For Official Use **TAD/TC/WP(2009)32**

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development **20-Nov-2009**

English - Or. English

TRADE AND AGRICULTURE DIRECTORATE
TRADE COMMITTEE

TAD/TC/WP(2009)32
For Official Use

Cancels & replaces the same document of 20 November 2009

Working Party of the Trade Committee

INVENTORY OF TRADE-RELATED MEASURES TAKEN DURING THE ECONOMIC CRISIS

15-17 December 2009

The reason of the Cancels and Replaces: notes were missing in Table 4

Purpose and action required: This report reviews trade-related policy measures that have been taken in OECD countries and other major economies in response to the economic crisis. A previous version of the paper has served as background material for the larger report on Trade and economic effects of responses to the economic crisis – preliminary results [TAD/TC(2009)2] that was discussed at the October meeting of the Trade Committee. The report is submitted for discussion.

Co-operation context and communication strategy: This report has benefited from the monitoring work done by the WTO secretariat, as well as that of other international organizations and other OECD directorates, especially ECO and DAF. There is no specific communication strategy foreseen for this report, as the material covered is part of a more comprehensive report with its own communication plan.

Contact: Frank Van Tongeren, tel: (33-1) 45 24 78 81, frank.vantongeren@oecd.org; Alexandros Ragoussis, tel: (33-1) 45 24 95 56, alexandros.ragoussis@oecd.org

JT03274770

Document complet disponible sur OLIS dans son format d'origine
Complete document available on OLIS in its original format

English - Or. English

TABLE OF CONTENTS

Tables

Boxes

INVENTORY OF TRADE-RELATED MEASURES TAKEN DURING THE ECONOMIC CRISIS

1. The current financial and economic crisis has sparked a long debate on recovery mechanisms for economies in times of difficulty, as well as the role of governments in activating them. This paper reviews policy measures that have been taken in OECD countries and other major economies in response to the crisis revealing various objectives and different policy directions.

2. The paper is constructed around two axes: first policy responses that are trade-related are reviewed; that is, those that involved instruments directly affecting imports and exports of goods and services. Second, since almost all "behind the border" developments in an economy have an effect on trade as well, policy measures with an impact on the supply and/or demand side of the economy are also reviewed. A large part of the discussion has already appeared in the draft report on 'Trade and Economic Effects of Responses to the Economic Crisis' presented to the Trade Committee (TAD/TC(2009)2). The current version includes in addition (i) a short discussion of the taxonomy of measures and their trade incidence; (ii) an update of the trade instruments and recovery packages reported by the WTO until the end of August 2009; (iii) a classification of the measures by sector of economic activity (primary and manufacturing); and (iv) estimates of the value of world imports covered by new measures in each broad sector of economic activity.

3. Several international organisations report on recovery measures taken by governments during the period September 2008 through to August 2009. The main sources of information for the measures discussed in this report are the following

- OECD Directorate for Financial and Enterprise Affairs: Report on Investment Policy measures taken in the period November 2008 – June 2009.
- OECD Economics department informal reports.
- World Trade Organisation (WTO): Two reports (26/03 and 01/07) from the Director General on the Financial Crisis and trade-related developments, covering the period September 2008-June 2009.
- OECD, WTO, UNCTAD: Report on G20 Trade and Investment measures covering the period until August 2009.
- European Commission: Report assessing progress with the European Economic Recovery Plan, covering the period December 2008 - May 2009
- International Labour Organisation (ILO): Report on the work response to the crisis.
- United Nations Conference on Trade and Development (UNCTAD): Report on Investment Policy Developments in G20 countries, covering the period October 2008-June 2009
- Centre for Economic Policy Research (CEPR): The Global Trade Alert Report.

4. The press is a valuable source of information for recovery measures providing policy information that has not yet found its way into official monitoring efforts. In this case, the information is used with appropriate caution. It is important to underscore also that the policy response to the crisis can take various forms which will not necessarily be mentioned in official documents, for example a change in the approach to an existing social policy. Also, expenditure will increase on many programmes of an entitlement nature as automatic stabilisers are triggered. Here the description to measures is limited to those of a concrete regulatory nature, which have been both confirmed (by international organisations or the governments) and implemented.

5. A number of general remarks can be made about the analysis that follows. First, the world's largest economies have been the most active in implementing recovery measures. This may be simply because

they were the economies hardest hit by the crisis, but it could also be explained in terms of their capacity to implement measures during periods of difficulty. Small countries took more limited action. Moreover countries that were particularly severely hit by the crisis (including two OECD members that received external support from the International Monetary Fund: Iceland and Hungary) took measures in the direction of fiscal consolidation and monetary tightening as part of austerity programs to stabilise their economies (see IMF, 2008).

6. Second, direct trade policy instruments have not dominated the policy responses to the crisis; rather, commitments to stay open to foreign products and services have been taken and seem to have helped countries to resist protectionist pressure. On the other hand, government intervention behind the borders in order to restore economic growth has been extensive; a priori, this is where we might expect the impact on trade to be the greatest.

