

# PROTECTIONISM – MANIFESTATIONS AT THE WTO

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**“No immediate descent into  
high intensity protectionism”**

*WTO DG's Report dated 26.3.2009*

# Increased pressure to take protectionistic actions to protect jobs and business profits, e.g.

- (a) State aids like direct grants, special loans and guarantees to support manufacturing industries like steel and automobiles (\$50 bn bailout for GM),
- (b) Increase in Anti-Dumping investigations (+27% over 2007),

- (c) Fiscal stimulus programme with domestic bias,
- (d) Buy national requirements,
- (e) Financial support to troubled financial institutions (\$700 billion bank rescue package by US Treasury in Sept 2008).

# Costs of Protectionism

- Only 0.8% of world trade suffered from protectionist barriers, Oct 2008-Oct 2009,
- If applied tariffs on goods are raised to bound rates, world income would fall by some \$350 billion.

*EU Trade Commissioner Karel De Gucht (22.3.2010)*

**World income potential loss small compared to \$ 1 trillion loss by US and European banks on toxi assets and bad loans.**

- Nevertheless, world trade declined by 11% in 2009.
- World exports fell by 9%.

- Developing countries felt the impact because of squeeze in world trade finance as e.g. nearly one third of US lending mechanism was frozen up till June 2009.

## Some samples of recent trade actions at WTO

- (a) Oct 2008-Oct 2009 - US initiated a number of AD and CVD cases against China on PC strands, woven electric blankets, carbon & alloy steel, pressure pipes, coated paper,
- (b) June 09 - US complaint against Chinese export restrictions on some industrial raw materials,

- (c) Sept 09 - US Safeguards action against Chinese tyres,
- (d) Sept 09 - China AD action against US chicken parts.

# Currency Manipulation (US vv China)

- In April 2005, US Congress almost passed a bill imposing 27.5% tariffs across the board on imports from China had China not dropped US-Yuan peg and moved Yuan upwards.
- Impending Act in US Senate to penalise countries with fundamentally misaligned currencies caused by government actions. (The Currency Exchange Rate Oversight Reform Act of 2010).

# GATT Article XV (Exchange Arrangements)

- GATT Article XV.4

“Contracting Parties shall not, by exchange action, frustrate the intent of the provisions of this Agreement, nor, by trade action, the intent of the provisions of the Articles of Agreement of the IMF.”

**Difficult to treat an undervalued currency as a form of domestic or export subsidy because need to demonstrate following conditionalities under the SCM agreement:**

- Financial contribution from the government
- Conferment of a benefit.
- Specificity (i.e. apply to specific industries only).

# Voluntary Export Restraints (VERs)

- VERs emerged as major element of US foreign trade policy during Eisenhower Administration (1953-61) against Japanese cotton textiles and steel. It then spread to HK and India after 1958.
- By 1960, US imposed VERs on 30-35 Japanese export products (e.g cotton textiles, plywood, sewing machine, tuna, kitchen utensils)

## Notable VERs

- Multi-Fibre Agreement (MFA) signed in 1974.
- 1981 US/Japan Automobile VER.

## Concern over rampant use of VERs led to 1982 GATT Ministerial Meeting

- Agreement to phase out VERs at conclusion of Uruguay Round in 1994.
- New Safeguards Agreement does away with compensation for first 3 years.

# How to mitigate protectionistic measures?

- More transparency and surveillance by WTO
- Not more but **right** rules, e.g. VERs and Safeguards, AD
- Fast-track dispute rules regarding Anti-Dumping
- Fair & Equitable new rules on Climate Change  
E.g. carbon tax on airlines should be based on fuel efficiency and not fuel consumed.

**THANK YOU**