ASSESSING GLOBAL TRENDS IN PROTECTIONISM

There is a broad consensus among economists that protectionism is not welfare-enhancing. Partly as a result of this consensus, and partly also due to the lacklustre economic performance of countries that did not engage in free trade in the period after the end of the Second World War, the past few decades have witnessed an unprecedented wave of liberalisation, which has considerably stimulated international trade and cross-border financial flows. This trend has affected virtually all regions of the world, albeit to different degrees and at different speeds. However, the perception that free trade has a favourable effect on growth and ultimately benefits all participants is not always shared among the general public, and calls for protectionism are not rare in the policy debate, particularly at times of economic and financial stress. One issue that has attracted considerable attention lately is the Doha round of trade negotiations, which was not completed according to schedule and is now at a critical juncture, given the call by G20 leaders for agreement to be reached on modalities that lead to a successful conclusion of the round.

This article takes stock of global trends in protectionism and discusses their possible economic effects, using results from the recent economic literature and ECB model simulations. A distinction is made between actual measures, such as tariff and non-tariff barriers, and protectionist pressures, which can be measured indirectly, for instance using surveys. The main conclusion is that to date there is no major evidence that actual protectionist measures are increasing, but at the same time there are clear signs that protectionist pressures are on the rise in certain regions of the world (although support for globalisation remains strong in emerging market economies). Given the large welfare loss that a rise in protectionism would entail, this calls for additional vigilance in resisting protectionist pressures worldwide.

1 INTRODUCTION

Times of economic and financial stress seem to be particularly conducive to protectionist policies. This is suggested by several historical episodes; for example, many governments resorted to protectionist measures in the wake of the 1929 financial crisis in an effort to shield their domestic economies from the effects of the Great Depression. Such measures included higher import tariffs[1] but also exchange rate devaluations aimed at gaining export price competitiveness at the expense of trading partners (also known as "beggar-thy-neighbour" policies). This considerably hampered trade flows, which fell by 66% between 1929 and 1933.[2] While these policies failed to deliver economic prosperity in the countries that initiated them, they also triggered a spiral of reactions across countries, which contributed to the rise in nationalism in Europe and the rest of the world.

The widespread perception that protectionist policies were not successful and led to rising tensions across countries explains to a large extent the fact that the world has experienced a clear trend towards globalisation since the Second World War. Other important factors have been the growing consensus against protectionism among economists and the positive experience of countries embracing free trade from an early stage compared with those that did not. As a result, important steps have been achieved in removing trade barriers, which has contributed to a sharp increase in world trade as a percentage of world GDP (Chart 1).[3]

1 In the United States, tariffs were raised sharply on a wide range of goods following the Smoot-Hawley Tariff Act of 17 June 1930.

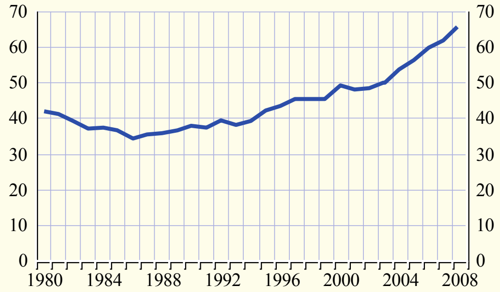
2 For a detailed account of protectionism during the Great Depression, see Kindleberger, C. (1986), "The World in Depression 1929-1939", University of California Press.

3 Other factors contributed to the rise in global trade flows, such as progress in transportation techniques. For a more general review of globalisation see in particular the article entitled "Globalisation, trade and the euro area macroeconomy" in the January 2008 issue of the Monthly Bulletin. Additional information on global trade flows can be found in di Mauro, F. and K. Forster (2008), "Globalisation and the competitiveness of the euro area", ECB Occasional Paper No 97, and in di Mauro, F. and R. Anderton (2007), "The external dimension of the euro area", Cambridge University Press.

Recently, however, the question has arisen as to whether the trend towards free trade that has been observed in recent decades will come to a halt or even be reversed. This concern is raised, in particular, by the failure to complete the Doha round of trade negotiations according to schedule and by growing indirect evidence that protectionist pressures are mounting. An additional source of concern stems from the chain of financial events that started in the summer of 2007 and accelerated in the autumn of 2008, since financial crisis episodes have often been associated with rising protectionist pressures. In fact, a search for instances of the word "protectionism" in the media shows a marked rise in October 2008.[4] Protectionist pressures can also be detected in statements by prominent policy-makers, as well as in the results of surveys. However, when evaluating global trends in protectionism, it is important to distinguish between actual protectionist measures (including tariff and non-tariff barriers) and protectionist pressures, which can be measured indirectly using surveys and other indicators. Protectionist pressures arise in particular from the political economy of trade liberalisation and protectionism: whereas the consumer surplus that results from liberalisation is spread over a large number of economic agents, the costs attached to liberalisation are concentrated on a small number of agents, who may then become very active in promoting protectionism.[5]

Chart 1 World trade as a percentage of world economic output

(percentages)



Source: IMF World Economic Outlook, October 2008.
Notes: Trade refers to the sum of exports and imports of goods and services. Data for 2008 are estimated.

This article first describes the economic effects of protectionism by reviewing selected studies on the subject and by presenting results from model simulations (Section 2). It then, from a medium-run perspective, assesses past developments in protectionist measures across the world, including both tariff and non-tariff barriers (Section 3). Finally, the article considers recent developments in protectionist pressures (Section 4). The main conclusion is that while there is to date no firm evidence that actual protectionist measures are increasing, there are signs that protectionist pressures are on the rise in some regions of the world. Given the large welfare loss that a rise in protectionism would entail, this calls for greater vigilance in resisting protectionist pressures worldwide.

2 ASSESSING THE EFFECTS OF PROTECTIONISM

TRADE PROTECTIONISM

Protectionism entails substantial long-run costs. The general case for free trade was made as early as the nineteenth century by classical economists such as David Ricardo, who focused on the notion of comparative advantage. Using a simplified representation of two economies with two sectors each, Ricardo showed that both countries were better off if each specialised and traded in the sector where it had a comparative advantage (i.e. higher productivity).[6]

Since the seminal work of Ricardo, economic techniques have progressed considerably and many studies have investigated the relationship between trade liberalisation and growth. As can be expected given the complexity of the question,

4 This is the case in particular when using the Factiva search engine. Two caveats to bear in mind are that the number of Factiva entries is very volatile over time and that this simple indicator does not distinguish between reports describing protectionism in a positive light and those describing it in a negative light.