7. The distinction between direct trade instruments as opposed to other behind-the-border initiatives makes a substantial difference when evaluating governments' commitment to keeping markets open. Trade instruments such as tariffs, quotas, technical barriers, or remedies, are designed to alter the openness of markets in specific sectors, products or countries. On the other hand, despite their potentially significant impact on trade flows, behind-the-border measures are often driven by objectives unrelated to trade. In an emergency context such as the one experienced during the current economic crisis, most behind-the-border measures that were introduced aim at restoring economic activity and confidence in segments of the economy severely hit by the downturn. Although the legitimacy of policy interventions in a time of crisis can be long debated, a case for the revival of 'protectionism' on the basis of state aid measures taken in such a period is more difficult to support.

8. Third, we note that both measures facilitating and restricting trade have been introduced, but no strong pattern emerges concerning the profile of countries choosing one direction over the other. A pattern can be observed, however, in the sectors where the measures were concentrated and the partner countries that have been most harmed. For instance, following a pattern observed in previous years, there has been an increase in measures against products originating in China, Thailand and Indonesia. Measures targeting products from OECD countries were rarer. The frequency of policy initiatives has also been higher in sectors such as agro-industries, and basic metal industries, than the rest of the economy.

9. Caution is required in the identification of discriminatory aspects of policy choices. In the context of a trade policy analysis, a 'discriminatory measure' refers to an explicit regulatory provision regarding the entry and operations of *foreign* firms. Discrimination of a different kind can however occur independently of the nationality of the firms operating in the market, through government practices potentially distorting competition. Discrimination of this type can be considered to occur only some firms operating in a sector, are granted state aid.

10. Lastly, a great challenge for analysis in the area of economic crisis would be to fill in the gap of a realistic assessment of the impact of actual measures taken in response to the downturn[1]. The difficulty in such a task is two-fold. First, the lack of credible data to evaluate the impact of actual measures using quantitative analysis shows up as a major constraint. The outbreak of the crisis and the adoption of these measures is very recent; hence data to be used are still provisional and volatile. Second, much of the

1. Some reports evaluate policy dynamics in terms of numbers of initiatives and numbers of countries implementing them and affected. In that case we would need a benchmark unit of reference for the appraisal of their magnitude and coverage. There are cases of single-reported measures corresponding equivalently to multiple other ones because of the large number of sectors/products they apply to, or the number of jurisdictions they concern.

damage was done through channels of systemic impact across sectors. An estimation of the impact of specific policy initiatives would hence not be very meaningful if their (unobservable) systemic effect is not taken into account.

11. In what follows, we explain the rationale behind the measures taken, as documented in government and international organisations' reports. After describing briefly the taxonomy we adopt for policy initiatives, we describe the actual instruments used along the two lines previously mentioned: of measures directly or indirectly related to trade[2]. The analysis is completed with examples of recorded policies, as well as three tables illustrating the fields in which each country has been active.

1. Rationale behind the measures

12. The policy objectives of measures that were introduced in developed countries were expressed by the G20 leaders in their November 2008 statement: "to stimulate the economies, provide liquidity, strengthen the capital of financial institutions, protect savings and deposits, address regulatory deficiencies, unfreeze credit markets, and to ensure that international financial institutions can provide critical support for the global economy". As an immediate step in order to achieve these objectives, a decision was taken to use all instruments available for state intervention including fiscal, monetary, and credit support. A detailed examination of individual plans of the three major economies of the world, the United States, the European Union and Japan, reveal that they share three major objectives:

- Reduce the human cost of the economic downturn: all the three recovery plans have specific provisions for labour – that is, to minimize job losses and ensure adequate income support for the less wealthy members of society.

- Boost demand in order to stimulate growth.

- Support investment in specific sectors in line with the country's long-run economic and social objectives. The three recovery plans make reference to supporting innovation and technological progress. The environment is included as a high priority area in a number of countries' plans (China, Korea, EU, United States), while two (Canada, Japan) put also particular emphasis on local economies and the primary sector.

13. Trade issues have also received great attention, with major economies re-stating their commitment to keeping markets open and resisting protectionist pressures. Following that principle, the G20 leaders' statement includes a "Commitment to an Open Global Economy" where countries commit to:

- Refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing WTO inconsistent measures to stimulate exports.

- Minimize any negative impact on trade and investment of domestic policy actions including fiscal policy and action in support of the financial sector.

2 . Apart from fiscal and regulatory measures, countries have also used monetary policy instruments in order to accelerate the recovery from the crisis. Exchange rate adjustments were substantial, and all major central banks cut interest rates in order to ease the flow of credit and investment in the markets. The monetary authorities of the United States, the United Kingdom, and Japan, went as far as cutting rates to the bottom threshold of 0%, amplifying the instrument's impact to the maximum. Although those instruments have an indirect impact on trade flows, they will not be covered in any depth here since they are less subject to choices made by governments.

- Strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO's Doha Development Agenda with an ambitious and balanced outcome.

2. Measures and their trade incidence.

14. The typology we use here first divides measures into those with a direct impact on trade, and those that impact trade indirectly. The latter measures are divided into supply and demand side measures, which are then further divided into measures that are generic or economy-wide and those that are sector-specific.

