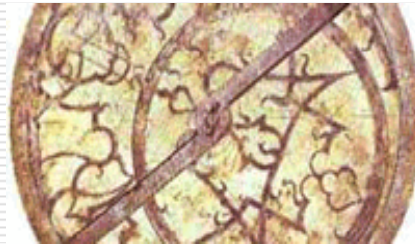


The situation in the EU

Patrick A. Messerlin

Professor of economics, Sciences Po
Director, Groupe d'Economie Mondiale at Sciences Po



**New Protectionism:
A Threat to World Trade?
10th FIW Workshop
Wien, 21 January 2010**

Overview

- ❑ Initial fears (still there...)
- ❑ What actually went right last year.
- ❑ What is going wrong.
- ❑ What could/should go right: the G20, the world trade regime and the Doha Round.
- ❑ Trade and the “iron law of thin majorities”.

Initial fears (still there...)

WTO Members	Gross Domestic Product			Total imports billions \$	Industry			Agriculture				
	billions US\$	billions US\$	Real growth		simple average bound	average applied	average tariff	imports billions \$	simple average bound	average applied	average tariff	imports billions \$
	[a]	[b]	[c]	[a]	tariff (%)	tariff (%)	water [d]	[a]	tariff (%)	tariff (%)	water [d]	[a]
	1	2	3	4	5	6	7	8	9	10	11	12
The 8 largest "true" WTO Members												
EU27 [e]	14554	12634	2.1	1697	3.9	3.8	0.1	1016	15.1	15.0	0.1	124
United States	13202	13202	2.7	1918	3.3	3.2	0.1	1348	5.0	5.5	-0.5	104
Japan	4340	4131	1.6	580	2.4	2.6	-0.2	297	22.7	22.3	0.4	65
China	2668	10048	9.8	791	9.1	9.1	0.0	579	15.8	15.8	0.0	51
Canada	1251	1140	2.5	358	5.3	3.7	1.6	280	14.5	17.9	-3.4	24
Taiwan	365	n.a.	2.8	203	4.8	4.6	0.2	138	18.4	17.5	0.9	10
Hong Kong	190	267	4.7	336	0.0	0.0	0.0	305	0.0	0.0	0.0	12
Macao	14	20	12.9	5	0.0	0.0	0.0	3	0.0	0.0	0.0	1
All the 8 Members	[f]	[f]		[f]				[f]				[f]
	78.1	66.8	2.9	67.1	4.1	3.9	0.3	67.1	13.1	13.4	-0.4	62.7

Initial fears (still there...)

WTO Members	Gross Domestic Product			Total imports billions \$	Industry				Agriculture			
	billions US\$	billions US\$	Real growth		simple average	average	imports	simple average	average	imports		
	[a]	[b]	[c]	bound	applied	tariff	bound	applied	tariff			
	1	2	3	tariff (%)	tariff (%)	water [d]	tariff (%)	tariff (%)	water [d]	billions \$		
			[a]	5	6	7	8	9	10	11	12	
The next 26 largest WTO Members												
Brazil	1068	1708	2,9	96	30.8	12.5	18.3	66	35.5	10.3	25.2	6
India	906	4247	7.3	175	36.2	11.5	24.7	85	114.2	34.4	79.8	7
Korea	888	1152	4.6	309	10.2	6.6	3.6	178	59.3	49.0	10.3	19
Mexico	839	1202	2.2	268	34.9	11.2	23.7	222	44.1	22.1	22.0	19
Australia	768	728	3.1	139	11.0	3.8	7.2	106	3.3	1.3	2.0	8
Turkey	403	662	4.6	140	16.9	4.8	12.1	93	60.1	46.7	13.4	8
Indonesia	364	921	4.9	80	35.6	6.7	28.9	53	47.0	8.6	38.4	7
Norway	311	202	2.2	64	3.1	0.6	2.5	50	135.8	57.8	78.0	5
Saudi Arabia	310	384	3.4	70	10.5	4.7	5.8	56	20.0	7.6	12.4	9
South Africa	255	567	4.1	77	15.7	7.6	8.1	55	40.8	9.2	31.6	4
Argentina	214	618	3.1	34	31.8	12.3	19.5	30	32.6	10.2	22.6	1
Thailand	206	604	5.0	131	25.5	8.2	17.3	87	40.2	22.1	18.1	7
Venezuela	182	203	3.8	34	33.6	12.7	20.9	29	55.8	16.4	39.4	4
Malaysia	149	301	4.7	131	14.9	7.9	7.0	101	76.0	11.7	64.3	9
Chile	146	208	4.2	38	25.0	6.0	19.0	23	26.0	6.0	20.0	3
Colombia	136	363	3.9	26	35.4	11.8	23.6	22	91.9	16.6	75.3	3
Singapore	132	144	4.6	239	6.3	0.0	6.3	175	36.5	0.1	36.4	7
Pakistan	129	406	5.1	30	54.6	13.8	40.8	17	95.6	15.8	79.8	4
Israel	123	179	1.6	50	11.5	5.0	6.5	36	73.3	19.7	53.6	4
Philippines	117	463	4.6	54	23.4	5.8	17.6	40	34.6	9.6	25.0	4
Nigeria	115	169	5.5	22	48.5	11.4	37.1	18	150.0	15.6	134.4	3
Egypt	107	352	4.2	21	27.7	9.2	18.5	10	96.1	66.4	29.7	5
NewZealand	104	110	3.2	26	10.6	3.2	7.4	19	5.7	1.7	4.0	2
Peru	93	188	4.7	15	30.0	9.7	20.3	10	30.8	13.6	17.2	2
Kuwait	81	67	5.5	16	100.0	4.7	95.3	13	100.0	4.0	96.0	2
Bangladesh	62	320	5.6	16	34.4	14.2	20.2	10	192.0	16.9	175.1	3
All the 26 Members	[f]	[f]		[f]				[f]				[f]
	17.5	26.5	4.1	26.2	27.6	7.9	19.7	27.1	65.8	19.0	46.8	24.8

