Is Protectionism on the Rise? Assessing National Trade Policies during the Crisis of 2008*

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January 29, 2011

Abstract

This paper quantifies trade policy changes and the associated trade impact for about 100 countries between 2008 and 2009. Results show that there has been no widespread increase in protectionism. Only a few countries, like Russia, Argentina, Turkey and China have increased tariffs on major imported products. The United States and the European Union, by contrast, rely mainly on anti-dumping duties to shield domestic industries. Overall, while the rise in tariffs and anti-dumping duties may have jointly caused global trade to drop by US$43 billion, it explains less than 2% of the collapse in world trade during the crisis period.

JEL classification numbers: F010, F130, G010
Keywords: Trade restrictiveness index, crisis, antidumping duties, protectionism

*We are extremely grateful to the International Trade Center in Geneva for kindly sharing the data with us, and to Richard Newfarmer and Elisa Gamberoni for facilitating the request. We are indebted to Chad Bown for sharing his data on antidumping duties and all the stimulating discussions and comments. We also thank Ann Harrison for feedback on a previous draft. Feedback from Daniel Lederman, Caglar Ozden and participants of World Bank DECRG Crisis Workshop in Jan 2010 is acknowledged. The findings, interpretations, and conclusions expressed in this paper are entirely those of ours, and should not be attributed to the World Bank or United Nations Conference on Trade and Development.

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1 Introduction

With the dramatic collapse of world trade in the wake of the biggest global recession in recent history, many have feared that governments may respond by increasing tariffs and other trade policy barriers to protect their domestic economies, which may indirectly prolong the recession and lead to domestic unrest. In fact, in December 2008, among the first crisis related demonstrations erupted in several cities in Russia over the increase in car tariffs (see Dec 22, 2008, New York Times). Has protectionism been rising since fall 2008? To answer this question, we compare the Overall Trade Restrictiveness Indices (OTRI) of a wide range of countries in 2008 and 2009. The OTRI summarizes the trade policy stance of a country by calculating the uniform tariff that will keep its overall imports at the current level when the country in fact has different tariffs for different goods. Unlike trade weighted average tariffs, the OTRI takes into account the importance of each good in total imports, as well as the responsiveness of the import of each good with respect to its tariff. Thus, not only are the weights proportionate to the import value of the goods, but goods that have a larger fall in imports when tariffs are imposed, i.e. those goods that are highly elastic in demand, are also given larger weights. The empirical methodology of the OTRI was first developed in Kee, Nicita and Olarreaga (2008, 2009), based on the theoretical underpinning of Anderson and Neary (1994, 1996, 2003). Irwin (forthcoming) also uses a similar methodology to study the historic protection level of the US from 1867 to 1961. A major benefit of looking at the changes in the OTRI over the crisis period is that it allows us not only to measure the changes in trade policy, but also to quantify the drop in trade due to those changes. This is the point of departure of our paper from the previous literature, which tends to focus only on average tariff increases or the percentage of tariff lines that have increased during the crisis period.
Many recent papers have studied the trade impact of the global crisis in 2008 (see edited volumes by Baldwin and Evenett, 2009, and Baldwin, 2009). While consensus has yet to emerge among researchers, the two leading explanations for the large and synchronized drop in trade are the role of international supply chains (Yi, 2009) and the lack of trade credits and finance during the crisis period (Amiti and Weinstein, 2009; Chor and Manova, 2009). In an unified framework, Eaton, Kortum, Neiman and Romalis (2010) merges an input-output framework with a gravity trade model of the world and shows that changes in demand play the most significant role in explaining the large drop in trade to GDP ratio during the crisis, while trade frictions, which include trade policies and trade credits explain at most about 15 percent of the collapse in trade. Thus, trade policy as a protectionist device has not been seen to play a substantial role in the global collapse of trade, neither as a cause nor a consequence. Nevertheless, anecdotal evidence suggests that some countries are actively tinkering with their trade policies. For example, during the crisis period, Bolivia, Ecuador and Turkey have altered their tariffs on a large share of their imported products, while India increased its use of anti-dumping (AD) duties. How important are those changes in explaining or prolonging the collapse in world trade? The objective of this paper is to carefully compare the trade policies of a wide range of countries over the crisis period, and to assess the extent of the fall in trade due to the increase in tariffs and AD duties of these countries. For the purpose of this paper, we narrowly define trade policies to only include tariffs and AD duties. Due to data limitations, we do not look at other policies that may affect trade such as government bail-outs and buy national requirements, which could play a much larger role than tariffs and AD in affecting trade during the crisis period.

