

Surge in Protectionism Threatens to Deepen World-Wide Crisis

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By BOB DAVIS

A wave of protectionism is swelling around the world that could further damage struggling economies.

Industries are starting to line up in Beijing, Brussels and Washington for import protection. That has happened in past downturns, too, but this time the restrictions may bite harder because of the global nature of the problems.

During the 1980s, Japan could afford not to retaliate against U.S. quotas on steel and automobiles because Tokyo's economy was humming. There are no clear economic winners now, making it much harder for any government to turn the other cheek.

The global turn to stimulus spending also may come wrapped in protection, as each country tries to ensure that its industries benefit. In the U.S., congressional Democrats and their allies in steel, textile and organized labor are pushing to include strong "Buy America" provisions in a U.S. stimulus program that would limit spending to firms in the U.S. Already European officials are crying foul.

"There is no such thing as free trade," said Daniel DiMicco, the chief executive of steelmaker [Nucor Corp.](#), who is pushing for Buy America measures. "All trade is managed."

Trade protection can deepen economic problems and shut off a potential engine of growth at a time when consumer demand and business investment are sagging globally. Already, the World Bank forecasts that global trade will shrink by 2.1% this year, the first decline since 1982.

While global trade deals have greatly reduced tariffs, they do little to fend off protection. Under World Trade Organization rules, countries establish formal tariff levels, which are often very high, and then apply lower tariffs. That gives them leeway to boost tariffs without violating WTO rules.

That's starting to happen now. Ecuador announced in the fall that it was lifting tariffs across the board, increasing the levy on some imported meat to 85.5% from 25%. India raised tariffs on steel, while Russia, which isn't a WTO member, boosted levies on imported cars.

Industries are also starting legal procedures at home to block competitors that get certain subsidies from their home government or that "dump" products abroad -- meaning they sell at supposedly below-market prices. When a government approves a complaint, it imposes prohibitive tariffs. Retaliation is commonplace.

Global economic integration was expected to make dumping cases obsolete. If a steel company owns plants in the U.S., India and Brazil, the theory went, it wouldn't join dumping cases for fear that some of its facilities would be targeted. Instead, said a WTO official, dumping cases have become potentially more potent. That same steel company can now file complaints in all three countries against a competitor in, say, China to cripple it.

According to the latest WTO survey, 16 countries launched 85 new antidumping cases during the first six months of 2008, compared with 61 investigations the year earlier. Expect a sharp rise in those numbers because the economic crisis deepened in the second half of the year. Almost half the complaints targeted China.

Other countries are finding different ways to block imports. Indonesia is requiring importers to get special licenses as a way to control imports of clothing, shoes and electronics. Mexico threatened to bar some meat imports from the U.S., which U.S. farmers viewed as retaliation for new rules requiring meat imported into the U.S. to be labeled by country. The U.S. and Mexico are trying to resolve the controversy.

"The surprising thing is how much room there is within the WTO framework to increase protection without overtly violating the agreement," said Gary Hufbauer, a trade specialist at the Peterson Institute for International Economics, a free-trade think tank.

WTO rules don't require government stimulus plans to be open to all bidders. Only a dozen countries, plus the European Union, have signed on to a WTO code aimed at ensuring that government purchases are open to foreign firms. Even those that sign the accord can take exceptions, as the U.S. has done for purchases by the Pentagon, and state and local governments. Much of the stimulus plan being concocted by President-elect Barack Obama could fall under Buy America provisions that don't violate any WTO obligations.

The Obama economic team hasn't said how open it will make the plan to foreign bidders, or how it would deal with foreign governments that exclude U.S. firms. During the presidential campaign, Mr. Obama campaigned for a Buy American plan and attacked Republican Sen. John McCain for opposing restrictions on foreign firms.

Whatever Mr. Obama decides, Congress is bound to push for explicit Buy America provisions, which have broad bipartisan appeal. The \$25 billion auto-loan program approved late last year under the Bush administration was written in a way that largely excludes foreign auto transplants. That prompted a complaint by the head of the European Commission. Last week, House Transportation Committee Chairman James Oberstar, a Minnesota Democrat, unveiled an \$85 billion infrastructure program that would require the steel, iron and manufactured goods used in the projects to be made in the U.S.

The only way to head off global protection is a global response. That would provide some political cover at home for governments that keep their markets open. For years, political leaders have been urging the completion of the tottering Doha global trade talks, although they haven't made enough concessions to seal a deal. While a pact would be useful, it would take years to complete and wouldn't close many WTO loopholes.

The April meeting of the so-called Group of 20 countries, which includes the most powerful industrial and developing nations, is a better forum to reach a common front against protection. When the group last met, in mid-November, it agreed to "refrain from raising new barriers" to trade or investment over the following 12 months. But a few days later, India increased tariffs on steel, iron and soybeans.

Thus, the assembled nations will have to do a lot better in keeping trade open or risk undermining their efforts to lift the global economy out of recession. "Pledges without rules don't mean much," said Rufus Yerxa, the WTO's deputy director-general.

—Elizabeth Williamson contributed to this article.

Shock Waves

The World Bank is expecting global trade to contract for the first time in 27 years in 2009, before rebounding in 2010

Annual change in volume:



Note: 2009 and 2010 are forecasts
Source: World Bank