What went right: September 2008- March 2009

- Market-opening=1/3rd of total (Mexico)
- EC relatively inert (AD nothing to do with the crisis)
- U.S. more ambiguous; Argentina, Indonesia drifting away

	Market-opening measures				Protectionist measures					
	All	based on			All	tariffs	AD (a)	NTBs (b)	Subsid. & taxes	Public proc. & labor
		import	export	others						
Argentina	1		1		5		1	3	1	
Australia										
Brazil	1		1		1		1			
Canada	3	1		2	3		3			
China	4		4		5	1	1	2	1	
EC	1			1	9	1	7		1	
India	5	1	4	1	9	2	2	5		
Indonesia	1	1			8	1		7		
Japan					1		1			
Korea					1	1				
Malaysia	1	1			2		1	1		
Mexico	1	1			1	1				
Russia	4	1	3		3	2		2		
Taiwan					3		2			1
Turkey					3	1	2			
USA	1			1	5		1	1		3
Total above	23	6	13	5	59	10	22	21	3	4
All economies	28	9	15	5	68	16	23	22	3	5

What went right: April 2009-September 2009

- ❑ Little activity (no more market opening). Exception AD (no crisis link). China: ?
- ❑ No complacency: short recession in “virtuous” key countries, and two successive crises with opposite protectionist measures.
- ❑ Russia (not WTO member): explains the EC as more affected (1.7%) than the world (1%) since amounts to 75% of protection faced by EC exports.

	Market-opening measures				Protectionist measures					
	All	based on			All	tariffs	AD (a)	NTBs (b)	Subsid. & taxes	Public proc. & labor
		import	export	others						
Argentina	1	1			9		5	4		
Australia					2		2			
Brazil	1	1			5	1	3	1		
Canada	1	1			4		4			
China	1		1		10		1	6		3
EC					6		5		1	
India	1	1			14	1	13			
Indonesia	1			1	2	1		1		
Japan										
Korea										
Malaysia										
Mexico	1			1						
Russia	7	7			8	8				
South Africa					1	1				
Taiwan										
Turkey					4	1	3			
USA					16	0	13		2	1
Total above	14	11	1	2	81	13	49	12	3	4

What went right: a sectoral view

- ❑ Usual suspects.
- ❑ Doubts about the role of production chains.
- ❑ *Caveat*: US tariff on tires ⇔ special safeguard against China.

	All measures	Market opening measures	Protectionist measures	
			number	share (%)
Food-Farm	19	4	15	79
Commodities	14	7	7	50
Cars	4		4	100
Steel	20	5	15	75
Textile	10	3	7	70
Toys	4	1	3	75
Shoes	4	1	3	75
Electronics	5	1	4	80
Chemical	11	2	9	82
Eq.Goods	6	3	3	50
Other goods	36	15	21	58
Services	7	2	5	71
All sectors	140	44	96	69

What went right: lessons and actions

- Lesson 1. Calculate the routine number of tariff changes during a representative sample of years, and of changes in other import barriers, such as antidumping, anti-subsidy, safeguards, etc.
 - For tariffs alone: 4% of tariff lines at HS6 (EC: 5% at HS4, 1.7% at HS6).
 - Lesson 2. Similarly, to the best possible extent, on changes in export barriers, public procurement, domestic production subsidies, technical barriers, etc.
 - Lesson 3. Establish a list of crucial trade barriers—those which have the highest likelihood to generate wide (safeguard) and/or long term (antidumping) distortions for the ongoing crisis.
 - Lesson 4. Develop crude but fast techniques aiming to split the trade barriers under monitoring into those expanding protection and collusive behavior into new products and those “merely” re-enforcing existing protection and collusion.

 - Actions: the role of the G20 (see below).
-

What is going wrong: packages and subsidies

- ❑ The bad surprise of the year: subsidies (U.S. plus EC); in case of China: a fully-fledged industrial policy?
- ❑ Activity constant over time

	September 2008-March 2009			April-September 2009			Car sector (a)	
	All	Low discrim.	High discrim.	All	Low discrim.	High discrim.	Sep'08 March09	April09 Sept'09
Argentina								
Australia	4	2	2	3		3	1	1
Brazil	1		1	2		2	2	
Canada	2	1	1	5		5	1	2
China	4	3	1	3		3	3	
EC	20	12	8	39	35	4	6	1
India	1		1					
Indonesia								
Japan	2		2	2	1	1	1	1
Korea	2	1	1	1		1	2	1
Malaysia	3	2	1				1	
Mexico								
Russia	2		2				1	
Taiwan	1	1					2	
Turkey	2	1	1	2	1	1	1	
USA	2	1	1	2		2	2	2
Total above	46	24	22	59	37	22	23	8

What is going wrong: clock ticks with subsidies

Brands	Registrations			Markt % Aug'08
	Aug'08	Aug'09	09/08 (%)	
Citroen	197126	220 978	12,1	13,93
Peugeot	239414	238 217	-0,5	16,92
Renault	309461	306 985	-0,8	21,87
French brands	746001	766180	2,7	52,73
Chevrolet	5912	11 748	98,7	0,42
Ferrari	159	237	49,1	0,01
Subaru	733	973	32,7	0,05
Dacia	28136	34 579	22,9	1,99
Kia	11367	13 777	21,2	0,80
Alfa Romeo	6533	7 814	19,6	0,46
Porsche	1245	1 459	17,2	0,09
Honda	8608	9 805	13,9	0,61
Hyundai	13557	14 886	9,8	0,96
Suzuki	17298	18 370	6,2	1,22
Ford	78184	82 953	6,1	5,53
Seat	24332	25 768	5,9	1,72
Daihatsu	1180	1 239	5,0	0,08
Lancia	3224	3 363	4,3	0,23
Fiat	51386	53 339	3,8	3,63
Audi	32185	33 311	3,5	2,27
Volkswagen	94277	96 822	2,7	6,66
Maserati	176	178	1,1	0,01
Nissan	26939	26 373	-2,1	1,90

□ Non-discriminatory subsidies, but attrition of competition?