5 See e.g. Olson, M. (1982), *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*.

6 See Ricardo. D. (1817), *Principles of Political Economy and Taxation*. Ricardo opposed protectionism in the early nineteenth century in Britain, in particular the "Corn Laws" that imposed tariffs on agricultural goods between 1815 and 1846.

different studies provide different magnitudes for the economic impact of protectionism compared with free trade.[7] All in all, while a critical review of the literature by Rodríguez and Rodrik (2000)[8] argues that results in the empirical literature are not robust to a variety of tests, the main finding remains that imposing tariffs does not increase welfare or, alternatively, that trade liberalisation enhances growth (which implies that its delay represents an opportunity cost for the world economy). This finding is underlined by a dynamic stochastic general equilibrium (DSGE) model developed at the ECB. This model provides a quantitative assessment of the negative implications of a potential resurgence in protectionism for the world economy, as discussed in Box 1. Another study, described in the IMF World Economic Outlook of September 2002,[9] focuses on trade in agriculture and identifies three main effects. First, trade protectionism imposes substantial direct welfare costs on consumers (because tariffs raise prices) and taxpayers (given that subsidies may be financed with higher taxes). Second, it reduces efficiency in the use and allocation of resources within the economy (under protectionism, domestic producers can specialise in goods and services in which they are not competitive or do not have a comparative advantage). Third, protectionism can cause fiscal and balance of payments difficulties in countries where governments do not intervene (commodity-exporting countries in particular can be strongly affected by protectionism abroad; the recent food price crisis revealed the importance of this aspect). Overall, the results presented in this study suggest that the world's income would rise by about USD 128 billion (the equivalent of over 0.4% of world GDP) if all countries were to remove agricultural protection.

Aside from static gains from liberalisation, there are also dynamic gains, which are more difficult to measure and could potentially be much higher. Such gains consist in longer-run developments that follow trade liberalisation; they include in particular higher productivity growth rates that arise from the adoption of new technologies. There is no space here to present such aspects in greater detail; the interested reader will find references in the World Economic Outlook article mentioned above. Finally, trade liberalisation can also bring gains other than those traditionally expected. For instance, trade agreements can help solve credibility issues faced by governments and can reduce uncertainty. They can also help governments of small countries signal good conditions in their domestic economy to the rest of the world, to the extent that competitive economies will be particularly willing to open up to international trade (see, for example, Fernández, 1997).[10]

Work has also been undertaken on the effects of a reintroduction of trade barriers. In its 2005 study on global imbalances based on the Global Economy Model (GEM), the IMF[11] simulated the impact of an increase in trade tariffs in all regions of the world as part of its scenario of disorderly unwinding. The model results suggested a very considerable downward impact on real GDP growth in all countries, with the US economy moving almost into recession during one year. This negative growth impact is largely due to the modelled response of monetary policy, which is assumed to tighten considerably in response to the upward price pressure

7 The economic literature on the subject is too broad to be listed here. A special feature published in "The Economic Journal" focuses on the link between trade liberalisation and growth in developing countries; see in particular the introductory chapter by A. Santos-Paulino and A. P. Thirlwall (*The Economic Journal*, vol 114, February 2004, pp. F1-F3), as well as the first article, by A. Winters, entitled "Trade Liberalisation and Economic Performance: an Overview", pp. F5-F21. Concerning the assessment of the expected benefits of the Doha round, results of course depend on what is agreed in the final package; see Decreux, Y. and L. Fontagné (2006), "A Quantitative Assessment of the Outcome of the Doha Development Agenda", CEPII Working Paper No 2006-10, May, for an assessment based on a computable general equilibrium model. This article also addresses the important question of the liberalisation of trade in services.

8 Rodríguez, F. and D. Rodrik (2000), "Trade Policy and Economic Growth: a Skeptic's Guide to the Cross-National Evidence", in Bernanke, B. and K. Rogoff, eds., *NBER Macroeconomics Annual*, MIT Press, Cambridge.

9 IMF (2002), "Trade and Finance" *World Economic Outlook*, September.

10 Fernández, R. (1997), "Returns to Regionalism: An Evaluation of Non-traditional Gains from RTAs," CEPR Discussion Paper No 1634.

11 IMF (2005) "How Will Global Imbalances Adjust?", *World Economic Outlook*, Appendix 1.2, September.

emanating from higher tariffs. More recently, a Federal Reserve Bank of New York paper by Faruqee et al (2006),[12] also based on the IMF's GEM, investigated the impact of trade barriers in greater detail. One of the main conclusions was that, if imposed simultaneously by all countries, an increase in import tariffs would be detrimental to world economic growth and would do little to help rebalance current account positions. One last point to note regarding the assessment of trade liberalisation is that several studies find that a further reduction in tariffs would have only a small impact on growth, partly because tariffs have already decreased significantly and have little room to fall further.

FINANCIAL PROTECTIONISM

Economic research has also been conducted on the effects of financial liberalisation. The

12 Faruqee, H., D. Laxton, D. Muir and P. Pesenti (2006), "Would Protectionism Defuse Global Imbalances and Spur Economic Activity? A Scenario Analysis", Federal Reserve Bank of New York, Staff Report No 268, December.

Box 1

MACROECONOMIC EFFECTS OF PROTECTIONISM: A SCENARIO ANALYSIS USING THE MULTI-COUNTRY VERSION OF THE ECB's NEW AREA-WIDE MODEL

In recent years, the appearance of sizeable trade surpluses in emerging Asia and oil-exporting countries, accompanied by large current account deficits in countries such as the United States, has led to a lively debate in policy circles. Increasing external imbalances have, among other things, fuelled protectionist sentiment in a number of countries. Protectionist measures have to some observers appeared to be an appealing recipe for addressing internal and external imbalances. However, their effectiveness in reducing global imbalances is subject to controversy.

To facilitate the discussion, it is helpful to provide a quantitative assessment of the implications of a potential resurgence in protectionism for the world economy. In what follows, the macroeconomic effects of a rise in protectionist measures are analysed using the multi-country version of the ECB's New Area-Wide Model (MCNAWM).[1]

