

Box 2.1

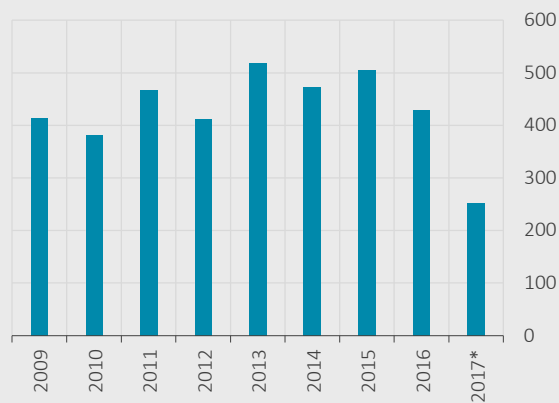
Protectionism in International Trade

Following the global crisis of 2007-2009, international trade has been subject to a higher number of barriers, and protectionist economic policies have increasingly occupied the agenda of many countries, particularly the US, in the past couple of years. Lastly, in March, the US introduced customs duty on imported steel and aluminum. Moreover, China and the EU announced that they would respond likewise, which gave rise to the perceptions of growing protectionist trade policies in the global economy as well as worries over sparks of a trade war. This box analyzes the trade barriers enforced in the aftermath of the global economic crisis, and accordingly, evaluates the possibility of an outbreak of a trade war triggered by recent developments. Moreover, the box also briefly discusses the effects of a possible trade war on growth alongside the spillovers into emerging economies.

Post-Crisis Trade Policies

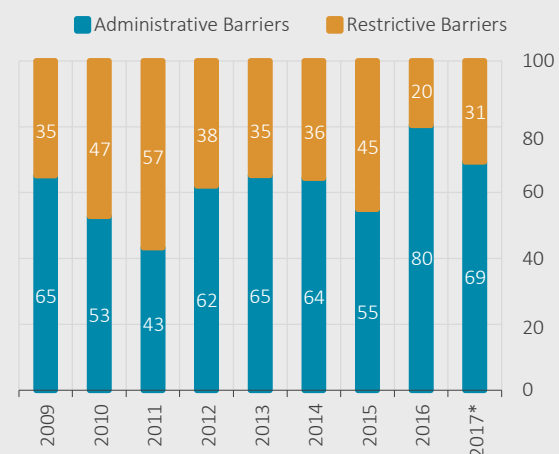
The World Trade Organization (WTO) has started to monitor member countries in terms of protectionism in international trade and announced the findings through periodic reports as of 2009. In this respect, according to the report published on 10 July 2017, member countries enforced 251 trade barriers in total during the October 2016-May 2017 period. This corresponds to 36 trade barriers per month on average. As illustrated in Chart 1, this is the lowest number of average barriers recorded since 2013.

Chart 1: Trade Barriers



Source: WTO (2017).
* October 2016-May 2017.

Chart 2: Breakdown of Trade Barriers (%)



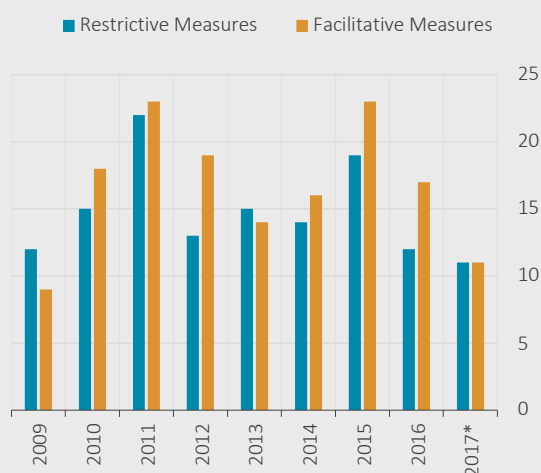
Source: WTO (2017).
* October 2016-May 2017.