15. The category of measures that impact trade directly includes all classical trade policy instruments ranging from tariffs, to trade remedies (safeguards, anti-dumping), export restrictions or distorting incentives (subsidies), quantitative non-tariff barriers (quotas, bans, licensing) and other regulations that increase trade costs. On the other hand, the category of measures with an indirect bearing on trade includes: (i) Supply side measures which can broadly speaking target factors of production (capital, labour, intermediate goods and services), the fiscal burden on firm's operations (corporate taxation) as well as firms' access to credit, and (ii) Demand side measures which target consumers and may be delivered in the form of tax reductions, direct grants (lump sum payments) or increases in social security spending. Increases in government expenditure involve adjustment of public rather than private demand, and therefore are also included in the category of demand side measures.

16. In what follows, we briefly outline the nature and trade incidence of measures we consider in this typology.

Instruments with a direct impact on trade

17. Import tariffs are the most common instrument of trade policy. The instrument corresponds to a tax on units of goods imported and hence its impact on imports is negative. Low to moderate tariffs on final products are in most studies found to have relatively small effects on the economy as a whole. However, their incidence on trade (as well as the incidence of most direct trade instruments) may be disproportionately felt in sectors characterised by highly integrated global supply chains, where intermediate inputs typically cross borders several times.

18. Export duties and other restrictions on exports are more used less frequently than import tariffs. One of the purposes of export restrictions is to reduce the price of a good for domestic consumers and firms. The instrument is more commonly observed in raw materials sectors, with the objective of lowering costs to firms using them as inputs. Export subsidies have been more commonly used in agriculture. There is a consensus on their distorting effects and therefore they are classified in the same category as other measures decreasing the openness of the market.

19. The non-tariff barriers' category includes a large variety of other instruments: quantitative limits on imports; licensing requirements; or safeguard restrictions all of which increase trade costs create uncertainty and throw sand in the machinery of international supply chains. Trade remedies (i.e. anti-dumping and countervailing duties), are also included in the category. While an investigation is required before such initiatives can be legitimized, we include these measures here because they are considered as one indicator of the general level of trade tension.

20. Lastly, measures targeting trade finance typically include the facilitation of intra-firm or inter-firm financing or more dedicated tools such as letters of credit, advance payment guarantees, performance bonds, and export credits insurance or guarantees. Government involvement in these markets would under normal circumstances lead to a suspicion of trade distorting subsidies and of crowding out of the normal

market activities. In the recent environment, however, involvement is more likely to have been with a view to remedying market failures, as trade between otherwise viable trade partners could not take place without such interventions.

Behind-the-border measures

21. As indicated at the outset of this section, for the purposes of describing possible trade effects, measures with an indirect bearing on trade are divided into those whose incidence is on the demand side or on the supply side of the economy.

22. Demand-side interventions include all government policy initiatives targeting private or public consumption of goods and services. More specifically, generic private consumption measures are typically implemented by reducing income-tax (or providing rebates) or increasing welfare payments. All such measures are least trade distorting, if they do not influence the choice as between domestic and foreign goods and services. On the other hand, subsidies that explicitly discriminate against imported items have negative trade impacts both in the short and the longer term. Public consumption measures are typically implemented by an increase of government expenditure across different sectors of government activity. Notice however that a very large share of government expenditure relates to services such as social security, health and education which tend to have relatively low trade intensity. If government expenditure is increased proportionally across the different sectors of government activity, or indeed if it becomes more skewed towards these low trade intensity types of expenditures, at best there will be no boost to trade from the measures. On the other hand, if the emphasis is on investment type measures to improve infrastructure, trade impacts may be more or less positive depending on design features and composition of the programs. The trade incidence of such measures will obviously be negative if there is an explicitly discriminatory provision in favour of local content.

23. Supply-side interventions are typically linked to factors of production, labour and capital, and implemented through tax reductions or through subsidies. Ignoring the macro-economic effects of reducing tax revenues, and assuming that taxes are not increased elsewhere to compensate for cuts in corporate income tax, the objective of such a policy is to enable more firms to stay in business than otherwise. In the current circumstances such measures may be solving market failures, assisting the survival of otherwise efficient firms. Trade impacts are ambiguous. Any attempt to favour only particular sectors can have negative impacts on trade and the economy generally.

24. Measures in the direction of easing the supply of capital can take many forms ranging from government grants, investment tax credits, subsidized loans, to loan guarantees linked to investment in capital. Such subsidies are likely to affect both trade in the capital goods stimulated by the investment incentives and, over the longer term, in the goods or services produced by the subsidized industries. An explicitly discriminatory provision in favour of the local content can complicate the trade incidence of such measures. Instead of being generic, measures can target *foreign* capital flows explicitly (FDI) in which case they will have very direct trade impacts. Commercial presence of foreign firms in a market stimulates trade heavily[3]. Therefore all measures taken in the direction of facilitating the entry, and operation of foreign capital can be considered as positive for trade. Following the same logic, measures that discriminate against foreign capital movements (FDI) could be extremely detrimental to trade in the longer run.