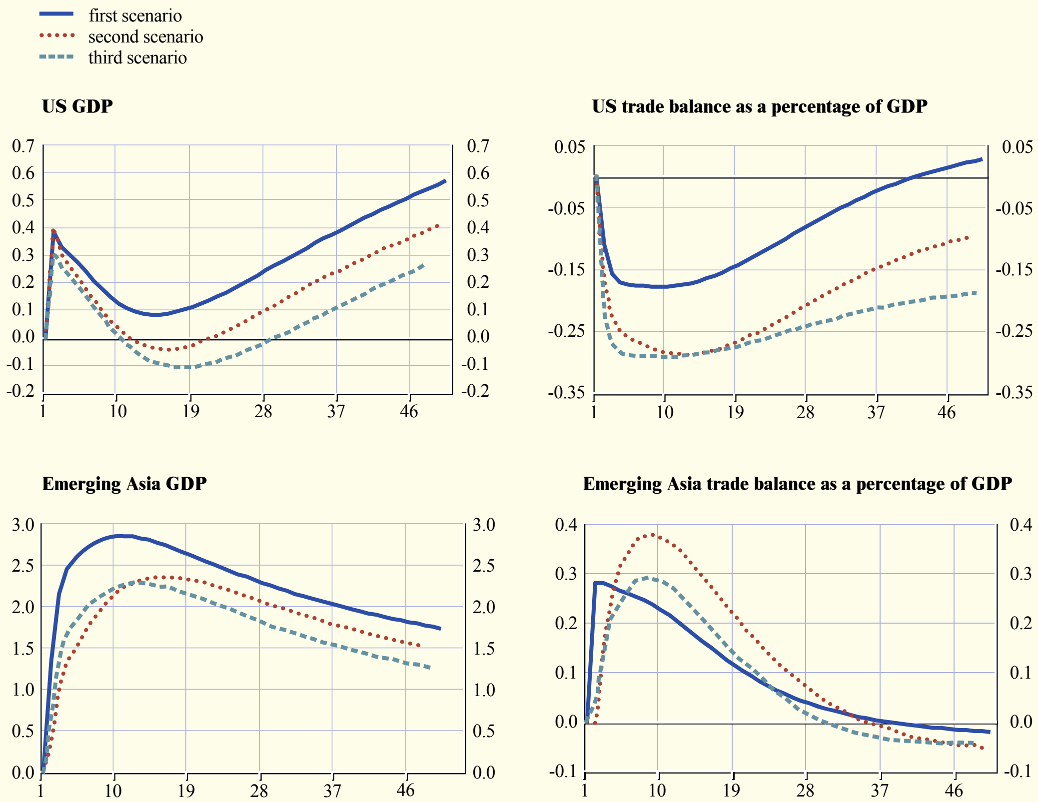
Three different scenarios are analysed. The first is a baseline scenario that is constructed to replicate the observed correlation of GDP growth with the trade balance in the United States and emerging Asia. In this scenario, global imbalances are fuelled by temporary productivity shocks in the tradable sector in emerging Asia and a permanent increase in non-tradable sector productivity in the United States. While the scenario is certainly stylised, it is able to capture the positive correlation of GDP growth and the trade balance in emerging Asia and the negative correlation of these variables in the United States. The second scenario alters the baseline scenario to include the unanticipated imposition of a 5% import tariff on goods from emerging Asia in the United States. The third scenario, labelled a "trade war" scenario, assesses the effects of a simultaneous introduction of import tariffs in the United States and emerging Asia on bilateral trade flows. The results are presented in the chart below.

1 For details of the MCNAWM see Jacquinot, P. and R. Straub (2008), "Globalisation and the euro area: simulation based analysis using the new Area wide model", ECB Working paper No 907. The MCNAWM is a microfounded open economy model consisting of a "four-country" block (consisting of the euro area, the United States, emerging Asia and a "remaining countries" block), and is parameterised to match macroeconomic ratios in the corresponding economies.

The main message of the analysis is that imposing import tariffs is unlikely to mitigate widening external imbalances but has negative effects on GDP growth in the medium term. By potentially boosting demand for domestic goods, the imposition of tariffs can give rise to an expenditure-switching effect, reducing the quantity of imports from the affected foreign economy. However, imposing tariffs on goods from one country cannot reduce a widening overall external imbalance as long as the fundamental drivers behind the imbalance are still in place. In fact, imposing tariffs can help to reduce bilateral imbalances with respect to certain counterparties at the cost of widening other bilateral surpluses/deficits. This is confirmed by the simulation exercise presented in the chart. It should also be noted that import tariffs have a negative impact on GDP in both emerging Asia and the United States compared with the benchmark scenario. The negative impact of protectionist measures on GDP growth is, as expected, amplified under a trade war scenario.

Macroeconomic effects of protectionism: a scenario analysis using the MCNAWM

(impulse response functions as a percentage of GDP; quarters after the shock)



Source: ECB.

debate has in this case turned out to be more controversial, especially following the Asian crisis of the 1990s. The potential benefits of financial liberalisation can come through two major channels. First, financial liberalisation may have a positive impact on domestic investment and growth if the policy environment is favourable (i.e. robust institutions, sound macroeconomic policy, deep financial markets and high-quality financial sector regulation and supervision). Under certain conditions, foreign investment may facilitate the diffusion of new technologies and stimulate growth (see Borensztein et al., 1998[13]). Second, financial liberalisation may play an important catalytic role in improving institutions, enhancing good governance practices and strengthening macroeconomic discipline, as suggested by Kose et al. (2006).[14] In addition, it has been pointed out that cross-border capital mobility is not necessarily a driver of financial crises in developing countries. For instance, Edwards (2005)[15] finds no systematic evidence that countries with higher capital mobility tend to have a higher incidence of crises, or a higher probability of having crises, than countries with lower mobility.

In spite of this, the empirical literature has thus far reported mixed evidence on the link between freer capital flows and economic development. A study by Prasad, Rajan and Subramanian (2006)[16] finds evidence of the puzzle of financial openness and growth being positively correlated in mature economies, but negatively in developing countries. A number of explanations have been put forward for this puzzle. One of the most important is possibly that opening to foreign capital is beneficial to the extent that a country performs sufficiently well in terms of factors including property rights, contract enforceability, low corruption and the absence of expropriation measures. Otherwise, Rodrik and Subramanian (2008)[17] argue, an increase in financial openness due to financial account liberalisation would only boost consumption, while the effect on domestic investment and growth could be negative.

One difficulty that arises when evaluating the economic effects of financial account liberalisation is the fact that these effects may vary over time. In particular, countries that liberalise tend to gain in the period immediately following capital account liberalisation but do not always record higher growth or may even experience temporary growth reversals in the longer run.[18] The quality of domestic institutions, the size of foreign direct investment inflows and the sequencing of the liberalisation process have been found to be important factors in determining longer-run effects. To conclude, although the magnitude of the effects may vary depending on the methodology, the literature seems to point to important welfare gains from financial liberalisation in the long run, especially if the sequencing of reforms is properly scheduled.

3 ASSESSING GLOBAL TRENDS IN PROTECTIONISM: SELECTED INDICATORS

Barriers to trade in goods and services can be divided into two broad categories: quantitative and qualitative. The former include mainly tariffs, but also import quotas and limitations, subsidies and exchange controls. Such barriers are relatively straightforward to measure, in part because they are usually publicly announced. Qualitative barriers are more difficult to detect. These consist in government policies and regulations

13 Borensztein, E., J. De Gregorio and J-W. Lee (1998), "How Does Foreign Direct Investment Affect Growth?", *Journal of International Economics*, 45 (June), pp. 116-35.

14 Kose, M. A., E. Prasad, K. Rogoff and S-J. Wei (2006), "Financial Globalization: A Reappraisal", IMF Working Paper No 06/189.

15 Edwards, S. (2005), "Capital controls, sudden stops and current account reversals", NBER Working Paper No 11170.

16 Prasad, E., R. Rajan and A. Subramanian (2006), "Foreign Capital and Economic Growth", IMF, August, and NBER Working Paper No 13619.

17 Rodrik, D. and A. Subramanian (2008), "Why Did Financial Globalisation Disappoint?", March, mimeo. http://ksghome.harvard.edu/~drodrik/Why_Did_FG_Disappoint_March_24_2008.pdf

18 See Bussière, M. and M. Fratzscher (2008), "Financial Openness and Growth: Short-run Gain, Long-run Pain?", *Review of International Economics*, vol. 16(1), pp. 69-95.

that directly or indirectly hinder free trade. They include, for instance, competition policy, industrial policy, discriminatory treatment towards foreign capital, customs valuation and classification, industrial standards and quality standards. As the assessment of global trends in protectionism depends on which measures are considered, the rest of Section 3 reviews tariff measures and non-tariff measures separately.

