrics are Mexico, Turkey, Australia, Republic of Korea, South Africa, and Saudi Arabia. As emphasized earlier, these composite rankings do not gauge the economic impact of the measures implemented or considered.

Policy recommendations

Renewed policy action to limit protectionism must come from all countries. The G-20 must build upon its record of success in coordinating global crisis management and live up to its rhetorical commitment to “*do whatever is necessary to promote global trade and reject protectionism*”. As part of their shift to a post-crisis agenda, the PIIE report urges G-20 leaders to take four initiatives.

- 1) Conclude the WTO Doha Development Agenda. Only an expeditious conclusion of the long overdue Doha Round of multilateral trade negotiations has the potential to boost trade on a scale that will propel the global economy. Ratifying pending bilateral trade agreements will not suffice. Hufbauer, Schott, and Wong (2010) estimate that an ambitious Doha outcome could deliver GDP gains of over \$280 billion annually for participants around the globe. Importantly, if WTO talks live up to the title as the “Doha Development Round”; an ambitious outcome could increase the GDP of developing countries by 1.3 percent, about \$135 billion annually.

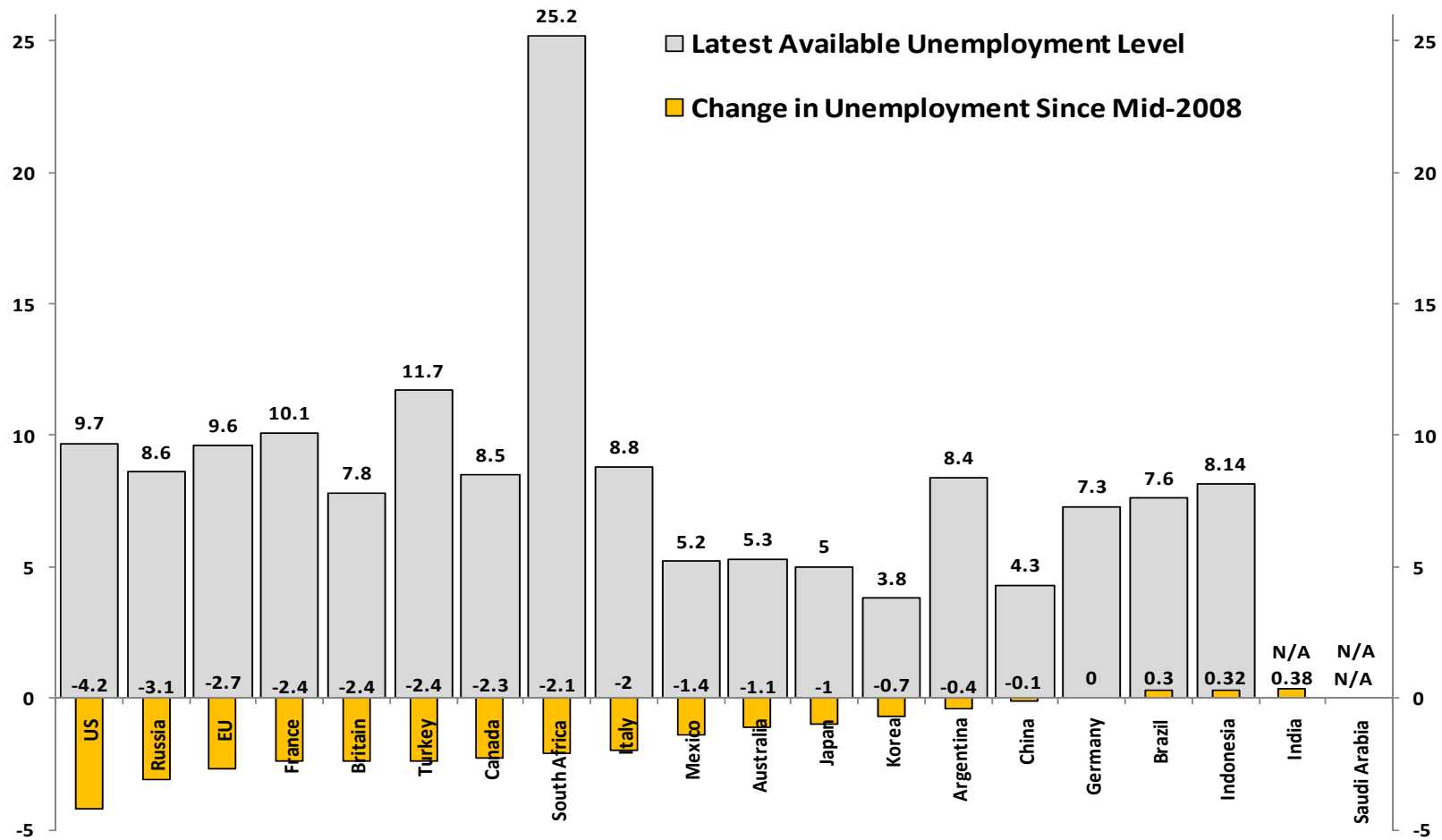
- 2) Appoint a G-20 Group of “Trade Wisemen” to Establish the “I Know It When I See It Doctrine” against Trade Protectionism. To prevent future tit-for-tat protectionist spirals, the G-20 should to move beyond the focus on a “legal” definition (namely, whether a new measure is strictly compatible with WTO rules) and focus on a broader “consequences” identification of protectionist measures. Under this approach, a measure should concern the world community when it provokes justifiable demands, on the part of trading partners, for emulation or retaliation. The G-20 should consequently appoint a small group of widely recognized and globally representative trade experts to quickly spotlight new measures, whether WTO compliant or not, that constitute “protectionism in a political sense”. A high-profile naming-and-shaming exercise could have a powerful preventive effect on all trading nations, even if limited just to the G-20’s own membership. The report commends respected trade persona, such as Ernesto Zedillo, Carla Hills, Peter Sutherland, Ross Garnaut, Long Yongtu and Zhu Rhongji, as potential “G-20 Wisemen”.