Brands	Registrations			Markt % Aug'08
	Aug'08	Aug'09	09/08 (%)	
Skoda	12316	11 910	-3,3	0,87
Mercedes	35638	33 785	-5,2	2,52
Volvo	8180	7 591	-7,2	0,58
Opel	65051	57 115	-12,2	4,60
Toyota	62763	54 227	-13,6	4,44
Smart	6045	5 211	-13,8	0,43
Mazda	9372	8 060	-14,0	0,66
Mini	13496	11 229	-16,8	0,95
BMW	34669	28 359	-18,2	2,45
Lexus	1607	1 154	-28,2	0,11
Mitsubishi	1930	1 347	-30,2	0,14
Jaguar	1207	812	-32,7	0,09
Land Rover	2308	1 334	-42,2	0,16
Dodge	1808	1 038	-42,6	0,13
Saab	2228	1 152	-48,3	0,16
Jeep	1792	835	-53,4	0,13
Chrysler	2008	801	-60,1	0,14
Lada	124	28	-77,4	0,01
Cadillac	66	10	-84,8	0,00
Total	1414828	1 430 391	1,1	100,00

What is going wrong: the need to build domestic institutions

- Japan's Lost Decade:
 - Lesson I: money is necessary, but not sufficient. Convince people that things will be different in the future (Obama's tax on banks).
 - Lesson II: slow attrition of competition, hence need for opening markets via trade ("de-globalization").
- in most countries, no domestic institution in charge of keeping subsidies minimal : most competition authorities have been silent during the last year.
- the WTO is the only place to deal with subsidies. Yes, but the US, EC and China are signatories of the SCM => hence adopt stricter international rules?
- EU = a rare example of subsidies as part of competition policy in an international setting => the Commission reactions are quite disappointing. Why?
 - Non-discriminatory subsidies? But, remains the risk of attrition of competition (main lesson of the Japanese Lost Decade).
 - Commission behaves as a government (myopic view).
 - Commission has no support in the EC Member States.
- Australian Productivity Commission: not a direct decision-maker, and in charge of the "welfare of all Australians".

What could go right: the G20 and the world trade regime

- The G20: tectonic plates at work
 - the “premier” forum ⇔ the G8 is past and Europe “no longer a global strategic player” (Lee Kuan Yew from Singapore).
 - An opportunity not to miss, but difficult: still a blank page.
 - The key role of Korea (and Canada).

- A “good use” of the G20 could engineer a pragmatic restructuring of the trade policy scene:
 - Today, the trade policy scene is chaotic: the WTO + a lot of international institutions (from WB to Ex-Im Banks to BIS, ...) + a “world trade regime” (moving faster, but often inefficient or irrelevant).
 - To-morrow: the G20 defining tasks to be done, and assigning them to institutions on a case by case basis (or asking the WTO to assign such tasks):
 - For instance: monitoring border protection (WTO) subsidies (OECD and/or WB) public procurement (WB and Auditing Courts).

What could/should go right: the Doha Round and its "values"

- ❑ A potential for changing positions in the Doha Round? "Mutual disarmament".
- ❑ The 25+ have shown that no tariff water is good for them => restrain their requests in their exception lists.
- ❑ The US-EU should react by restraining their requests in cuts in applied tariffs (European business target). If not, they will face forever the risks of high tariff water in manufacturing (danger for the next crisis!) and no chance of liberalization in services (→ a slow move to the 1930s).

A historical comparison

The Doha Round is as productive as all the previous Rounds but two (Geneva I and Kennedy Rounds).

Welfare gains from trade liberalization

trade in goods: US\$ 100 billions.
three sectors: US\$ 100 billions.
services: US\$ 100 billions.
trade facilitation: US\$ 350 billions.