These post-crisis trade barriers can be divided into two main categories. The first category, namely the restrictive barriers, includes conventional trade barriers such as newly introduced or increased customs tariffs, import bans or quantitative restrictions (quotas), obligation to use domestic content, complicated and time-consuming customs transactions, and temporary or permanent taxes imposed on imports or exports. On the other hand, trade barriers listed in the second category are administrative measures consisting mostly of anti-dumping taxes, and in principal, these restrictions are intended to prevent unfair competition in international trade rather than to provide protectionism. As depicted in Chart 2, trade barriers put into effect after 2009 mostly comprise administrative barriers.

Chart 3 displays the average monthly number of trade restrictions consisting of conventional tariffs and non-tariff barriers, which are implemented to directly restrict free trade. As demonstrated, following the peak in 2015, the number of these barriers has recorded a substantial fall in the last couple of years. Besides, Chart 3 illustrates the monthly average number of trade-facilitative measures by years, which are enforced to liberalize international trade. These statistics indicate that, contrary to the common view, the number of restrictive trade measures has not increased notably.

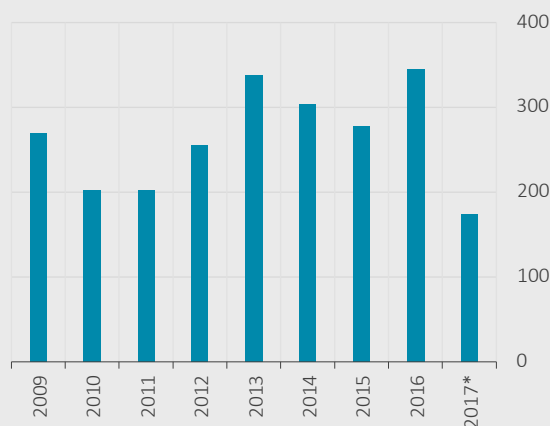
On the other hand, administrative measures, which are also called trade solutions, are classified under three categories within the General Agreement on Tariffs and Trade (GATT), the WTO’s founding agreement. These are anti-dumping duties, countervailing duties and safeguards. The most important difference of administrative measures from conventional tariffs and non-tariff barriers is the enforcement of these measures only under certain conditions as per the WTO rules.

Chart 3: Restrictive and Facilitative Measures (Monthly Average)



Source: WTO (2017).
* October 2016-May 2017.

Chart 4: Administrative Measures



Source: WTO (2017).
* October 2016-May 2017.

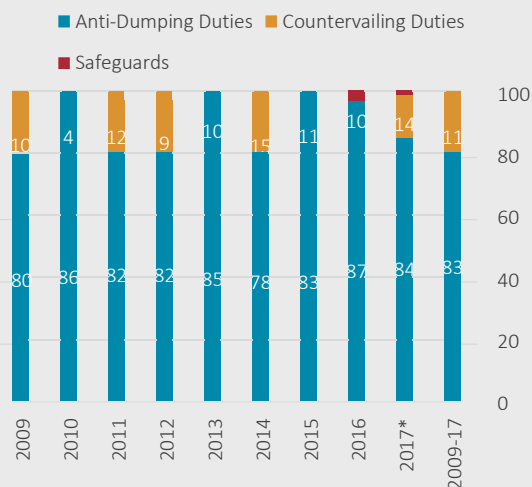
Administrative measures, in principle, are arranged to prevent unfair competition in international trade under the GATT. The 6th article of the GATT entitles any importer country, which is struck by a member country’s trade dumping, to introduce an anti-dumping duty. Similarly, if a member country introduces incentives or subsidies for exports, inflicted countries are allowed to impose countervailing duties on imports. Should the exports of a member country inflict serious injury to the importing country, the GATT reserves the right of the inflicted country to take measures to restrict trade for safeguarding purposes (Article 19).

During the 2009-2016 period, WTO members have resorted to a number of administrative measures in addition to conventional trade barriers. (Chart 4). Inquiries for a total of 3,598 new administrative measures were demanded by WTO members in this period. As illustrated in Chart 5, a vast part of administrative measures (83%) are composed of anti-dumping duties.