- 3) Expedite the WTO’s Dispute Settlement Mechanism. Faster determinations are imperative if “illicit gains” from implementing novel protectionist measures are to be minimized. Regrettably, the principal international means of penalizing new protectionism—the WTO Dispute Settlement Mechanism—takes a long time to issue definitive rulings. Delay provides an incentive for countries to try out doubtful policies. Scofflaws know that the panel and the Appellate Body can take three or four years to issue an adverse decision. Political and economic gains sought by a protectionist government may be reaped long before the WTO finally authorizes aggrieved parties the right to retaliate. The G-20 should spearhead a push to expedite the WTO DSM process. The first step might involve the appointment of a permanent group of “WTO Panelists”, based near the WTO in Geneva, who could start work immediately when a case is filed. This group of “trial jurists” would complement the sitting Appellate Body, and avoid the long delays that are now encountered in establishing panels, that are constituted of experts based in distant cities.

- 4) Establish a Regular G-20 Trade Ministers Meeting. The G-20 leaders, at their first meeting in Washington in November 2008, tasked their trade ministers with concluding the WTO’s Doha Development Round, and pledged to “*stand ready to assist directly, as necessary*”. In these difficult times, trade ministers need all the assistance they can get from their G-20

leaders. Tough issues that block the Doha Development Round, as well as fresh conflicts sparked by episodes of protection, invariably involve high politics. Today's circumstances require that trade issues be brought directly into the G-20 process, similar to the manner in which finance ministers meet independently, but alongside their political leaders. To ensure broad representation of the multilateral trading system at regular G-20 Trade Ministers Meetings, the Director General of the WTO should serve as the chair.