Welfare gains from "binding" past liberalizations

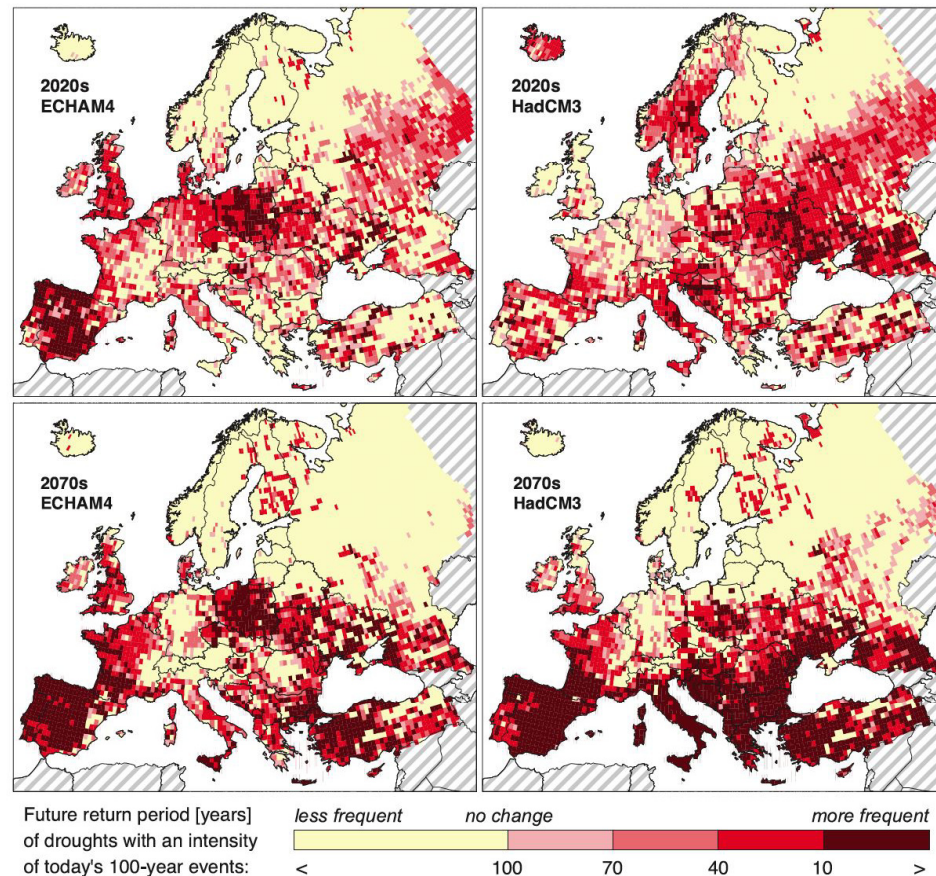
from US\$ 350 to 900 billions.

What could/should go right: the Doha Round in NAMA and Agric.

- “Lost of appetite in trade liberalization”?
- Manufacturing
 - Asia better than Europe/U.S.? Maybe, but for one generation.
 - WTO remains central for “small” developing economies.
- Agriculture: new—surprising—“external” forces for liberalization in agriculture (before Copenhagen Summit...):
 - climate change (long term) and water (medium term).
 - trade as a source of diversification and insurance (pre-19th century).
 - tariff cuts: fighting hunger and preserving peace: a new argument against the US-EU agricultural policies, and against strong temptations for rich emerging economies to do the same in the future.

What could/should go right: climate change & trade in agriculture

- Increased frequency of droughts...
 - Leave aside the ongoing scientific debate.
- ... But where and how severe???
- One constant in all the scenarios: more international trade is needed to increase global resilience of agriculture.
 - European history.
- Source: Nelson (IFPRI, GEM)