3 . Theoretical models by Helpman (1984) and Helpman and Krugman (1985) illustrate how FDI generates complementary trade flows of finished goods from foreign affiliates to parent companies or to the home country. Eaton and Tamura (1994) as well as Fontagné et al. (1998) confirm the relationship empirically, concluding that FDI induces trade and vice-versa.

25. Concerning labour market interventions, they can take three forms: benefits to firms (wage or other forms of subsidies); income benefits to the unemployed; or investment in human capital (through programs for re-training) open to both employed and unemployed. More economic activity and increased income from that expenditure will generally translate to some increased trade. On the other hand, measures for investment in human capital do have an impact on the productivity of domestic firms and therefore an indirect positive effect on trade in the longer run.

26. Finally, there is a broad set of measures that were introduced with the objective of rescuing sectors considered to be of systemic importance to the economy (finance and banking), and monetary and fiscal measures intended to boost growth and employment. Most of these measures may affect trade. The scale of monetary and fiscal interventions is such as to change interest rates and the real exchange rate and these changes affect trade. The financial and banking interventions may also have implications for international financial flows and for competition in the sector. These potential effects are described and acknowledged here but are not studied in any depth.

3. Relevance of observed policies to the Crisis

27. Assessing the relevance to the crisis of policy measures that were put in place after September 2008 is not an easy task. The issue merits particular attention since a number of the policies that were introduced during the crisis are related to purposes other than recovery. Those measures would have been taken even if the crisis did not occur, and hence should be treated differently when designing exit strategies.

28. The examination of more specific examples can be revealing. Structural reforms in the labour and capital markets, as well as government spending on infrastructure are considered in line with the long-run objectives of countries. Every country has a set of reforms scheduled for any given time period, regardless of short-run developments in the economy. The intensity of interventions in the aftermath of the crisis indicates however that there was a general policy of accelerating the pace of reforms because of special needs in each market. Measures related to the rescue of the financial sector on the other hand do not fall in the same category. They are unambiguously related to on-going developments, along with measures targeting credit facilitation and direct subsidies to producers and consumers.

29. Regarding direct trade instruments, import restricting measures that were introduced in the wake of the crisis appear to have been directed at products from China, Thailand and Indonesia. However, these were also the same products that were the subject of trade defensive measures before the downturn. Certain raw materials were also commonly protected both before and after the outbreak of the crisis. Measures with the same regional and sectoral reference could hence be considered part of a policy line that may not be necessarily related to the crisis.

30. A useful criterion to assess the relevance of individual policy measures is the time horizon for their applicability. Measures introduced with an explicit expiry date can be linked to recovery from the crisis. Other measures taken without specific provision for their termination can be either related to the crisis or not. The lack of an expiry date might reflect uncertainty about the duration of the crisis.

31. As indicated at the outset of this section, these aspects of policy measures will be important when considering exit strategies. A policy reform associated with long-run objectives will be looked at differently as economies return to a positive growth path than for example, short term rescue measures.

4. Policy measures directly affecting trade

32. In its July 2009 report, the WTO Secretariat mentions that, contrary to 2008, “the number of new trade-restricting or distorting measures announced or implemented since 1 March 2009 exceeds the number

of new trade-liberalizing or facilitating measures by a factor of more than two". The measures have, however, been introduced more often in specific sectors, and rarely have general applicability. In most cases restrictions also target products from specific sources.

33. Table 1 shows that we can find examples of both restrictions and openings in all the major sectors of economic activity. A closer look at the number of policy initiatives shows however that their frequency has been significantly higher in sectors such as agro-industries, metal and chemical industries. With the exception of trade in chemicals, these are sectors that were already subject to high trade barriers in the pre-crisis period as well. Many measures were also recorded in the automotive industry, and in textiles. Trade in services has been a lot less affected by the crisis for two reasons (Borchert and Mattoo, 2009): demand for a range of traded services is less cyclical, and services trade and production are less dependent on external finance. Consequently, measures in those sectors were rare and mostly in the direction of further liberalizing rather than restricting trade.

Table 1. Measures directly affecting trade (by sector)

Sector of application		Measures (September 2008 - August 2009)							
		Trade-distorting					Trade-opening		
				Non-Tarriff					Non-Tarriff
ISIC code	Industry name	Import tariff	Export duties or distorting incentives	NT restrictions	Anti-dumping or Countervailing duties	Investigations	Import tariff	Removal of Export distortions	NT facilitations
0100	PRIMARY SECTOR								
0595	Agriculture and fishing	●	●	●		●	●	●	●
1495	Mining and quarrying	●	●	●			●	●	●
3995	MANUFACTURING								
1605	Food products	●	●	●	●	●	●	●	●
1805	Textiles and wearing apparel	●	●	●		●	●		●
2205	Wood,publishing and printing	●	●		●	●	●		
2300	Refined petroleum & other treatments		●		●				
2400	Chemical products	●	●	●	●	●	●	●	
2500	Rubber and plastic products	●	●		●	●	●		
2805	Metal products	●	●	●	●	●	●	●	●
2900	Mechanical products	●	●		●	●	●		
3000	Office machinery and computers			●		●	●		
3200	Radio,TV,communication equipments	●	●	●		●			
3300	Medical, precision and optical instruments		●			●	●		●
3400	Motor vehicles	●		●	●	●	●		
3500	Other transport equipments	●			●	●	●		
3990	Other manufacturing	●		●		●			
Application			Sector-specific	Sector-specific	Sector-specific	Sector-specific		Sector-specific	Sector-specific
Examples of measures included in the category			Export duties; VAT rebates; Export subsidies; Export refunds	Import Quotas; Licencing requirements; Safeguard measures; Import ban; Quantitative Export restrictions on raw materials					Import permission; authorisation and export licencing requirements; increases in quotas;