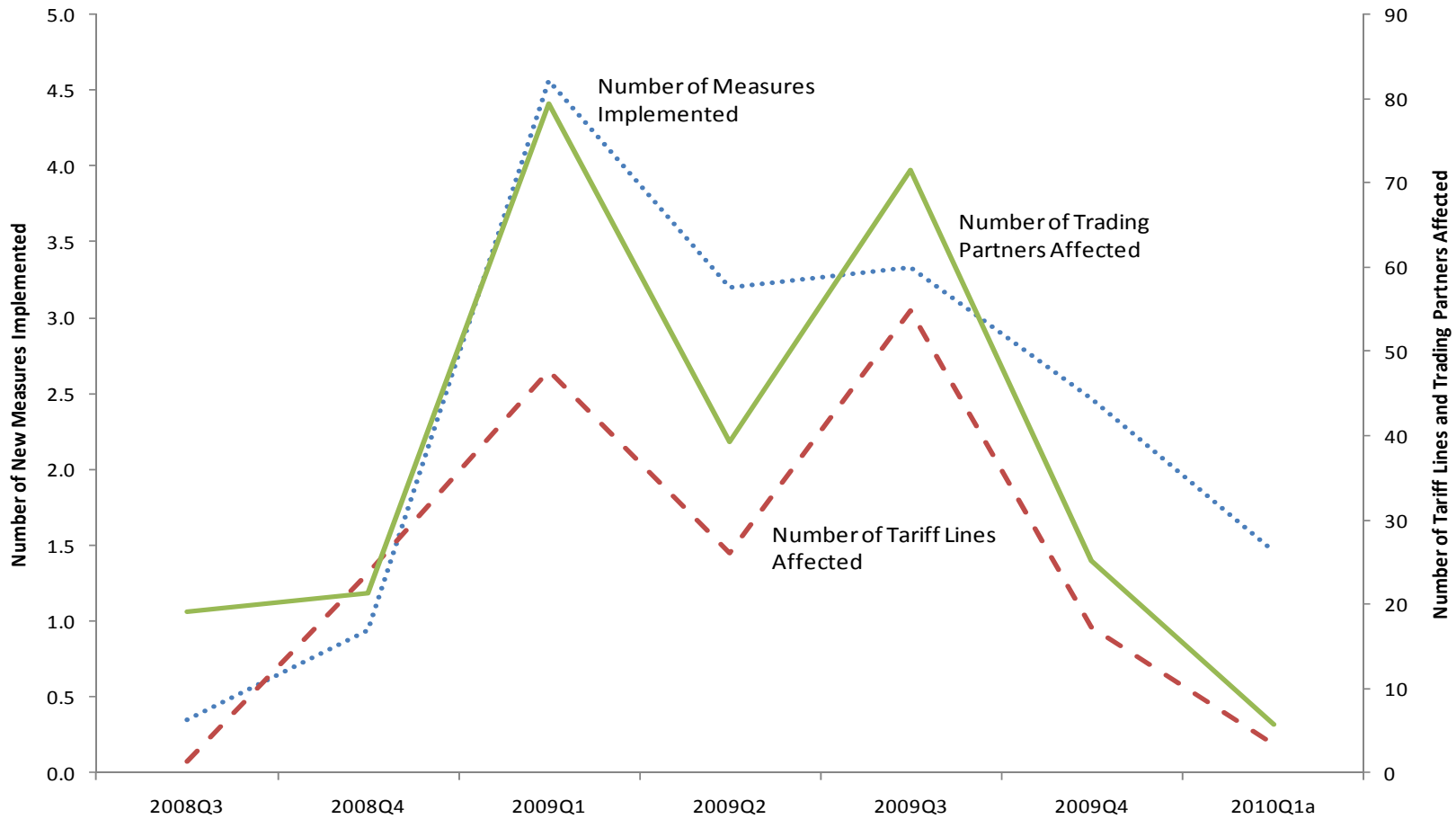
Figure 4.1: G-20 Labor Markets During the Great Recession Mid-2008 to the Present



Note: No labor force data is available for Saudi Arabia, but since the majority of the workforce here is of immigrant origin, Saudi Arabian labor market dynamics are difficult to compare with other G-20 countries. No recent unemployment level data points exists for largely agricultural India, and the Indian change in unemployment is based on authors' interpretation of a special 8-industry labor market survey presented in Government of India (2010).