Among the products subject to anti-dumping inquiries in the 2014-2016 period, metallic products (60%) take the lead (Chart 6). Besides, almost all of the anti-dumping inquiries (91%) were demanded for metallic products in 2016. In this period, half of the anti-dumping inquiries demanded for metallic products were filed by the US, Australia, Canada and Malaysia. These countries claimed the exercise of anti-dumping on particularly the steel and aluminum products imported from China, China Taipei (Taiwan) and South Korea. The second and third places in anti-

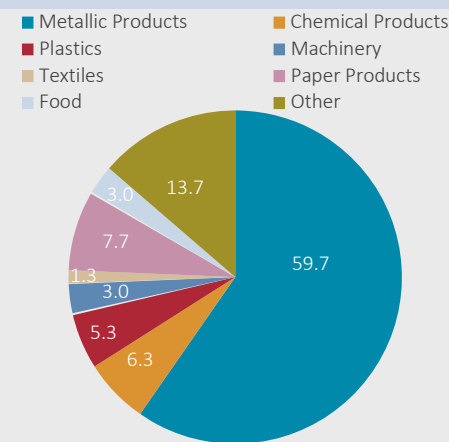
dumping inquiries are occupied by paper products and chemical products, respectively. As in metallic products, inquiries in these sectors also addressed China and South Korea.

Chart 5: Administrative Measures by Types (%)



Source: WTO (2017).
* October 2016-May 2017.

Chart 6: Breakdown of Anti-Dumping Inquiries by Types (2014-2016, %)



Source: WTO (2017).

Recent Developments

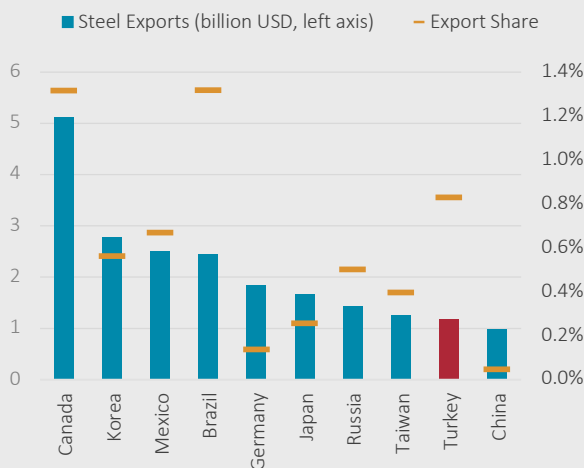
As discussed in the previous section, anti-dumping measures on steel and aluminum imports, particularly those made from China, are not a new phenomenon, but have been on the agenda of major complaints filed by the US within the WTO since 2014. Moreover, the US government demanded a dumping inquiry for steel and aluminum imports from the Department of Commerce in April 2017, and the reports compiled for the inquiry were submitted to the US government (U.S. Department of Commerce, 2017a, 2017b). In these reports, it was underlined that China and other countries implemented dumping on steel and aluminum imports of the US. On the grounds that this dumping depressed the US steel and aluminum industry as well as the military industry and jeopardized the US national security, the US government was advised to impose anti-dumping and countervailing duties against respective countries. However, due not only to the bilateral negotiations on this subject between the Chinese and the US governments in the G20 summit meeting of July 2017, but also the new tax reform that occupies the agenda, the exercise of these anti-dumping duties was postponed many times. The US Department of Commerce re-submitted the inquiry and advice report regarding the US imports of steel and aluminum to the US government on 11 January 2018, and the US government put the advised trade measures into effect on 22 March 2018 (U.S. Department of Commerce, 2018; U.S. White House, 2018). Accordingly, the US levied value-based duties on steel and aluminum imports from all countries except Canada and Mexico, of 25 and 10 percent, respectively. Against these developments, the EU and China declared that they would not accept the customs tariffs imposed unilaterally by the US and would take retaliatory actions. What is more, the US announced that other imported products from China amounting to 50 billion USD will be subject to customs tariffs as well. Then, China counterattacked by imposing additional duties on products imported from the US in the same amount.

