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Have Long-Established Patterns of Protectionism Changed During this Crisis? A Sectoral Perspective

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> "You don't ever want a crisis to go to waste; it's an opportunity to do important things that you would otherwise avoid," Mr. Rahm Emanuel, Chief of Staff to the President of the United States.

> "A crisis is an opportunity riding the dangerous wind." Chinese Proverb.

1. Introduction

During the current sharp global economic downturn much has been made of the scale of government policy responses, whether it be monetary policy (e.g. "quantitative easing"), fiscal policy (e.g. "stimulus packages") or other forms of state intervention (including "bailouts"). Indeed it is often remarked that the reason the contemporary crisis has not descended into another Great Depression is precisely because of the scale of some government intervention. This observation, however, need not be as benign as it seems; after all, governments may find themselves under pressure to act from influential sectoral groups, such as company shareholders, employers, trade unions, and the environmental lobby. Moreover, once a government demonstrates its willingness to engage in far-reaching intervention on behalf of one interest it may find itself confronted for requests from others.

Using information from the Global Trade Alert database, the first objective of this chapter is to examine the cross-sectoral pattern of trade-related state intervention that has been imposed since the first crisis-related G20 summit in November 2008. It will be interesting to see if the current pattern differs from that observed before the crisis. A second goal is to begin exploring (no claims are made to conclusive demonstration) the relative importance of competing explanations for the contemporary pattern of crisis-era protectionism.

No doubt analysts will chew over these matters for years to come and it is hoped that this paper will provide some of the principal facts that require explanation. Policymakers, officials, the media, and the like may find the very presentation of these facts casts doubts on some prominent rationales for state intervention.

A word of caution is in order too. It should be recognized that the pattern of state intervention is almost certainly not the same in every country. Still, interesting cross-country tendencies may arise. Moreover, any assessment presented here is necessarily an interim one as the global economy has not yet returned to full health and further state intervention cannot be ruled out.

The remainder of this chapter is organized as follows. In Section 2 three prominent rationales that have been advanced for the contemporary pattern of state intervention are briefly stated, their implications discussed, and then contrasted. In Section 3, data from the Global Trade Alert is used to shed light on the variation across sectors of the economy in the implementation of state measures that may affect foreign commercial interests. This evidence, plus others, provides the basis upon which certain observations are made as to the likely rationales for crisis-era intervention. Concluding remarks are presented in Section 4.

2. Rationales advanced for crisis-era state intervention

Perhaps it is better to begin with how senior government officials – rather than researchers – have rationalized contemporary state interventions outside of macroeconomic policy. One rationale frequently advanced is to mitigate the burdens of adjustment on firms and their employees who find themselves in sectors facing substantial revenue falls during the sharp global economic downturn. Differences across sectors, then, in revenues – or other measures of financial performance – would, on this view, account for the observed pattern of state intervention. However, it should be acknowledged that if the goal of a government is limited solely to addressing the harm felt by employees rather than the firms that hire them then, in principle, one may observe economy-wide schemes being introduced rather than a sector-specific one. The adjustment-related explanation, therefore, may need nuance in some cases.

A second rationale advanced frequently during this systemic economic crisis is that measures should simultaneously restore aggregate demand (so countering the downturn) as well as target the impediments to longer-run economic growth (OECD 2009). A particularly popular variant of this rationale is to argue that state intervention during this crisis should accelerate "green growth" (or the contribution of "green" sectors to national economic growth) and the adjustment to a low carbon economy. Leaving aside the important question of whether states really have the tools available to pursue multiple objectives during an era of crisis management and other concerns, this second rationale would predict that interventionism is more prevalent in some sectors (those deemed as "growth poles" or "green") than others.

The first two rationales implicitly view the state as pursuing benign priorities of its own choosing. The associated state intervention may well be far-reaching, even unprecedented in scale and scope. Still, in both rationales governments are taken to be actors independently pursuing different aspects of the societal good. A third perspective, employed in many political-economy analyses of state intervention, is that self-interested non-state actors[1] seek to influence the design of state intervention by self-interested politicians and bureaucrats. Some weight may be attached by the latter to the common good, but other factors that government decision-makers care about may be important too (such as the desire to avoid losing office, and the size and influence of a government ministry, regulator, or other state body.)