34. Trade opening measures were observed but were overall less frequent. Table 1 shows that while we can find examples of reductions in tariffs in most sectors, the removal of non-tariff barriers or distorting export incentives occurred only in some major sectors such as food, agriculture, or metal industries. It is noteworthy however that trade-opening measures have been observed in parallel to many restricting policies. For most countries it hence proved difficult to assess a general direction of policy in terms of trade-liberalisation.

35. Similarly to the sectoral decomposition, the geographical distribution of new restrictions has followed patterns already observed before the crisis. The OECD countries have mostly taken actions against products from Asia, primarily from China, Thailand and Indonesia.

36. Regarding the instruments used in trade policy during the last period, a significant number of non-tariff measures were activated to facilitate or restrict trade, such as (the removal or introduction of) licensing requirements, safeguard measures, and anti-dumping policies or investigations. Anti-dumping duties were, for instance, the most prevalent instruments used by the European Union for new measures during the period we cover in this report. Bown (2009b) reports that while antidumping cases in 2009 has leveled off after the initial escalation associated with the crisis in 2008, the use of safeguards has spiked only more recently.

37. Nevertheless, despite the increasing use of those instruments, the amount of imports targeted by all new measures thus far is relatively small. With the exception of the concern raised by India's actions, country-by-country estimates indicate that the new protectionism thus far covers only 0.2% to 0.8% of the total pre-crisis (2007) level of imports (Bown, 2009a). These rough estimates were confirmed by the WTO in its latest monitoring report (2009c) where the share of the value of trade covered by new trade-inhibiting measures was evaluated at a maximum level of one percent of total world imports. The value of imports affected can be further allocated across sectors with shares ranging from zero to ten percent. Departures from this level are observed in the agriculture sector as well as in the basic metal industries. The share of those sectors in total affected imports reaches 36 and 29 percent respectively. The gap between estimates for those particular sectors and the rest is large, confirming that trade policy during the crisis has had very specific targets, following patterns already observed in the past.

Table 2. Value of trade covered by new trade measures, October 2008 - October 2009
Table 2.

Description	HS codes	US$ million	Share in total affected imports	Share in total world imports
Total world imports		**16,011,892**		
Total affected imports		161,339	100	1.01
Agricultural products	01 to 24	57,199	35.5	0.36
Minerals	25-27	7,308	4.5	0.05
Chemical & prod.	28-38	6,451	4	0.04
Plastics & rubber	39-40	6,629	4.1	0.04
Hides and skins, leather etc.	41-43	205	0.1	0
Paperboard, fibreboard of w ood	44-49	1,642	1	0.01
Textile, clothing and footw ear	50-67	11,267	7	0.07
Ceramic, glassw are	68-70	342	0.2	0
Precious stones, etc.	71	19	0	0
Base metals & prod.	72-83	47,165	29.2	0.29
(Iron and steel)	(72-73)	(45,514)	(28.2)	(0.28)
(Other base metals)	(74-83)	(1,651)	(1.0)	(0.01)
Machinery and mechanical appliances	84-85	14,975	9.3	0.09
Transport equipment	86-89	4,893	3	0.03
Precision materials	90-92	2,436	1.5	0.02
Other manufactured products	93-97	808	0.5	0.01

Note: Excluding Korea's fuel imports.
Source: WTO Secretariat estimates, based on UNSD Comtrade database.

38. Table 3 shows that some types of trade-policy instruments have been used very little during the crisis. New export restrictions were introduced only in China (for bauxite, coke, magnesium, zinc and silicon metal, among others) and that decision was associated with environmental standards[4]. New quotas on imports or exports were applied in Canada and Russia (milk protein substances; meat; poultry and pork), while Switzerland eliminated a similar provision for milk. New licensing and registration requirements have only been recorded in Indonesia (for food and beverages; electronics; footwear and garments).

39. Due to the financial nature of the current crisis, trade finance has also received attention during the design of the latest trade policies. Measures aiming to facilitate access to export credit were taken in many economies, such as in Brazil, the European Union, and India. It is noteworthy that most countries have implemented measures to facilitate the flow of credit to firms in difficulty, regardless of the international character of their operations (see next section). Those measures could also have filled a need related to trade.

4 The decision provoked the discontent of the United States, the European Union and other countries who filed official complaints against China at the WTO.