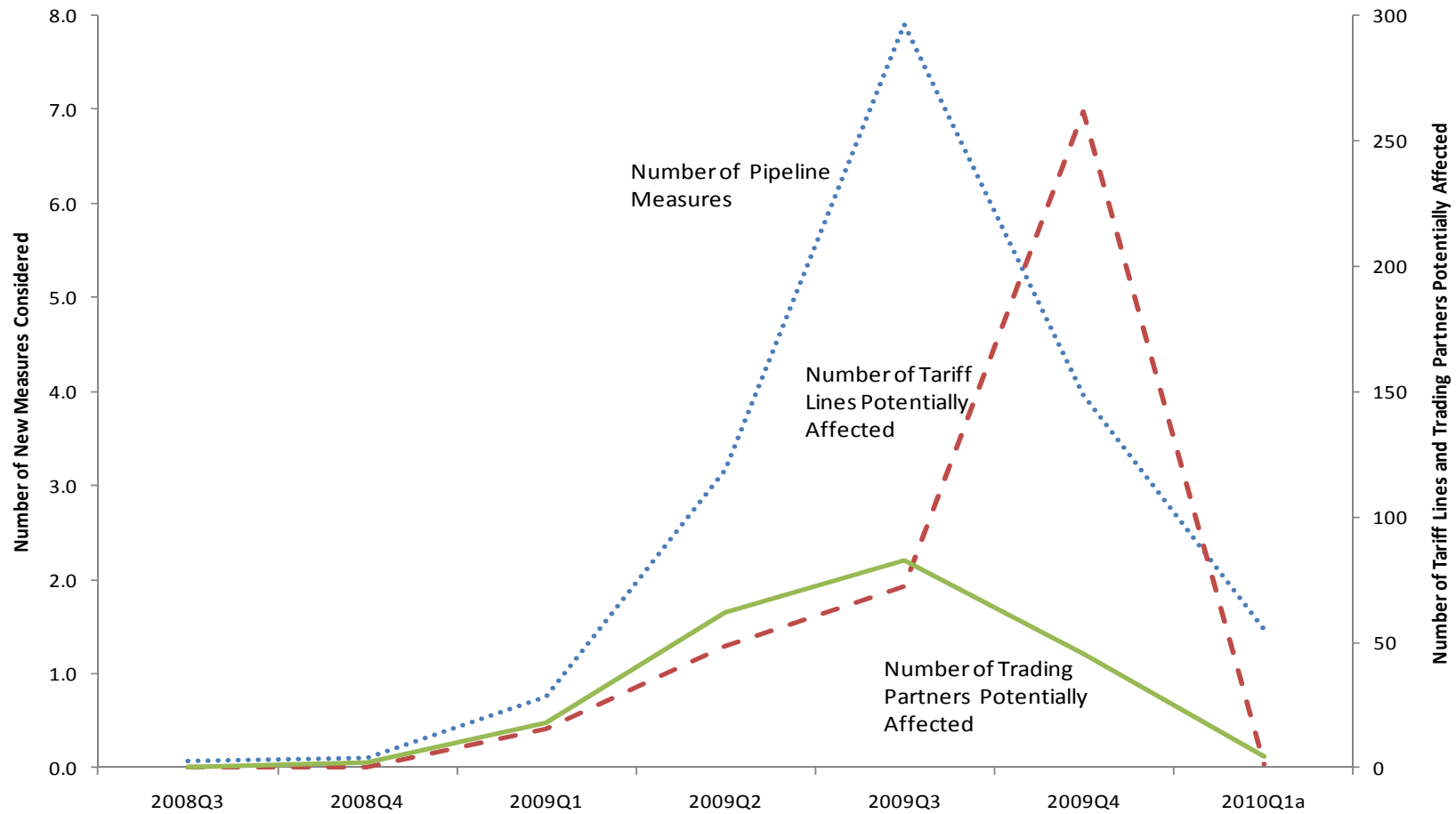
Sources: OECD Labor Force Statistics; ILO LaborSta; Datastream; Government of India (2010)

Figure 5.1 Trade-Weighted Averages of Final Protectionist Policies, 2008Q3 to 2010Q1



Source: Global Trade Alert (2010), International Monetary Fund IFS (2010); World Bank Trade Watch (April 2010 and the historical data); Australian Bureau of Statistic (2010); Reserve Bank of Australia (2010); Authors' calculations.

Figure 5.2 Trade-Weighted Averages of Pipeline Protectionist Policies, 2008Q3 to 2010Q1



Source: Global Trade Alert (2010), International Monetary Fund IFS (2010); World Bank Trade Watch (April 2010 and the historical data); Australian Bureau of Statistic (2010); Reserve Bank of Australia (2010); Authors' calculations.

Table 5.6 Composite G-20 Country Rankings of Final and Pipeline protectionist trade measures implemented and considered between 2008Q3 and 2010Q1^a

Rank	Country
1	Russian Federation
2	United States
3	India
4	Argentina
5	Brazil
6	China
7	Germany
8	France
*	Indonesia
*	United Kingdom
11	Italy
12	Japan
13	Canada
14	Mexico
*	Turkey
16	Australia
17	Republic of Korea
*	South Africa
19	Saudi Arabia

* This country shares the same rank as the country above it.

a. Final and pipeline protectionist measures are added up for each country to create a ranking for each of the three metrics. These rankings are then averaged across the three metrics for each country in order to create a composite country ranking for final and pipeline protectionist measures combined. See Tables 5.2 and 5.4 for further details.

Source: Global Trade Alert, 2010 (www.globaltradealert.org)