TARIFF MEASURES

Average import tariffs on manufactured goods have declined in recent years. The evaluation of tariffs depends on the products that are considered and the methodology. One important indicator is the tariffs reported by the United Nations Conference on Trade and Development (UNCTAD). Based on this, tariffs fell over the period 1990-2006 in both the major advanced economies (the United States, the EU and Japan), as shown in Chart 2, panel A, and in large emerging economies such as Brazil, Russia, India and China (often referred to as the "BRICs"),[19] as shown in Chart 2, panel B.[20] Tariffs are still markedly higher in the emerging economies, but the gap between advanced and emerging economies has been decreasing over time.

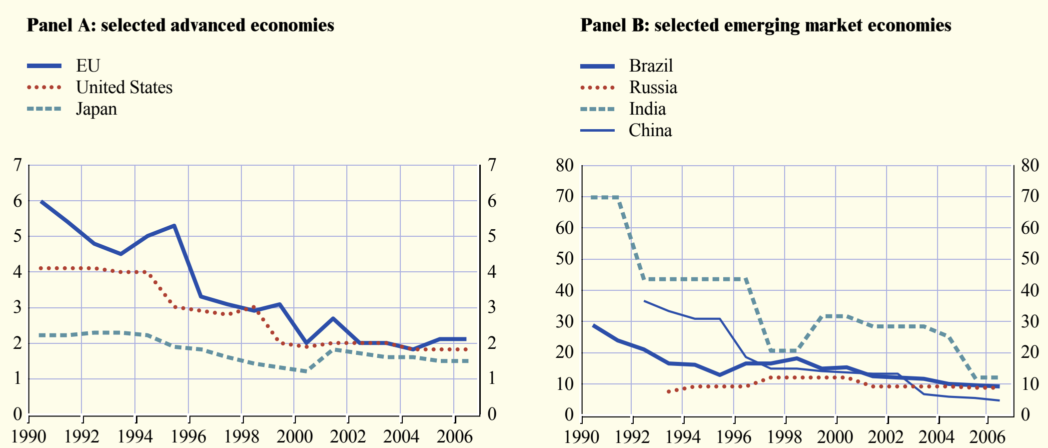
However, one needs to take into account the fact that emerging markets have gained market share since 1990. For instance, the BRICs accounted for around 5% of world trade in 1990, against nearly 14% now, the counterpart of this rise being a fall in the market share of advanced economies. The growing market share of the BRICs, whose tariffs are higher, may therefore increase perceived protectionism.

Progress in tariff reduction has varied considerably across sectors, and developments in average tariffs may hide significant differences in the treatment of individual products. A declining average may be misleading if countries maintain very high tariffs on certain strategic products.

19 The concept (together with the acronym) was introduced by the bank Goldman Sachs in the early 2000s. These countries are usefully considered together given their large economic and demographic size, their systemic importance and their strong growth performance.
20 For a methodological discussion see Bouët, A., Y. Decreux, L. Fontagné, S. Jean and D. Laborde (2008), "Assessing Applied Protection across the World", *Review of International Economics*, 16(5), pp. 850-863.

Chart 2 Average tariffs on imported manufactured goods

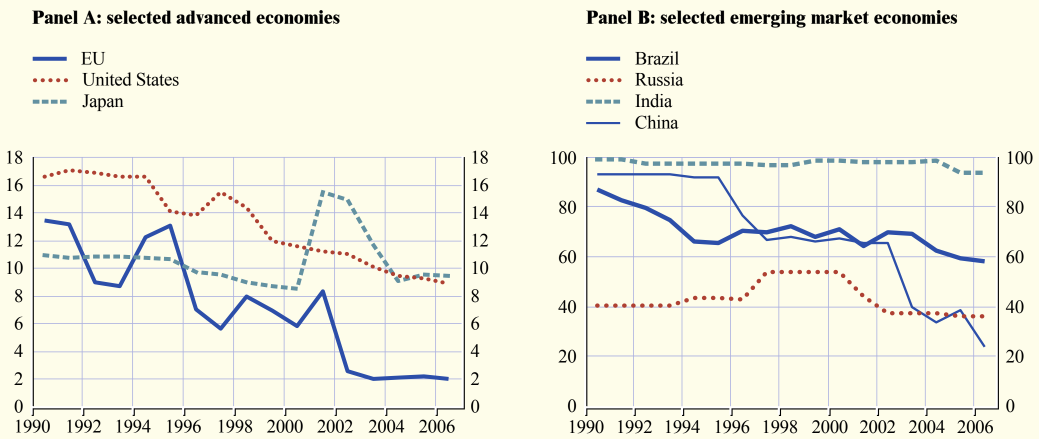
(percentages)



Sources: UNCTAD and ECB calculations.

Chart 3 Percentage of manufactured goods subject to tariffs above 10%

(percentages)



Sources: UNCTAD, Handbook of Statistics, 2008, and ECB calculations.

The distribution of tariffs across countries is characterised by an important difference between the emerging market economies, where around 60% of tariffs are above 10%, and the advanced economies, where this share is below 20% (Chart 3). Although emerging economies have been reducing average tariff levels, they still apply high tariffs to most manufactured goods.

NON-TARIFF MEASURES

Tariffs provide only a very partial indication of the degree of protectionism. Countries are unlikely to increase tariffs by a large amount as these are capped through international agreements in the context of the World Trade Organization (WTO); protectionist measures are more likely to come in the form of non-tariff measures, which are more difficult to quantify. Such barriers include export subsidies, which should, theoretically, be easy to quantify. But subsidies can also take very indirect forms (such as funding for research programmes that enhance productivity). Alternatively, they can be aimed at supporting local producers against foreign competitors. While this issue is important, it is too vast to be tackled in full here,[21] and the article focuses instead on survey data that provide a broad assessment of non-tariff barriers.

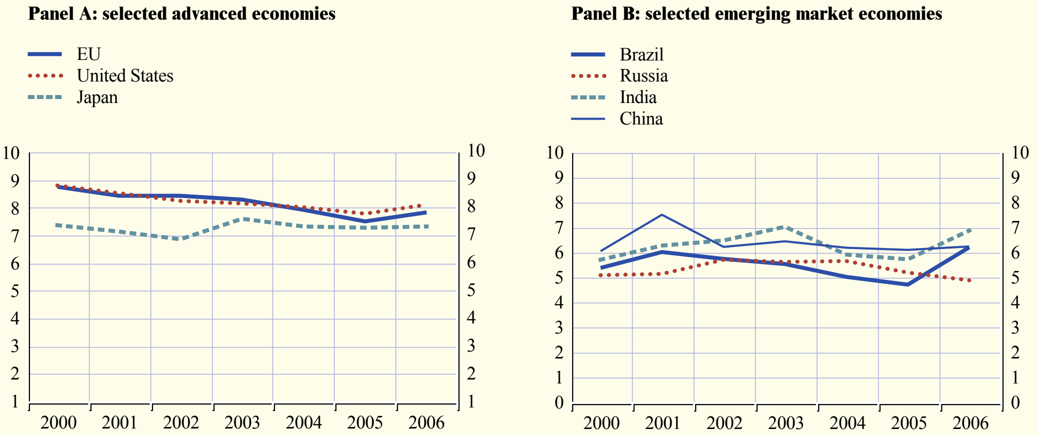
As non-tariff measures include various government policies and regulations that cannot be quantified directly, official data on this type of barrier are indeed very scarce and mainly confined to cross-country comparisons at a given point in time, which does not allow an assessment of trends over time.[22] Some private sector institutions provide quantified indices based on surveys, such as the ratings developed by the Fraser Institute. Although these measures are subject to caveats, they constitute useful proxies to assess non-tariff barriers.