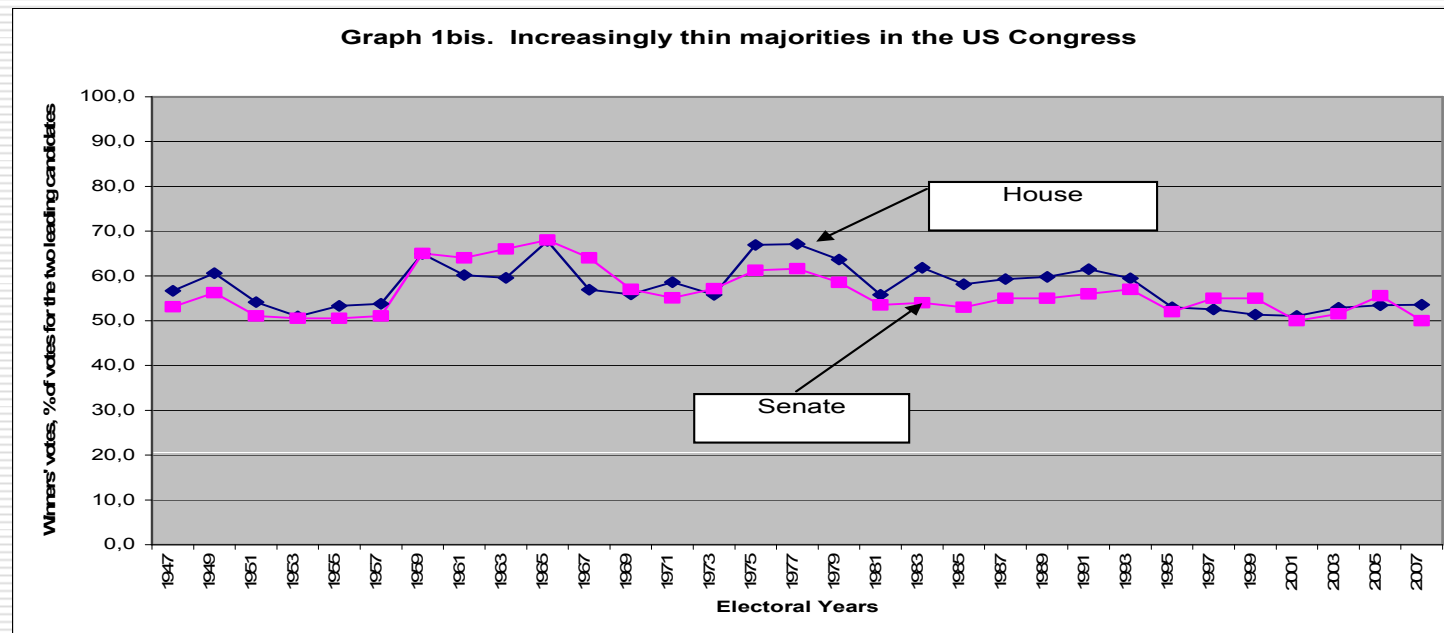


What could/should go right: the Doha Round in services

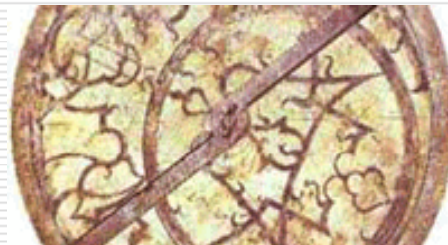
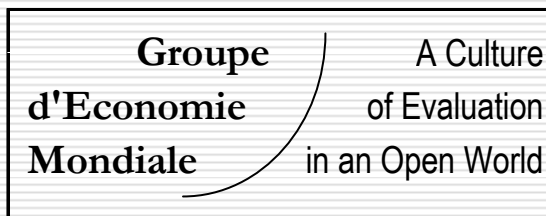
- Services: the only “booster” for Doha, but hard to ignite.
- Very fragmented liberalization, outdated WTO commitments, no “external forces” pushing for more liberalization, and weak political economy.
 - Caveat: architects, airlines (the Istanbul Process).
- The sector should deserve key initiatives in negotiations because it has the highest potential support from businesses.
- “A long spoon for dining with the devil”: launching plurilateral talks => Transatlantic, Transpacific, Eurasian, Asian?
- The case of financial services: combine with regulatory reforms => the costs of excessive re-regulation in the financial sector:
 - (-1% productivity) combined with (+1% in capital costs) => -0,5% in global output over the long run (Australian Productivity Commission).

Trade and the “iron law of thin majorities”

- The “iron law of thin majorities”
- U.S. expected back on its potential growth path by 2014.

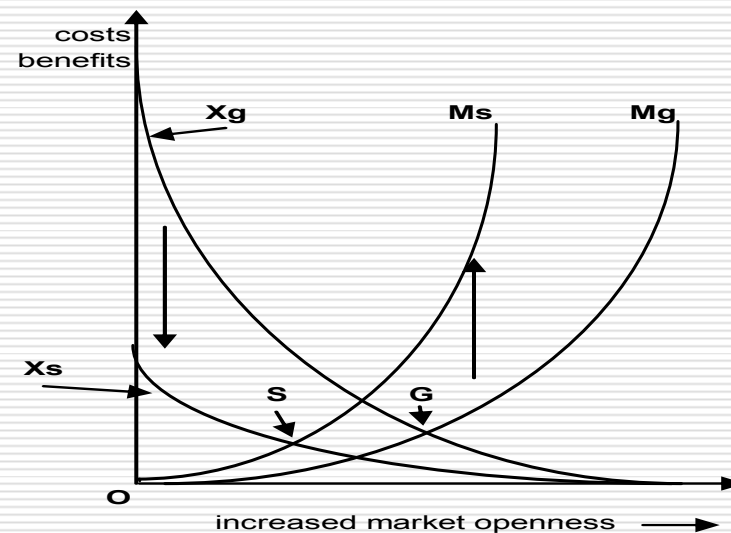


Thank You for Your Attention



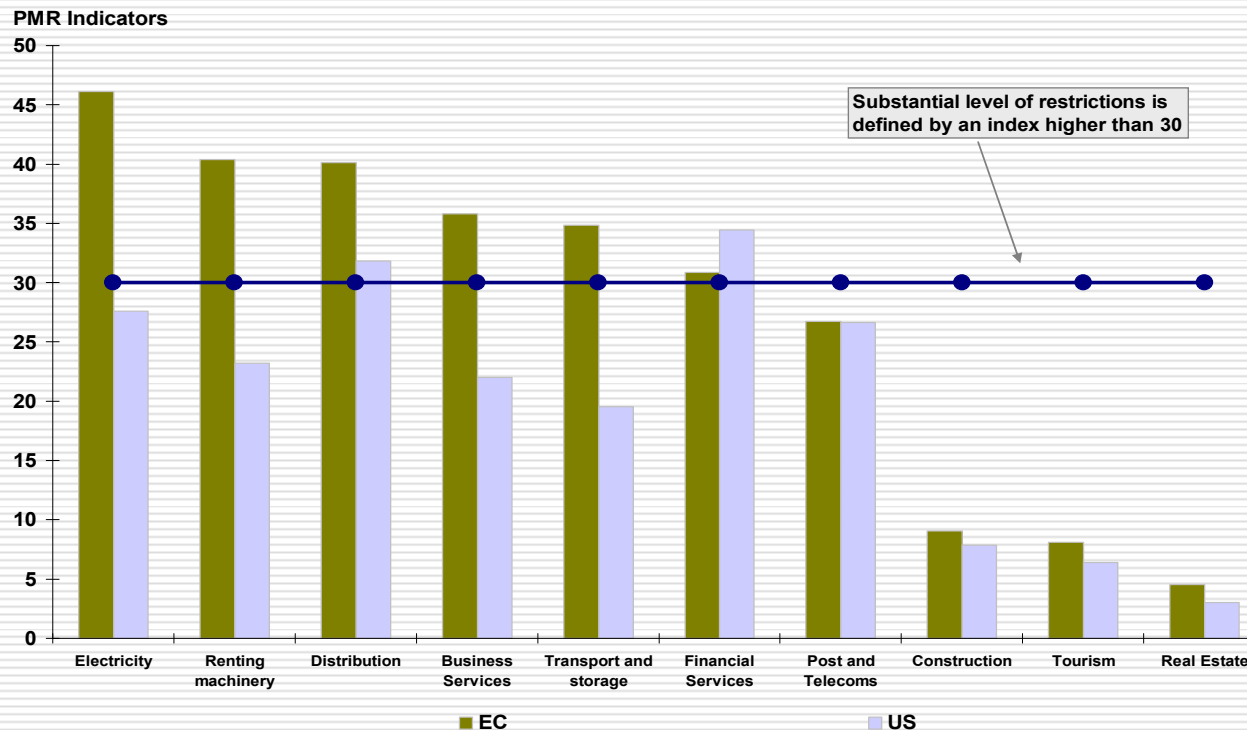
Challenges: Services

- Political economy of trade liberalization (exporters vs. import-competing firms): less powerful in services than in goods.