On the third perspective the degree of state intervention varies across sectors because not every sector's participants places the same value on the benefits that fol-

1 Taken to be not only those with economic interests (such as firms and their employees) but also those interested in the environment, legal rights, etc.

low from state intervention, the costs to non-state actors of organizing in the political sphere are dissimilar, government decision-makers may value the support from certain non-state actors differently, and the adverse impact of any state measures on overall national economic performance may vary. A sharp global economic downturn could influence the relative importance of these four factors and, in principle, a new cross-sectoral pattern of state intervention may result.

The third view of the factors determining state intervention is not so benign, especially if government decision-makers place little weight on overall societal welfare and more on campaign contributions and other forms of private sector support (or acquiescence.) Proponents of this view (often implicitly) dismiss the public explanations offered by governments and focus on who benefits from state intervention and the motives and resources of the parties involved. Such arguments may be applied well beyond traditional commercial policies. Intervention in favour of certain firms and sectors is frequently described by officials as "industrial policy" and such state measures may well be rationalized in terms of the factors expressed in the third, self-interested view.

In numerous attempts to account for the pre-crisis variation across sectors in trade and foreign investment barriers the predictions of the third view have not been rejected (see Feenstra 2004 for an overview of the findings from the academic literature on international trade). Traditionally, in industrialized countries trade-related favouritism has been concentrated in the older manufacturing sectors (iron, steel, etc), textiles and clothing, and the agricultural sector. In the next section it will be interesting to see if the current crisis-era protectionism departs much in its cross-sectional variation from prior experience and, therefore, whether our understanding of the underlying factors at work needs to evolve.

3. Evidence on the cross-sectoral variation in state intervention

The Global Trade Alert database currently contains over 425 investigations of state measures that have been announced or implemented after the first crisis-related G20 summit in November 2008. Each investigation report identifies the trading jurisdiction responsible for the announcement or implementation of the measure, a description of the measure (plus sources), and an evaluation as to whether the measure introduces, eliminates, increases, narrows, or otherwise changes any asymmetric treatment between domestic and foreign commercial interests. A traffic light system is used to distinguish between measures that do not change or improve the relative treatment of foreign commercial interests, that might disadvantage foreign commercial interests, and that almost certainly discriminate against foreign commercial interests. The latter cases are the most worrying from the point of view of monitoring protectionism.

In addition, each investigation of a state measure in Global Trade Alert identifies those economic sectors that are likely to be affected by a state measure. Details about a state initiative that are in the public domain are sought to identify the sectors affected. This assessment is conducted in a conservative manner. Indeed, if anything, there may be a tendency to under-report the number of affected sectors. The United Nations' CPC scheme for classifying economic activities (both goods and services) into sectors is employed. The Global Trade Alert website's statistics page enables users to view and download the latest data on the sectoral impact of different state measures undertaken during the current crisis. As the website is updated, so are the reported statistics. Users can, therefore, reproduce or amend the calculations reported below.

The first finding concerning the cross-sectional variation in the state intervention reported in the Global Trade Alert database is that such intervention is highly skewed to a minority of economic sectors. In fact, as Figure 4.1 shows, sixty percent of the interventions affect only 20 CPC sectors.[2] This finding holds for different measures of the degree of intervention, whether it be the total number of state measures implemented, the number of measures that almost certainly discriminate against foreign commercial interests, or the number of non-discriminatory or liberalizing sectors.

One feature of the Global Trade Alert is that it also contains records of state measures that have been announced but not yet implemented. This is potentially important because, although the measures implemented from November 2008 to September 2009 may have been skewed towards a minority of sectors, this may not be the case for the measures pending implementation. In Figure 4.2 for each CPC sector the number of pending measures is plotted against those already implemented. The two series are positively correlated (in fact, the correlation coefficient is 0.4), suggesting that those sectors that have been subject to plenty of state intervention in the recent past will continue to do so in the near term. The skewed nature of intervention, then, appears for the moment to be an important feature of crisis-era state intervention.