Indicators provided by the Fraser Institute suggest that non-tariff barriers have remained broadly stable in both advanced and emerging

21 Useful information on the subject can be found on the website of the WTO; see http://www.wto.org/english/tratop_e/scm_e/scm_e.htm. For further information and references see also Anderson, K. (2004), “Subsidies and Trade Barriers”, Centre for International Economic Studies, School of Economics, University of Adelaide.

22 In recent years, for instance, the OECD has undertaken detailed studies on trade barriers relating to time and logistics. See e.g. Kyvik Nordås, H. (2006), “Time as a Trade Barrier: Implications for Low Income Countries”, OECD Economic Studies No 42, 2006/1.

Chart 4 Index of regulatory trade barriers



Sources: Fraser Institute and ECB calculations.
Notes: For detailed information on these indices see "Economic Freedom of the World 2008 Annual Report", http://www.freetheworld.com/release.html. An increase in the index indicates lower trade barriers. The values provided for the EU were computed as a weighted average of the 27 Member States, using GDP weights converted to the same currency using purchasing power parity. They are therefore not directly comparable with those for the United States and Japan.

economies since the early 2000s (Chart 4). These indicators proxy non-price and non-quantity-related import barriers, providing a summary measure of hidden import barriers that ranges between 0 and 10, whereby a higher score represents a higher degree of freedom to trade.

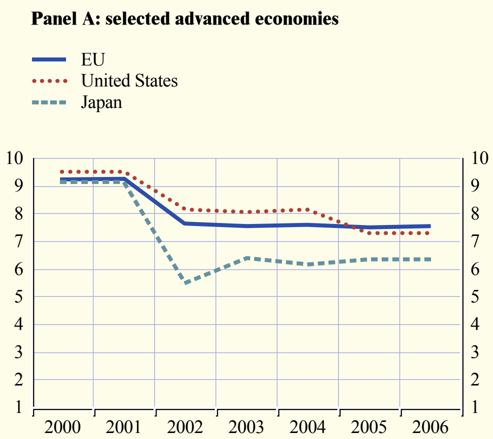
FINANCIAL FLOWS

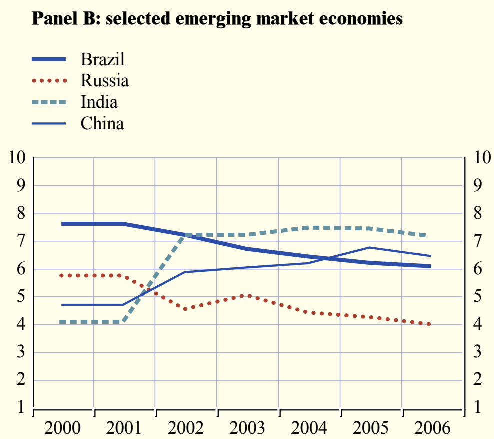
Given the importance of financial flows to the world economy, protectionism with regard to cross-border capital flows may be as significant as trade protectionism. A traditional way of measuring financial protectionism consists in measuring legal restrictions on cross-border capital flows. These include, for instance, controls on inflows and outflows, controls on quantities and prices, and restrictions on foreign equity holdings. The literature distinguishes between de jure and de facto measures (see, for example, Kose et al., 2006). The former use narrative descriptions to give a quantitative measure of financial openness, based in particular on IMF reports.[23] The latter include price-based and quantity-based measures of financial integration and rest on the idea that, regardless of the volume and direction of flows, full integration of capital markets should be reflected in common prices for similar financial instruments across national borders. Several papers have proposed such measures; see in particular Chinn and Ito (2005), Quinn (2003), Mody and Murshid (2005), Miniane (2004) and Edwards (2005).[24] These two types of measure do not always give the same result because legal restrictions are not always implemented in practice (in which case the de jure measures are more restrictive than the de facto measures) or because agents may decide not to invest in a given country even if they have been granted the right to do so (in which case the de facto measures will be more restrictive). For example, despite capital controls, China has received large private capital inflows in recent years.

23 The IMF Annual Report on Exchange Arrangements and Exchange Restrictions.

24 Chinn, M. D. and H. Ito (2005), "What Matters for Financial Development? Capital Controls, Institutions, and Interactions", NBER Working Paper No 11370; Quinn, D. (2003), "Capital Account Liberalization and Financial Globalization, 1980-1990", *International Journal of Finance and Economics* 8 (3), pp. 189-204; Miniane, J. (2004), "A new set of measures on capital account restrictions", IMF Staff Papers 51(2), pp. 276-308; and Mody, A. and A. P. Murshid (2005), "Growing up with capital flows", *Journal of International Economics*, 65, pp. 249-266.

Chart 5 Index of foreign capital market restrictions

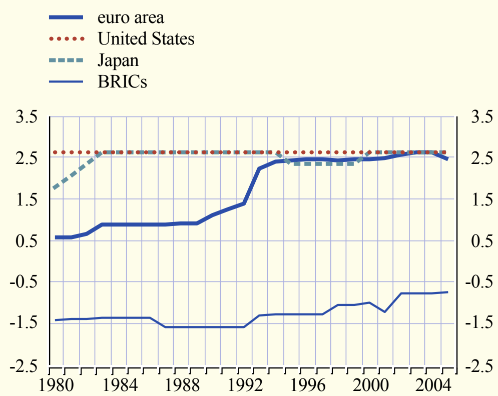




Sources: Fraser Institute and ECB calculations.
Notes: For detailed information on these indices see "Economic Freedom of the World 2008 Annual Report", http://www.freetheworld.com/release.html. An increase in the index indicates weaker capital market restrictions. See also last note to Chart 4.

As regards de jure measures, two main indices can be used in the present context. The first is an index of capital market access for both non-residents and residents (Chart 5). The second is the Chinn-Ito index on the degree of capital account openness (Chart 6). These indices suggest that restrictions tend to be greater in emerging economies than in advanced economies. This can be seen more clearly in the Chinn-Ito index, which shows a larger gap between the BRICs and the advanced economies. However, there seems to be significant heterogeneity across emerging market economies (Chart 5, Panel B).