Table 3. Measures directly affecting trade (by country)

Implementing Country	Measures (September 2008 - August 2009)								
	Trade-distorting					Trade-opening			
	Import tariff	Export duties or distorting incentives	Non-Tariff			Import tariff	Removal of Export distortions	Non-Tariff	
			NT restrictions	Anti-dumping or Countervailing duties	Investigations			NT facilitations	Access to credit
Australia					●	●			
Canada	●		●	●	●	●			
Iceland									
Japan			●						
Korea	●								
Mexico (1)	●		●			●			
New Zealand									●
Norway									
Switzerland								●	
Turkey	●		●		●				●
United States	●	●		●	●				
European Commission	●	●		●	●				●
Non-OECD countries									
Brazil	●			●	●	●			●
China		●	●		●	●	●	●	
India	●		●		●	●	●	●	●
Indonesia	●		●			●		●	
Russia	●	●	●			●	●	●	
South Africa	●								
Application		**Sector-specific**	**Sector-specific**	**Sector-specific**	**Sector-specific**		**Sector-specific**	**Sector-specific**	**Economy-wide**
Examples of measures included in the category		Export duties; Duty refunds; VAT remission; Export subsidies	Import Quotas; Licencing requirements; Safeguard measures; Import ban; Quantitative Export restrictions on raw materials					Import permission; currency swaps to facilitate trade; authorisation and export licencing requirements; Increase in quotas;	

Note 1: Mexico's Suspension of preferential tariff treatment on 90 tariff lines of goods originating from the United States, was authorized by a NAFTA panel ruling as a response to an assessed lack of compliance by the US with commitments regarding cross-border trucking services. See Ruling on Cross-Border Trucking Services (USA-MEX-1998-2008-01) issued on February 6, 2001.

5. Behind-the-border measures

40. Measures taken behind the borders have generally respected the principles mentioned in section 2. That is, they are intended to stimulate demand, ease the burden on the supply side of the economy, and provide emergency injections to financial and other sectors at risk. This type of economic policy response was much more important than the use of trade instruments; hence we could expect also that the implications for trade and for the international trading system are to be found mainly in an exploration of these measures.

41. Table 4 gives an overview of the main types of measures that have been taken by individual countries. While all countries have implemented policies to support the financial sector, countries differ in both the extent and composition of their interventions. Overall, the cost of the measures relative to the size of the economy has varied greatly. China devoted an amount equal to 13% of its GDP to measures to support the market (including both the fiscal package and the injections in the financial sector), while the highest such numbers in the OECD were recorded in the United States (5.6%) and Mexico (4.7%) (ILO, 2009).

Table 4. Behind-the-Border measures indirectly affecting trade (by implementing country)

Implementing Country	Amount of the Fiscal package (%GDP) (5)	Measure (September 2008 - August 2009)							
		Demand		Supply					
				Capital (Private)					
		Government spending	Private consumption	Domestic	FDI	Labour	Direct subsidies (or tax cuts) to producers	Credit facilitation	Financial sector rescue measures
Australia	0.9	▨■	■		■	■	□	□	□
Canada		■	■		■	■	□	□	□
Iceland									
Japan	2.3	■	■□		■□	■	■□	■	□
Korea (1)	1.1	■	■□		■	▨■	■□	■	□
Mexico	4.7		□		■	■	■		
New Zealand	3.7	■	■						□
Norway	0.6	■		□			■	■	
Switzerland	0.3								□
Turkey (2)			□	■		■		■	
United States	5.5	▨■	■□	□	■	■	□	□	□
European Union									
Austria			□	■		■	■□	■	□
Belgium	0.6			■		■	□	■	□
Czech Republic (3)			□	■		■	■	■	
Denmark (2)						■	■	■	□
Finland (3)		■		■		■	■	■	□
France	1.3	■	■□	■		■	■□	■□	□
Germany	1.6	■	■□	■	■	■	■□	■	□
Greece			□			■	■□	■	□
Hungary	4.0					■		■	□
Ireland			□			■	■	■	□
Italy	0.3	■	■□			■	■□	■	□
Luxembourg (4)			□	■			■	■	□
Netherlands	1.0	■	□	■		■	■□	■	□
Poland			□	■	■		■□	■	
Portugal	1.3	■	□			■	■□	■	□
Slovak Republic			□	■		■	■□	■	
Spain	8.1	■	■□			■	■□	■□	□
Sweden						■	□	■	□
United Kingdom	0.9	■	■□			▨■	■	■	□
Non-OECD countries									
Brazil	0.2	■	■□	■	■	■	□	□	
China	6.9	▨■	■□	■	■	■	□	■	□
India	0.3	■	■□		■		■	■	
Indonesia (2)(4)	0.9	■	■□		▨■	■	■□	■	
Russia	1.1	■	□			■	■□	□	□
South Africa	3.8	■	■		■	■			
Application		**Economy-wide only**			**Economy-wide only**	**Economy-wide only**			**Sector-specific only**
Examples of measures included in the category		Infrastructure for transports; schools; hospitals; grants to local governments		Tax or regulatory measures to support investment in physical private infrastructure; Rules governing the depreciation of capital; Industrial structure adjustments; Special loans for deployment of efficient innovations	Foreign Entry incentives; Facilitation of the operation of MNEs; FDI-specific taxation measures	Cutting on labour costs and employer's contributions; incentives for new hires; temporary employment programs; adjustments of unemployment benefits; retraining and activation;		State guarantees for credit; roll-over of loans; subsidised interest payments; subisidised guarantees; Adjustment of venture capital schemes; export credit guarantees.	