These developments in steel and aluminum trade between the major players of global trade created concerns that trade barriers would increase reciprocally in the period ahead and light the fuse of a trade war, resulting in volatility in financial markets. International agencies such as the IMF and the OECD underlined that spreading of trade measures on a wider spectrum will have adverse effects on global growth and the labor market. These agencies assert that it will be

more convenient for countries to solve their economic problems like foreign trade deficit or unemployment through macroeconomic reforms rather than trade measures. In economic literature, there are various studies supporting this view. For example, Jesper and Pescatori (2017) concluded that a 10-percent increase in the US customs duties will bring down the global trade volume and global growth by 1 percent and 0.5 percentage points, respectively. Ossa (2014) estimates that imposition of customs duties by a country unilaterally will spur increase in wages and welfare, but the possible outbreak of a widespread trade war will cause a loss of welfare in the global economy by 2.9 percent on average.

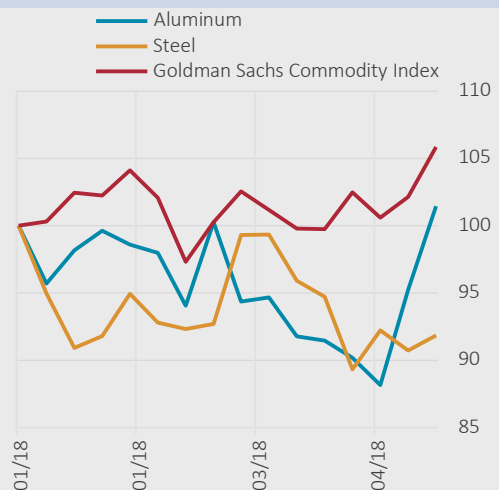
For emerging economies, the impact of a probable trade war can manifest itself both through trade and finance channels. Risks seem minimal given the effect of current measures on total exports (Chart 7). However, if protectionist measures evolve into a trade war by spreading over a wider spectrum, countries with a considerable trade volume with the US engaging in commodity-intensive trade, particularly the Asian countries having serious trade relations with China, are expected to witness the setbacks of the uncertainty to appear in commodity prices (Chart 8). What is more, should customs duty spill over to a wider domain, this may trigger inflation and change the course of the global monetary policy tightening in turn.

Chart 7: Countries Exporting Steel to the US



Source: Bloomberg.

Chart 8: Commodity Indices



Source: Census, World Bank.

Against this background, the critical question is whether the customs tariffs enforced by the US on steel and aluminum trade will ignite a trade war or not. It is certainly not an easy task to predict the future course of trade policies accurately. Therefore, the extent of a probable trade war is unclear. However, given current conditions, a trade war in the near future is not likely. First of all, customs tariffs exercised by the US were put into effect to prevent unfair competition rather than impeding the imports of steel and aluminum. The US asserts that some countries, mainly China, engage in overproduction above the global demand through state subsidies, which results in an artificial decline in steel and aluminum prices. As mentioned above, the US has brought up this complaint at the WTO since 2014. Secondly, trading of metallic products has a rather negligible share within the total global trade volume. Therefore, it would be incorrect to claim that international trade barriers have been raised based on the anti-dumping taxes imposed by the US in March. Likewise, a great part of trade policy measures enforced following the global economic crisis are made of administrative measures to prevent unfair competition. As shown in Chart 2, conventional trade barriers like customs tariffs and quotas are less than half of the measures put into effect excepting the year 2011. Customs tariffs still hover at historically low levels (WTO, 2017). Thirdly, the US government kept Argentina, Australia, South Korea and the EU in addition to Canada and Mexico exempt from anti-dumping duty until 1 May 2018. This

leads to the perception that the US government intends to solve this problem through bilateral negotiations. In fact, this can be confirmed by the gradual softening in the discourse of the US and Chinese governments regarding commercial relations.

In sum, customs tariffs levied on steel and aluminum products in March by the US will definitely occupy the agenda of global economy in the upcoming period. However, rather than evolving into a trade war, this is more likely to be resolved among respective countries through bilateral negotiations or settlements by the WTO.

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