Chart 6 Index of foreign capital account openness

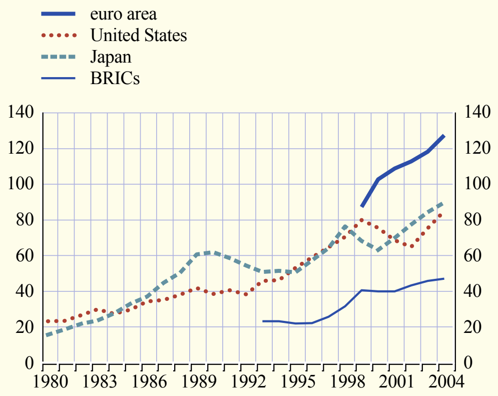


Sources: Chinn and Ito, 2005, and ECB calculations.
Notes: An increase in the index indicates weaker capital market restrictions. The values provided for the euro area and the BRICs were computed as a weighted average of the individual countries, using GDP weights converted to the same currency using purchasing power parity. They are therefore not directly comparable with those for the United States and Japan. For the calculation, the euro area consists of Belgium, Germany, Ireland, Greece, Spain, France, Italy, Cyprus, Malta, the Netherlands, Austria and Portugal.

Turning to the de facto measures of capital account openness, there can be seen in particular a significant increase in the level of (gross) foreign assets expressed as percentage of GDP since 1990 (see Chart 7; a similar pattern emerges from gross liabilities). The change in assets and liabilities does not completely correspond to the cumulated sum of flows, owing to valuation effects. Although the magnitude of the increase may be different on the basis of alternative measures, and in spite of differences across countries, there has been a clear trend since the mid-1990s towards markedly higher cross-border capital flows. In addition, financial liberalisation has in certain regions taken place at a rapid pace; this is particularly the case for the euro area.[25]

25 See "Financial integration in Europe", ECB, April 2008.

Chart 7 Total foreign assets as a percentage of GDP



Source: Milesi-Ferretti, G.-M. and P. R. Lane (2006), "The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970-2004," IMF Working Papers 06/69.

In conclusion it can be said that there is to date no firm evidence from long-run trends based on available data that protectionist measures are increasing (partly because such data are published with significant lags). This does not mean, however, that protectionist pressures are not rising. The above measures must be supplemented by other, indirect indicators.

4 ASSESSING GLOBAL TRENDS IN PROTECTIONIST PRESSURES

Indirect measures of protectionism are more difficult to quantify, but they can be gauged by considering a range of indicators, including delays in multilateral trade negotiations, the number of trade disputes at the WTO, the proliferation of free trade agreements and informal survey data.

MULTILATERAL TRADE NEGOTIATIONS

One important factor that suggests a rise in protectionist pressures in the world is the fact that multilateral trade negotiations have not proceeded as planned and have given rise to marked disagreement between key global trading partners. In July 2006 the Doha round of WTO trade negotiations was indefinitely suspended; negotiations resumed but were again halted in July 2008. At the beginning of 2009, it remains unclear whether the parties will move towards the concessions originally envisaged as the basis for agreement (see Box 2 for a more detailed account).

Box 2

THE DOHA ROUND

Since the Second World War continuous efforts have been made to liberalise world trade. Initially, negotiations took place in the framework of the General Agreement on Tariffs and Trade (GATT). From 1947 onwards seven, often difficult, negotiation rounds resulted in the progressive abolition of tariffs. The last round, the Uruguay round (1986-1994), extended trade liberalisation to new areas such as intellectual property rights, services, capital and agriculture. Moreover, the creation of the WTO was agreed upon during this round. Whereas the GATT was strictly speaking a set of trade rules, the WTO is an international organisation that supervises world trade and promotes its further liberalisation.

The first WTO conference of trade ministers took place in Singapore in 1996. It identified four main subjects, the "Singapore issues", on which negotiations should focus: rules on investment, competition policy, transparency in government procurement and the simplification of trade procedures. A new "millennium" negotiation round was intended to start in Seattle in 1999, but the meeting ended in failure.

Thus the Doha round is the first multilateral trade round since the WTO was established. It was launched in Doha, Qatar, in November 2001. Its objective is to integrate developing countries into the world trade system. Three issues are at the centre of the negotiations: a) reducing EU agricultural tariffs, b) reducing US farm subsidies and c) enhancing access (for example, by tariff reduction) for industrial goods and services to the markets of the major developing countries.

For a long time, the EU and the United States were the key players in international trade negotiations, given their economic strength and large shares in world trade. Over recent years, however, their influence has weakened with the growing economic weight of emerging markets, which joined forces in the course of the Doha talks. A group of 20 countries, with Brazil, India, China and South Africa taking the lead, has been playing an increasingly important role in the negotiations. It has pressed for the abolishment of agricultural subsidies and the reduction of agricultural tariffs in industrialised countries while defending protective mechanisms in emerging markets. The EU is represented by the European Commission in these trade negotiations. During the negotiations, the Commission continuously consults with a committee of high-level national trade officials, and any agreement concluded needs to be adopted by the EU Council. The EU has been actively involved in the Doha round negotiations and has to a large extent shaped its agenda. To achieve a successful conclusion of the talks, the EU has offered significant concessions with regard to a further opening up of its agricultural markets.

Originally, it was envisaged that the Doha round would be finished in January 2005, but the first meeting at the ministerial level in Cancún (2003) did not lead to a successful conclusion. Neither did the ministerial meeting in Hong Kong SAR (2005). Due to a lack of progress, member countries decided in July 2006 to suspend the negotiations. By January 2007, the trade ministers from 30 key countries had agreed to restart the talks. However, the G4 trade ministers (those of the United States, the EU, Brazil and India) could not come to an agreement in Potsdam in June 2007, and the WTO ministerial conference scheduled for December 2007 was cancelled. A new ministerial meeting was finally scheduled to take place in Geneva in July 2008. However, the talks were once again suspended.

The Doha Development Agenda initially covered 12 subject areas (agriculture, industrial products, services, intellectual property, investment, competition, government procurement, trade facilitation, anti-dumping, subsidies, regional trade agreements, and trade and environment). However, in view of the difficult negotiations, the original mandate has been adjusted in the course of the talks. As the Cancún meeting ended in deadlock over the Singapore issues, three of these issues (investment, competition and government procurement) were dropped in 2004. Of the remaining nine subject areas, the most important concern concessions and commitments for increased market access for agriculture, industrial products and services.

During the negotiations in Geneva, positions converged with regard to most topics on the agenda. However, no agreement was possible on a special safeguard mechanism that had long been a key demand of developing countries. It would permit them to raise agricultural tariffs temporarily in the event of import surges or price falls in order to protect farmers. The United States considered the import increase proposed to trigger the application of the safeguards as unacceptably low. Especially for some of the bigger emerging market countries, such as China and India, it viewed the safeguards as difficult to justify in view of their growth dynamics and increasing role in world trade. This conflict between the United States and the emerging market countries led to the suspension of the talks at the end of July 2008.