■	economy wide
□	sector specific
■□	both economy wide and sector specific measures
▨	negative provisions related to foreign interests

1. Korea's negative provisions for labour refer to a reduction in the number of work permits for unskilled/semi-skilled foreigners was implemented on the 26/03/2009 (Source: WTO 2009a))
2. Credit facilitation relates only to exports
3. Credit facilitation relates also to exports, but not only.
4. Both negative and positive provisions for FDI
5. Source: ILO (2009). The amounts are taken for a horizon of 2 years. They exclude rescue packages for the financial sector.

42. Virtually all countries' stimulus packages have included substantial infrastructure components. The typical OECD country package has included expenditure of about ½ per cent of GDP on infrastructure investment. Five countries' additional expenditure on investment (Australia, Canada, Mexico, Norway and the United Kingdom) amounts to a full percentage point of GDP increase relative to investment expenditure rates observed in the earlier part of the decade. Beyond network infrastructure, almost two-thirds of OECD countries devoted expenditure to education and health.

43. Typical fiscal packages adopted by member countries have included a larger volume of tax cuts than infrastructure measures, with tax measures amounting to about two percentage points of GDP. There is a large degree of heterogeneity, however. Tax cuts of more than 2½ per cent of GDP were adopted by Australia, Canada, Denmark, Iceland, Spain, Sweden and the United States, who made their largest cuts to income taxation, while Hungary, Ireland and Portugal were forced to consolidate and *raise* income taxes substantially. Estimates from the cyclically adjusted series in the *Economic Outlook* database imply median falls in tax revenues across the OECD of 1.2% of GDP in 2009 and 1.5% in 2010, including the estimated effects of automatic stabilisers.

44. Almost all countries have, moreover, intervened in the labour market, with measures specifically targeting unemployment, Several countries dramatically increased expenditure on Active Labour Market Programmes (ALMPs), most notably Korea, Japan, Mexico, Poland, Spain and the United Kingdom. These countries all increased their spending by more than 25%, with Spain's expenditure on such programmes reaching over 1% of GDP. Four-fifths of OECD countries have responded to the current crisis by introducing or expanding short-time working schemes which aim to reduce the labour costs of companies while avoiding making workers redundant. Virtually all OECD countries have made some efforts to expand and/or strengthen training, despite concerns about the feasibility of scaling up such programmes too quickly.

45. Specific provisions relating to foreign interests (firms or workers) were rare. Most of the measures that have been taken have been open to all firms operating in the market, domestic or foreign. Measures explicitly facilitating foreign direct investment have been reported by UNCTAD (2009) in a number of countries although, similarly to trade instruments, that type of regulatory intervention has not been very common. Negative provisions for foreign firms or workers remain exceptional. They have been observed in the United States for government procurement (later revised and adjusted to conform to the international trade commitments) as well as the United Kingdom, Australia, Korea (an adjustment in foreign work permits), China and Indonesia. In developed countries there are suspicions that informal pressure is being brought to bear to ensure that nationals benefit from attempts to preserve firms and jobs, but this cannot be documented. In the case of Indonesia and China government procurement rules are used to increase local firms benefit from government funds[5].

5 China has received particular criticism by the western press over its unofficial practices against foreign firms concerning government procurement. The *New York Times* for instance reports that "when the Chinese government took bids for 25 large contracts to supply wind turbines, every contract was won by one of seven domestic companies. All six multinationals that submitted bids were disqualified on various technical grounds, like not providing sufficiently detailed data".

Box 1. Examples of measures with explicit or indirect discriminatory provisions

- On 19 March 2009, the Russian Government announced that it would provide subsidized loans for the purchase of domestically produced cars. Among other conditions placed on these loans, consumers had to purchase a motor car produced in Russia and costing no more than 350,000 rubles (USD 10 760), which also effectively ensured that only Russian models of cars (Lada, Volga) would qualify. Also, the permitted lender providing the loan had to be majority owned (50% + 1 share) by Russians. A subsequent Government Decree (No. 548, of 7 July 2009) amended the previous one significantly, widening the range of vehicles eligible for the programme to included foreign cars produced in Russia (Chevrolet, Ford, Fiat, Kia, Renault, Skoda, and Hyundai), and allowing a broader range of vehicles to qualify under the programme.[6]
- On 15 July 2009, Mexican President Felipe Calderón announced the launch of the Vehicular Renewal Program (VHP), which subsidizes the purchase of a new vehicle by owners of cars that are at least ten years old. The VHP will provide up to MXN 15 000 in Federal aid to purchasers of vehicles worth up to MXN 160 000. However, the scheme only subsidizes cars produced in Mexico or in countries with which Mexico has free-trade agreements and by firms that are already established in Mexico.[7]
- When China authorized its first solar power plant this spring, it required that at least 80% of the equipment be made in China.
- The American Recovery and Reinvestment Act of 2009 (ARRA), signed into law in February 2009, included a "Buy American" provision (Section 1605). This provision:

> prohibits use of recovery funds for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. The law requires that this prohibition be applied in a manner consistent with U.S. obligations under international agreements, and it provides for waiver under three circumstances: (a) Iron, steel, or relevant manufactured goods are not produced in the United States in sufficient and reasonably available quantities and of a satisfactory quality; (b) Inclusion of iron, steel, or manufactured goods produced in the United States will increase the cost of the overall project by more than 25 percent; or (c) Applying the domestic preference would be inconsistent with the public interest.[8]

- In June 2009, delegates at the Federation of Canadian Municipalities conference passed a resolution that would potentially shut out U.S. bidders from Canadian city contracts, as a protect against the "Buy American" provision of the ARRA.[9]

6. Conclusions

46. Three main insights emerge from this study. First, direct trade policy instruments have not dominated the policy responses to the crisis; rather, commitments to stay open to foreign products and services have been made. On the other hand, despite their potentially significant impact on trade flows, behind-the-border measures were often driven by objectives unrelated to trade. A case for the revival of 'protectionism' on the basis of state aid measures taken in such a period is difficult to support.

47. The second important point to draw from this analysis is that both trade-opening measures and trade-restricting measures have been introduced. No strong pattern emerges concerning the profile of countries choosing one direction over the other. A pattern can be observed, however, in the sectors where the measures were concentrated and the partner countries that faced most new measures.

6 www.globaltradealert.org/measure/russia-extension-subsidized-loans-cars-improved-terms

7 www.globaltradealert.org/measure/mexico-vehicular-renewal-program

8 http://edocket.access.gpo.gov/2009/pdf/E9-9073.pdf

9 http://cnews.canoe.ca/CNEWS/Politics/2009/06/06/9700221-cp.html

48. Finally, making a realistic assessment of the impact of actual measures taken in response to the downturn proves to be a great challenge for analysis. Based on estimates published in the academic literature and confirmed by the WTO, we conclude that the amount of imports targeted by all new measures thus far is relatively small. The share of the value of trade covered by new trade-inhibiting measures can be evaluated at a maximum level of one percent of total world imports.

REFERENCES

Bown, C. P. (2009a). "The Global Resort to Antidumping, Safeguards, and other Trade Remedies Amidst the Economic Crisis". Forthcoming in Evenett and Hoekman, eds. *Trade Implications of Policy Responses to the Crisis.*

Bown, C. P. (2009b). "Protectionism continues its climb: A Monitoring Update to the Global Antidumping Database". Brandeis University and The Brookings Institution. *mimeo*

Borchert, I. and A. Mattoo (2009). "The Crisis-Resilience of Services Trade". *World Bank Policy Research Working Paper No 4917*

CEPR (2009). "The Global Trade Alert 1st Report" 08.07.2009.

Democratic Leadership Council Report (2009). "More Growth, Less Gridlock, Toward a New Trade Agenda". Washington

Eaton, J., and A. Tamura (1994). "Bilateralism and Regionalism in Japanese and U.S. Trade and Direct Foreign Investment Patterns", *Journal of the Japanese and International Economics*, 8:4

European Commission (2008). "Communication from the Commission to the European Council: A European Economic Recovery Plan". Brussels

European Commission (2009). "The EU's response to support the real economy during the economic crisis: an overview of member states' recovery measures". *Occasional papers No 51*. Brussels

Fontagné, L., M. Freudenberg and N. Péridy (1998). "Commerce international et structures de marché: Une vérification empirique", *Economie et Prévision*, 135 : 147-167.

G20 Statement from the *Summit on Financial Markets and the World Economy (2008)*

Helpman E. (1984). "A Simple Theory of International Trade with Multinational Corporations". *Journal of Political Economy*, 92 (3): 451-471.

Helpman E. and P.R Krugman (1985). "Market Structure and Foreign Trade," in "Increasing

Returns,Imperfect Competition and the International Economy", The MIT Press, Cambridge.

ILO (2009). "The Financial and Economic Crisis: A decent work response". Geneva

IMF (2008a). "IMF Executive Board approves Stand-By Arrangement for Iceland". Press Release No. 08/296.

IMF (2008b). "IMF Executive Board approves Stand-By Arrangement for Hungary". Press Release No. 08/275.

Ministry of Finance, Japan (2008). "Fiscal Investment and Loan Program Plan for 2009"

OECD (2009). "Inventory of Investment Measures taken between 15 November 2008 and 15 June 2009", Directorate for Financial and Enterprise Affairs, INV(2009)4.

United States Congress (2009). "Public Law 111-5: American Recovery and Reinvestment Act of 2009"

UNCTAD (2009). "Investment Policy developments in G20 countries". Geneva

WTO (2009a). "Report on the TPRB from the Director General on the Financial and Economic Crisis and trade-related developments". 23.03.2009 Geneva.

WTO (2009b). "Report on the TPRB from the Director General on the Financial and Economic Crisis and trade-related developments". 01.07.2009. JOB(09)/62. Geneva.

WTO (2009c). "Annual Report on the TPRB on trade and trade-related developments". 18.11.2009. Geneva.