It is also possible to identify which sectors have been affected by the state measures undertaken during the crisis. In Table 4.2 information is presented on those sectors where 10 or more state measures have almost certainly discriminated against foreign commercial interests. Other than the financial services sector, where bailouts and other forms of financial assistance have been offered extensively, the interesting finding in Table 4.2 is that most of the sectors where discriminatory measures have been undertaken are not typically associated with "growth poles" or "green growth."

In fact, many of the sectors where contemporary discrimination against foreign commercial interests is rife are sectors that tended to receive higher levels of trade protection before the onset of the global economic crisis. Three agricultural sectors, basic metals, textile and apparel and basic chemicals are all in the list of the top 10 sectors where discrimination against foreign commercial interests has occurred the most. In terms of state intervention in general (not just measures that discriminate against foreign commercial interests), six similar sectors are in the corresponding top 10 sector. In the light of these findings it is tempting to discount any broad-ranging claims that the pattern of state intervention during the crisis is particularly different from before.

How might an assessment of the motives for state intervention during this crisis be influenced by the findings presented here? Keeping in mind the caveats detailed in the introduction, the findings here suggest that perhaps little has changed in the factors determining the cross-sectoral variation in state intervention. That so many relatively highly protected sectors before the crisis have been affected by state measures

2 The identity of those sectors is discussed later in this section.

taken during the crisis points to defensive considerations playing an important role in influencing policymaking, an observation not inconsistent with the first and third rationales discussed in Section 2.

At least in terms of the number of state measures implemented, the results presented here must call into question the importance that has been publicly attached to promoting economic growth and promoting certain environmentally-friendly outcomes. This is not to say that the latter goals are unimportant or without value. Nor does it imply that no measures have pursued these objectives. Rather, that the prominence given to rhetoric concerning promoting long-term growth, innovation, and green growth poles may not be reflected in terms of the distribution of projects being undertaken on the ground.

4. Concluding remarks

With its vast number of reports on state interventions taken since November 2008 the Global Trade Alert's database offers one lens to view the cross-sectoral variation in the number and type of state measures undertaken. The analysis in this chapter confirms that the crisis-era state intervention is skewed towards a minority of economic sectors and that this is likely to remain so in the near term.

Perhaps more importantly, much state intervention is directed towards those sectors that before the crisis traditionally received plenty of protection from international competition. Defensive motives on the part of private sector interests, trade unions, and policymakers may well account for this finding. Directing so much intervention towards smokestack sectors, relatively lower productivity sectors such as textiles and apparel, and agriculture is hard to square with professed motives to promote economic growth and a "greener economy." Of course, as more data is collected on state interventions, these conclusions may need to be revisited. In the meantime, it might be too optimistic to conclude that the opportunities presented by the current economic crisis are only being exploited by those with national economic interests in mind.

References

Robert C. Feenstra (2004). *Advanced International Trade*. Princeton University Press.

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Figure 4.1 The skewed nature of distribution across sectors