The failure of the Geneva meeting does not necessarily mean the end of the Doha round. As a rule, previous negotiation rounds took several years to conclude, and also included many suspensions. In the current round, no party has so far declared that it is no longer willing to negotiate. On the contrary, since the breakdown of the talks many political meetings have taken place to look for possible ways forward. In September 2008 negotiators in Geneva resumed work, in particular on the special safeguard mechanism and other pending questions such as cotton subsidies. In November 2008, the G20 declared its intention to aim for an agreement in 2008 on the modalities allowing a successful conclusion of the Doha round. However, as insufficient progress was subsequently made, a ministerial meeting to conclude the negotiations could not be convened by the end of the year.

The suspension of negotiations can be seen as a major setback to the multilateral trading system. Against the background of a difficult global economic environment, it raises concerns about the emergence of protectionist pressures. Furthermore, in the light of the difficulty of achieving progress at the global level, the focus of policy-makers may now shift further towards concluding bilateral or regional trade agreements. Many such agreements already exist, for example the North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico. The EU has also concluded numerous trade agreements, ranging from the European Economic Area with Iceland, Liechtenstein and Norway and association agreements with many countries (above all in south-eastern Europe and the Mediterranean region) to an Economic Partnership Agreement with Caribbean states. A failure at the multilateral level could also be expected to further strengthen the ongoing dialogues between the EU and countries such as the United States, Russia and China with regard to trade and economic cooperation.

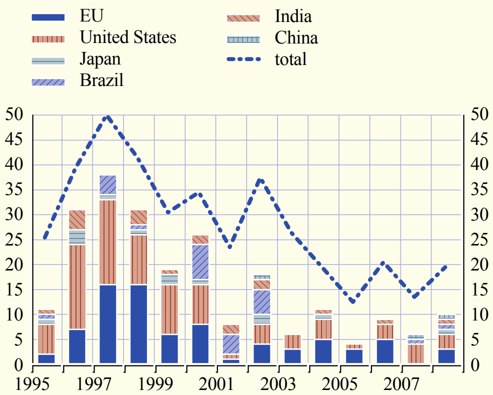
Another indirect indicator of protectionist pressures, also related to multilateral trade negotiations, may be the number of disputes brought to the WTO since 1995 (Chart 8). One important caveat with this measure is that it can be interpreted in two ways: an increase could reveal higher protectionist pressures, but also increased confidence in the legal support provided by the WTO. It is noticeable that in the two years following the establishment of the WTO the number of cases per year increased to 50; however, this period could be interpreted as a learning phase. Thereafter, the number of disputes followed a downward trend, excluding a peak in 2002 at around 37 submissions (of which four by the EU, four by the United States and eight by the BRICs). In recent years, the number of submissions has been below the 1995 level, despite increases in 2006 and 2008.

A further indirect measure of protectionist pressures is the proliferation of regional trade arrangements (RTAs) over time (Chart 9). While promoting free trade, such agreements do so at regional or bilateral level rather than at global level and can therefore be seen either as an alternative path towards free trade or as an obstacle to it (see, for example, Limao, 2006, and Limao and Karacavaoli, 2008, for recent discussions [26]). This measure should be interpreted with caution, therefore, because the literature remains divided with regard to the effect of RTAs and, in particular, as to whether

26 Limao, N. (2007), "Are Preferential Trade Agreements with Non-trade Objectives a Stumbling Block for Multilateral Liberalization?", *Review of Economic Studies*, Blackwell Publishing, vol. 74(3), pp. 821-855. Karacaovali, B. and N. Limao (2005), "The clash of liberalizations: preferential versus multilateral trade liberalization in the European Union", World Bank Policy Research Working Paper No 3493.

Chart 8 Number of disputes at the WTO

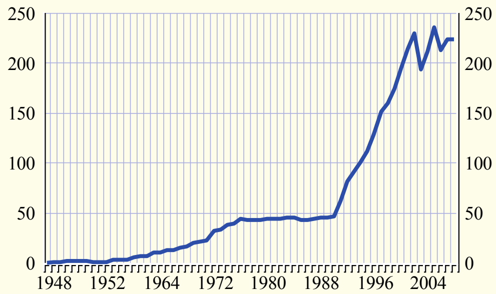
(by complainant)



Source: WTO.
Note: Disputes are classified by the year of their submission.

Chart 9 Number of regional trade arrangements

(data cumulated over time)



Source: WTO.
Note: Arrangements are classified by the year of their entry into force.

they complement or substitute the WTO-led process (see, for example, Baldwin, 2006,[27] a proponent of the view that RTAs can be viewed as building blocks of globalisation).

EVIDENCE FROM SURVEY DATA

Turning now to evidence from survey data, globalisation is perceived differently across countries and population segments. Survey data are helpful in gauging trends in protectionist sentiment, but one should remember that the surveys are carried out using a small sample of the population and that they are very question-specific. Still, they provide a useful indicator of the general perception of globalisation. Some surveys[28] show support for trade globalisation to be falling significantly in the EU and the United States, and by a smaller amount in emerging market economies and developing countries (Table 1). In fact, support for trade globalisation seems to be high in emerging market economies and developing countries (particularly in Asia and Africa, with above 80% of the population agreeing with the statement that trade with other countries is good).

A recent poll found that in the United States the majority of the population (60% of respondents) considered that globalisation, "especially the increasing connections of their country's economy with others around the world", was mostly "good" (see World Public Opinion, 2007[29]). As regards the rest of the world, globalisation finds wide support in Asia, notably China, Korea and Thailand (with, respectively, 87%, 86% and 75% of the population supporting globalisation). This support is somewhat lower in India (at 54%). In the EU, the perception of globalisation varies considerably across countries. It is more negative, in particular, among some of the countries that have joined the EU since 2004 (Chart 10).

27 Baldwin, R. (2006), "Multilaterising Regionalism: Spaghetti Bowls as Building Blocks on the Path to Global Free Trade", CEPR Discussion Paper No 5775, August.
28 E.g. the Pew Global Attitudes Project (October 2007), "World Publics Welcome Global Trade – But Not Immigration", http://pewglobal.org/reports/display.php?ReportID=258.
29 The Chicago Council on Global Affairs (2007), World Public Opinion, http://www.thechicagocouncil.org/UserFiles/File/POS_Topline%20Reports/POS%202007_Global%20Issues/WPO_07%20full%20report.pdf.

Table 1 Support for globalisation in selected regions of the world

(percentage of positive answers to the question "Is trade with other countries good?")

	2002	2007	Variation
United States	78%	59%	-19
EU 1)	87%	77%	-9
Latin America 2)	76%	76%	0
Asia 3)	84%	83%	-1
Africa 4)	91%	87%	-3

Sources: The Pew Global Attitudes Project (2007) and ECB calculations.
Note: Figures may not add up due to rounding.
1) Arithmetic average of Germany, France, Italy and the United Kingdom.
2) Arithmetic average of Argentina, Bolivia, Mexico, Brazil, Peru and Venezuela.
3) Arithmetic average of Bangladesh, Pakistan, China, India, Japan, Korea and Indonesia.
4) Arithmetic average of Kenya, Ghana, Tanzania, South Africa, Côte d'Ivoire, Nigeria and Uganda.