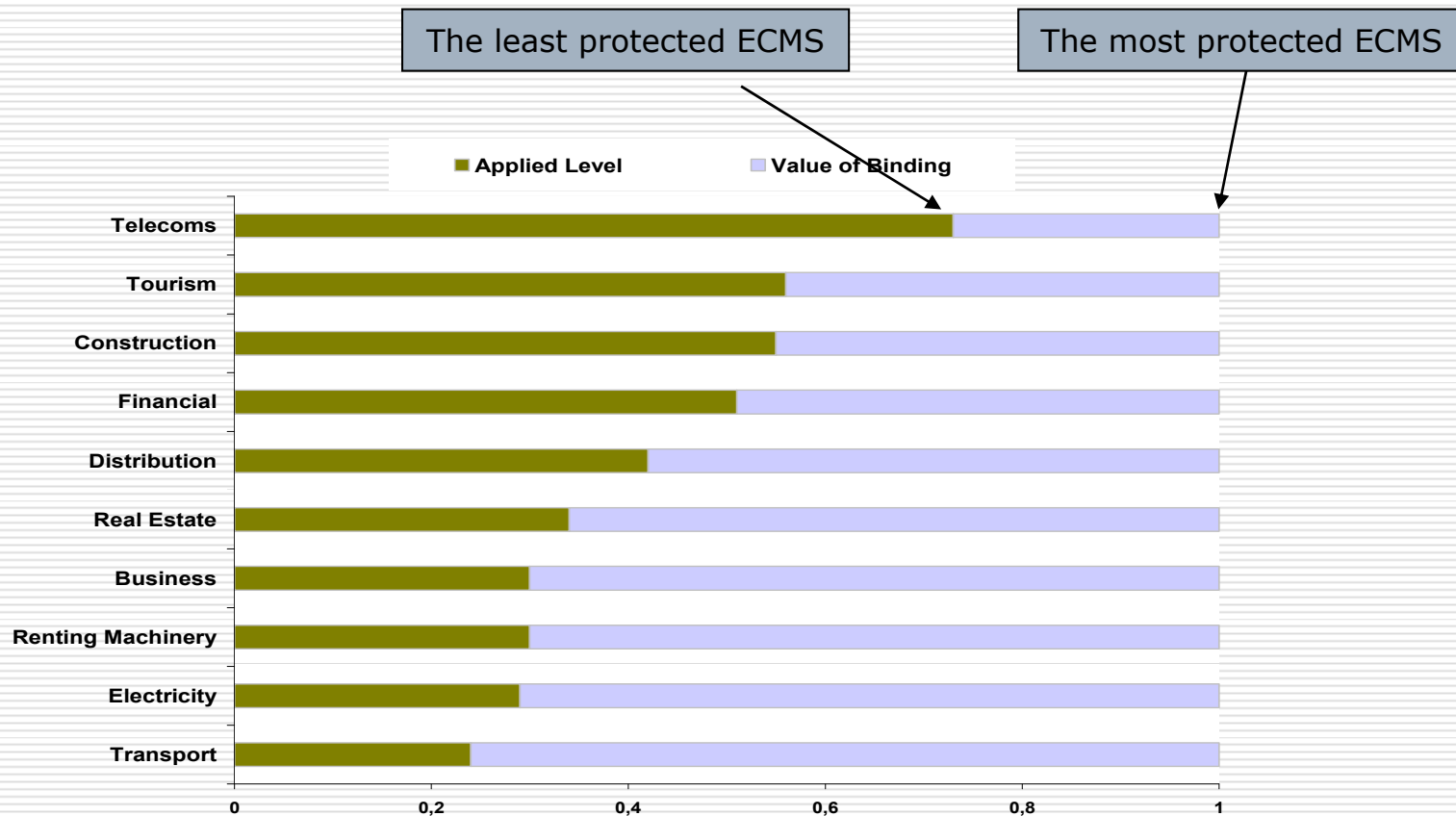
- Services liberalization requires strong negotiations: High gains? Possible? How to organize?