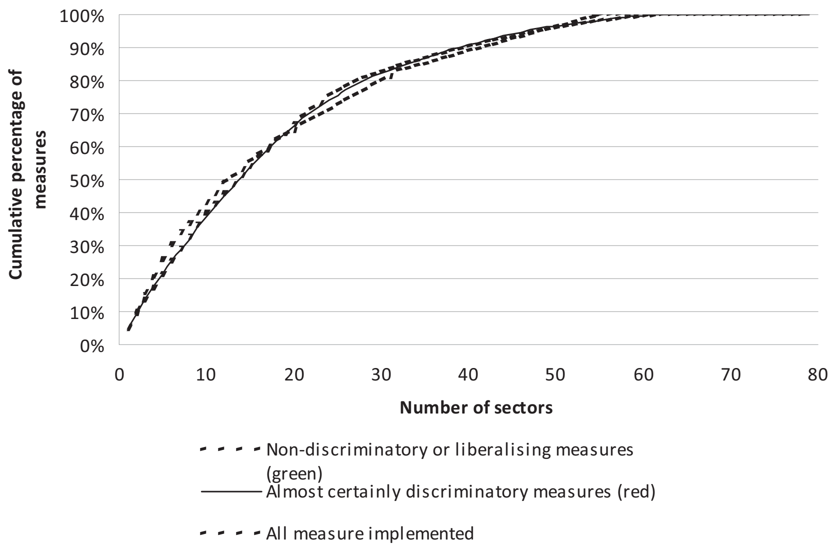

Figure 4.2 No change expected in the likely distribution of state intervention

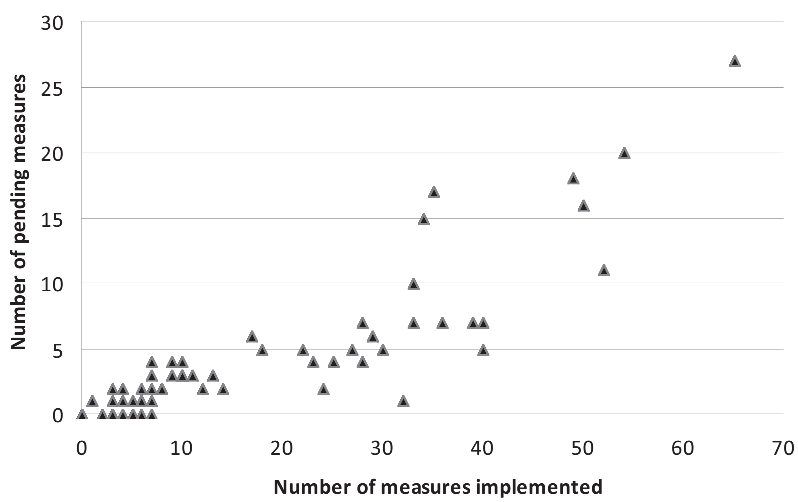

Table 4.1 Table of sectors affected by 10 or more almost certainly discriminatory state measures (coded Red in the GTA database)

Affected Sector: CPC code (sector description)	Total number of measures in GTA database	(Green) Measures in database	(Amber) Measures in database	(Red) Measures in database	Number of implemented measures	Number of pending measures	Number of jurisdictions implementing measures affecting specified sector and classified as red
81 (Financial intermediation services and auxiliary services thereof)	32	1	2	29	31	1	13
21 (Meat, fish, fruit, vegetables, oils and fats)	40	2	13	25	35	5	16
44 (Special purpose machinery)	52	7	20	25	41	11	16
01 (Products of agriculture, horticulture and market gardening)	40	4	14	22	33	7	17
23 (Grain mill products, starches and starch products; other food products)	39	3	14	22	32	7	40
41 (Basic metals)	65	7	36	22	38	27	38
27 (Textile articles other than apparel)	36	4	13	19	29	7	13
34 (Basic chemicals)	54	7	28	19	34	20	12
42 (Fabricated metal products, except machinery and equipment)	49	4	26	19	31	18	13
49 (Transport equipment)	50	7	24	19	34	16	13
38 (Furniture; other transportable goods n.e.c.)	30	2	10	18	25	5	13
47 (Radio, television and communication equipment and apparatus)	29	2	9	18	23	6	10
22 (Dairy products)	27	1	9	17	22	5	40
28 (Knitted or crocheted fabrics; wearing apparel)	28	3	8	17	24	4	12
43 (General purpose machinery)	33	4	12	17	26	7	11
02 (Live animals and animal products)	25	2	7	16	21	4	41
29 (Leather and leather products; footwear)	24	3	6	15	22	2	11
36 (Rubber and plastics products)	28	3	10	15	21	7	13
46 (Electrical machinery and apparatus)	23	2	7	14	19	4	10
26 (Yarn & thread; woven & tufted textile fabrics)	33	6	15	12	23	10	9
37 (Glass and glass products and other non-metallic products n.e.c.)	34	4	18	12	19	15	11
39 (Wastes or scraps)	25	5	8	12	21	4	11
31 (Products of wood, cork, straw & plaiting materials)	18	1	7	10	13	5	8
35 (Other chemical products; man-made fibres)	35	7	18	10	18	17	9
Total for sectors mentioned above	849	91	334	424	635	214	
Total for all sectors	1136	135	428	573	849	287	

Source: Global Trade Alert database, *www.globaltradealert.org*, data extracted 15 September 2009.