Taking the EU as a whole, opinion is almost evenly split between supporters and opponents of globalisation.[30] In 2008 39% of EU citizens considered globalisation "a good opportunity for national companies thanks to the opening-up of markets", while 43% considered it a "threat to employment and national companies" and 18% responded "don't know". There are marked differences across Member States, however.

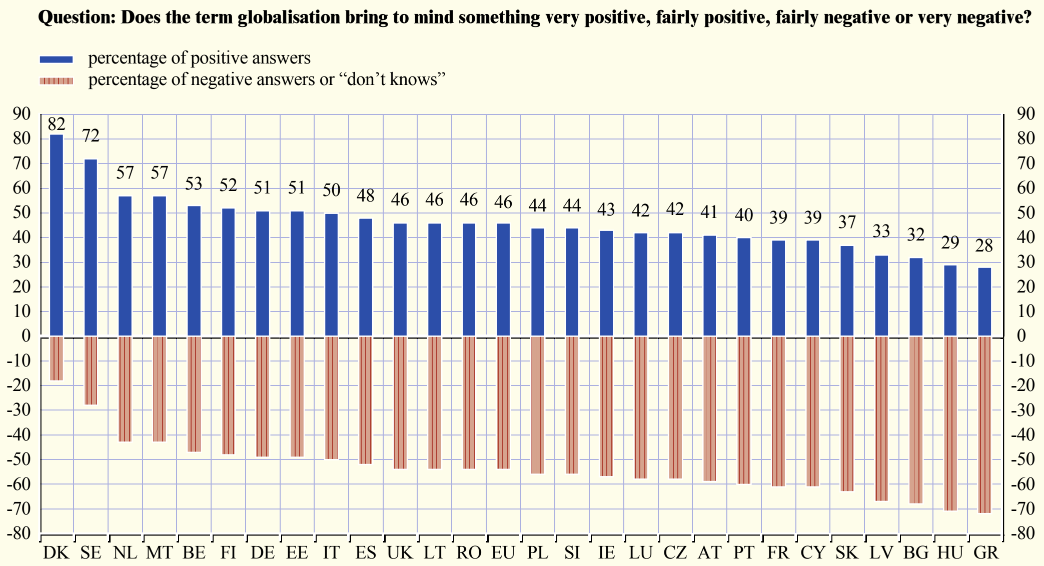
Finally, surveys among business leaders suggest that protectionism is perceived as a significant threat. In a comprehensive survey of more than 500 global business leaders by "The Economist" in the autumn of 2006, almost half of the respondents indicated that protectionist measures were increasing.

POLITICAL AND SOCIETAL PRESSURES

Within countries, the perception of globalisation varies considerably across segments of the population. In particular, support for globalisation is strongest among high-skilled workers in mature economies (see, for example, O'Rourke and Sinnott (2001); Mayda and Rodrik (2005); and Scheve and

30 See European Commission (2008), "Eurobarometer 69, the Europeans and globalisation", November, p. 31, http://ec.europa.eu/public_opinion/archives/eb/eb69/eb69_globalisation_en.pdf.

Chart 10 Support for globalisation among EU countries



Source: European Commission's Eurobarometer 67 (2007).

Slaughter (2006)[31]). Exposure to international competition plays less of a role. Individuals working in sectors open to international competition – and with a comparative advantage – are not much more likely to support or oppose trade liberalisation than those working in sectors sheltered from international competition (see Mayda and Rodrik, 2005). Other studies also find that sectoral factors do not play a significant role (Scheve and Slaughter, 2006). Arguably, individuals working in sectors open to international competition – but with a comparative disadvantage – are only slightly more likely to oppose trade liberalisation than those working in sheltered sectors.

Faltering support for globalisation might induce governments to reverse the globalisation trend that has taken place in the past few decades. Evidence for this is presented in a recent report by the Council on Foreign Relations, which reviewed recent projects to (re)introduce regulations on foreign direct investment in a group of 11 countries.[32] Although not all these attempts will lead to restrictions, this trend suggests that there are ongoing pressures to restrict investment flows across countries, a process that the authors of the report called "protectionist drift".

Finally, broad political and societal concerns about the impact of free trade can be a significant source of protectionist pressure. Such concerns arise from the fact that globalisation is perceived to contribute to widening wage inequalities in advanced economies.[33] One indication of concern about free trade relates to official programmes providing personalised support (income support and retraining) to workers who lose their jobs as a result of trade liberalisation, which have been adopted by a number of countries. Such programmes have a long tradition in the United States. Trade Adjustment Assistance programmes were first introduced in 1962 at the start of the Kennedy round of discussions on trade liberalisation. Expenditure under such programmes has increased steadily over recent years and was budgeted at around USD 650 million in the fiscal year 2007, compared with around USD 100 million in the early 1990s. In 2006 the EU established a broadly similar programme, the European Globalisation Adjustment Fund, which will provide funds of up to €500 million per year over the period 2007-13.[34]

5 CONCLUSION

The past few decades have witnessed an unprecedented trend towards the liberalisation of trade and capital flows. This trend has affected virtually all regions of the world but has perhaps been more pronounced among emerging markets and developing countries. The creation of the WTO represented a unique opportunity to conduct trade negotiations at the global level. There is a broad consensus among economists that the impact of protectionism on economic growth (and on economic welfare in general) is largely negative, although researchers have pointed out that the magnitude of this impact varies considerably across countries and crucially depends on the macroeconomic and policy environment.

Will the trend towards liberalisation continue or is there a risk that it will stop or even reverse? This article has reviewed past developments in protectionism throughout the world. Although, to date, there is no major evidence that

31 O'Rourke, K. H. and R. Sinnott (2001), "The determinants of individual trade policy preferences: international survey evidence", *Brookings Trade Forum*, pp. 157-206; Mayda, A.-M. and D. Rodrik (2005), "Why are some people (and countries) more protectionist than others?", *European Economic Review*, 49, pp. 1393-1430; Scheve, K. and M. J. Slaughter (2006), "Public Opinion, International Economic Integration, and the Welfare State" in Bowles, S., P. Bardhan and M. Wallerstein (eds.), *Globalization and Egalitarian Redistribution*, Princeton University Press.

32 Marchick, D. M and M. J. Slaughter (2008), "Global FDI Policy, Correcting a Protectionist Drift", Council on Foreign Relations, Council Special Report No 34, June.

33 See, in particular, IMF (2007), "Globalization and Inequality", World Economic Outlook, October. A thorough survey of the effects of globalisation can also be found in OECD (2007), "Making the Most of Globalisation", OECD Economic Outlook, No 81, June.

34 Information on the European Globalisation Adjustment Fund can be found at http://ec.europa.eu/employment_social/egf/index_en.html.

concrete protectionist measures have increased, protectionist pressures seem to be mounting. Support for globalisation is weakening in several regions of the world, which is unsurprising given that protectionist pressures tend to become stronger at times of economic and financial stress. For this reason, looking ahead, it will be very important to continue to resist any calls for measures in this direction.