Challenges: Services => huge gains from high applied protection

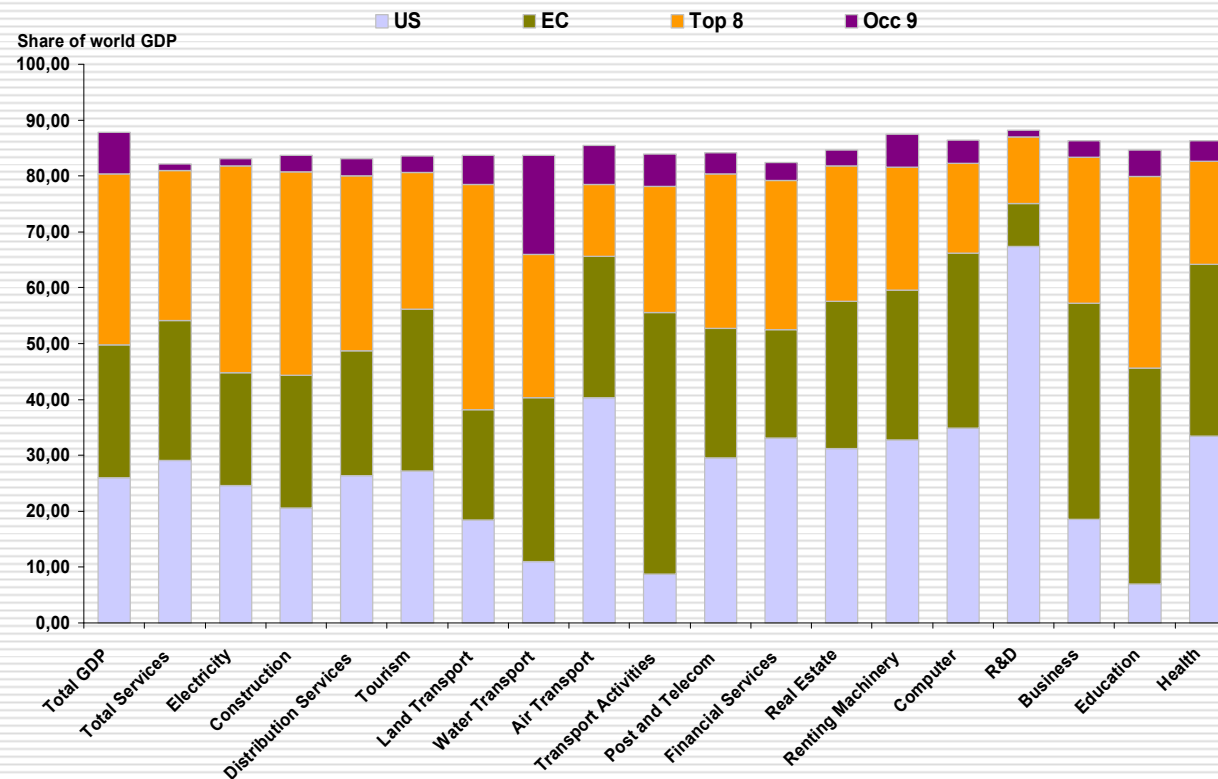


□ Messerlin and van der Marel, 2009. Shepherd and Miroudot, 2009.

Challenges: Services => huge gains from high "value of binding"

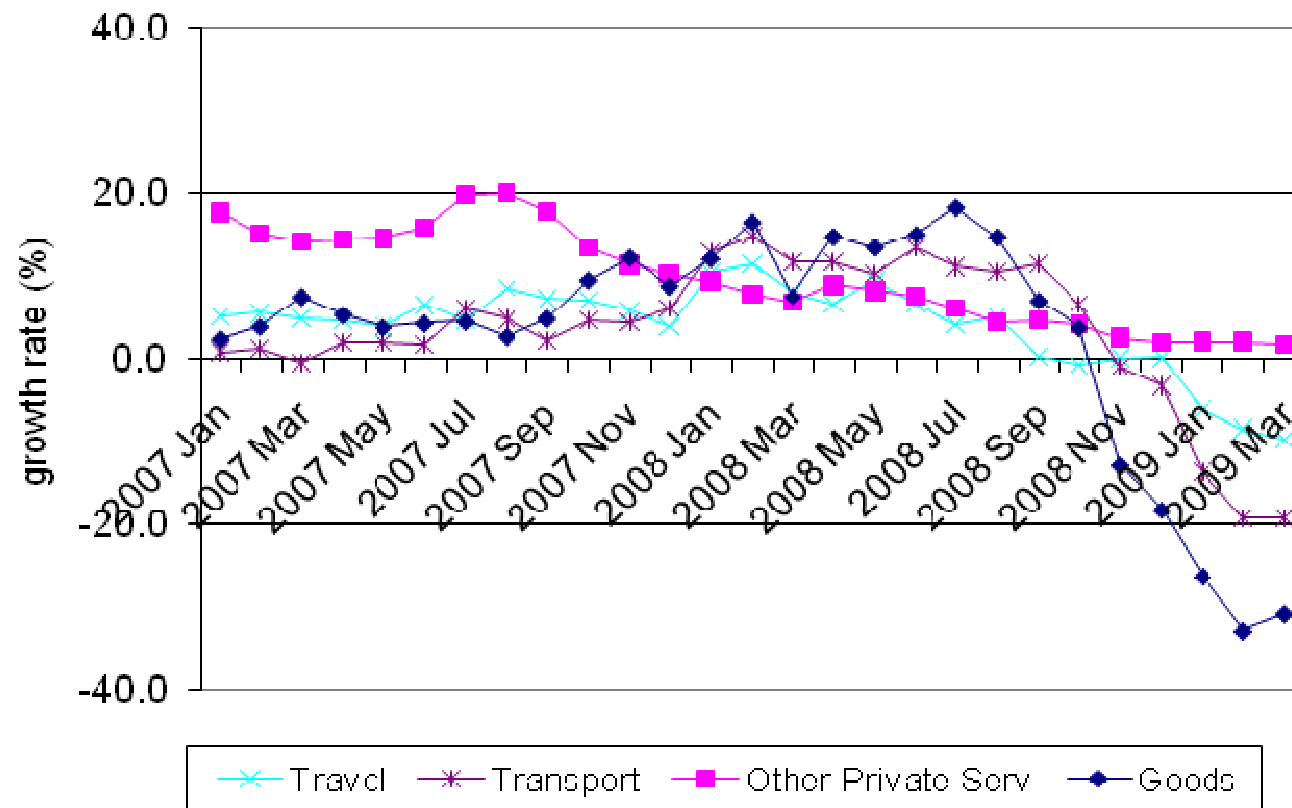


Challenges: Services => huge markets and few countries



Launching exploratory plurilateral talks => Transatlantic, Transpacific, Eurasian, Asian?

Challenges: Services => neg. on services resilient to the crisis

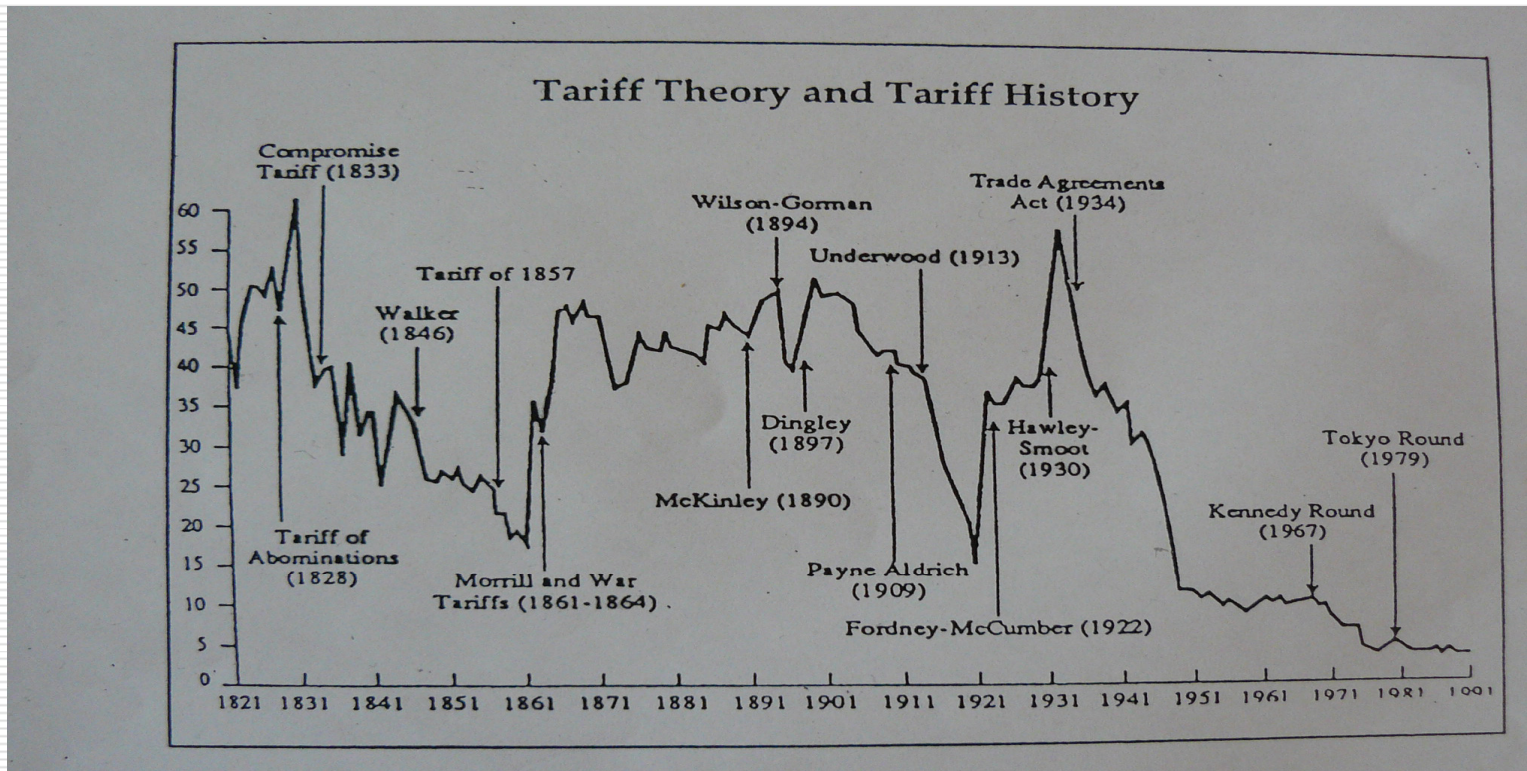


Challenges: Services => revealed willingness to negotiate

Services	Signalling Conference 2008		2005 offers:		Size of sectors (US\$ bn)	Crisis resilience
	Nbr WTO Members	GATS mode underlined	market opening moves			
	1	2	EC 3	US 4		
Business Services	Virtually all	4	yes	no	4918	High
Communication Services	Substantial	3	yes	yes	737	High
Distribution Services	Substantial	3	yes	no	3809	--
Environmental Services	Substantial	3	some	no	--	--
Construction & Related Engineering	Substantial	3 & 4	some	no	1715	High
Transport Services	Substantial	3	some	yes	1282	Low
Financial Services	Notable	3	yes	small	1770	Low/High
Educational Services	Notable	3 & 4	no	yes	1444	--
Tourism and Travel Related Services	A few		yes	no	774	Low
Health and Social Services	A few	3 & 4	no	no	1483	--
Recreational, Cultural & Sporting	--	--	small	no	1217	--
Energy	Substantial	3	--	--	--	--

Looking backward, long term

- ❑ The reference to the 1930s is not appropriate. But, don't make it appropriate! (2030=1930?)



The productivity of the Rounds

Rounds	Dates	Length (months)	Tariff cuts [a]	"Round Productivity"	Number of Members	
					All	G77
Geneva-I	1947	8	26,0	39,0	19	7
Annecey	1949	8	3,0	4,5	20	8
Torquay	1950-51	8	4,0	6,0	33	13
Geneva-II	1955-56	16	3,0	2,3	35	14
Dillon	1960-61	10	4,0	4,8	40	19
Kennedy	1963-67	42	37,0	10,6	74	44
Tokyo	1974-79	74	33,0	5,4	84	51
Uruguay	1986-94	91	38,0	5,0	125	88
Doha [b]	2001-10	120	50,0	5,0	146	98