To achieve our objective, we obtained the Most Favored Nations (MFN) applied tariff schedules
and the bilateral tariff schedules for a wide range of countries in 2008 and 2009.\footnote{As a robustness check, we also compare the tariffs of 2007 to those of 2009. The results are very similar and available upon request.} The MFN applied tariffs tend to over-estimate the level of protection because they do not account for the existence of bilateral or regional tariff preferences. Hence, it is important for us to construct the OTRI based on the bilateral tariff schedules. This significantly complicates the calculation of the OTRI as each country may have up to 200 trading partners and each bilateral tariff schedule consists of nearly 5000 HS 6 digit products. To capture the effect of anti-dumping, we also merge the bilateral tariff schedules with the World Bank Global Anti-Dumping Database. Thus, changes in the OTRI reflect trade policy changes related to both the changes in applied tariffs and anti-dumping duties during the crisis period.

In addition, we need bilateral import demand elasticities and bilateral trade flow data to properly weigh these bilateral tariffs. We modify the multilateral import demand elasticity estimates in Kee, Nicita and Olarreaga (2008) to obtain bilateral import demand elasticities. Bilateral trade flow data are from Comtrade. Finally, to make sure that changes in the OTRI period purely capture changes in trade policies, we use the 2008 bilateral trade flows and elasticities as fixed weights. As such, changes in trade or elasticity due to demand shocks will not affect our OTRI measures.

Going through the schedules of all countries in our dataset, we found that, overall, there has been no widespread increase in tariffs. While there are many countries that have increased tariffs on imported products, the trade impact has generally been minimal. However, for a handful of countries, tariff increases on important items in both agriculture and manufacturing pushed up their OTRI and significantly affected trade. Russia, Malawi and Argentina all increased tariffs on manufacturing products which caused their OTRI to increase by 0.9 to 1.2 percentage points and
their trade flows to drop by US$4.8 billion, US$29 million and US$914 million, respectively. Turkey on the other hand increased tariffs on a wide range of agricultural products, which raised its OTRI by 0.8 percentage points and caused its trade flow to decrease by US$2.2 billion. With the removal of a temporary tariff reduction on palm oil and the introduction of some anti-dumping duties, India had a large increase in the level of protectionism of agriculture products (8.3 percentage points), even though this was offset by tariff liberalization in the manufacturing sector such that India’s OTRI increased only by 0.1 percentage points. Other countries that had large drops in trade due to increases in tariffs include China (US$5 billion), Canada (US$1.8 billion) and Brazil (US$991 million). Finally, for the US and the EU, while the tariff schedules remained roughly the same throughout our period of analysis, spikes in anti-dumping duties caused their OTRI to increase by 0.5 percentage points and 0.1 percentage points respectively. Jointly, if we add up all the decrease in trade for all countries during the crisis period due to changes in tariffs and anti-dumping duties, in the worst case scenario, the total decrease in imports is about US$43 billion, which is less than half a percent of world’s imports in 2008. According to the latest estimate of the World Trade Organization (WTO, 2010), the world’s import decreased by 24% from its pre-crisis level. Thus, trade policies can explain at most 2 percent of the sharp drop in world trade. This suggests that protectionism was not the main culprit behind the collapse of world trade and the collapse of world trade did not cause protectionism to increase.

There are several reasons why countries have been so restrained in terms of raising their tariffs and AD. First, most countries are part of bilateral, regional or multilateral trade agreements which may have significantly restricted their ability to adjust tariffs during the crisis period. The limitations in policy space due to multilateral obligations are more relevant for developed countries, such as the EU and the US, where the difference between bound and applied rates is generally
small. This is not the case for most developing countries. Those are generally more constrained by obligations within regional and preferential trade agreements. Second, countries may recognize the adverse long run impact of those protectionist policies in the context of an increasingly globalized economy. This is particularly the case if the exports of the countries depend heavily on imported materials: higher tariffs will severely affect exports thus further hindering economic recovery. Similarly, global production chains and foreign direct investment (FDI) that span across national borders have made it harder to distinguish domestic from foreign. Thus, many multinational firms find that traditional forms of protectionism are contrary to their interests. This could explain why most countries continued to liberalize their tariff policies during the crisis rather than raising tariffs. In this regard, carefully targeted AD may well be the more suitable policy choice. However, the modest increase in AD cases during the crisis suggests that firms may also have found this instrument inadequate to protect their interests.

This paper is organized as follows. We first briefly discuss the methodology behind the OTRI calculation in Section 2. Section 3 presents the data coverage. Section 4 discusses the results and Section 5 concludes.

2 Change in the Overall Trade Restrictiveness Index

The Overall Trade Restrictiveness Index (OTRI) summarizes the impact of each country’s trade policies on its aggregate imports. The OTRI’s conceptual framework was first proposed in Anderson and Neary (1994, 1996, 2003), it was simplified in Feenstra (1995) and was empirically estimated in Kee, Nicita and Olarreaga (2008, 2009). The OTRI answers the following question: What is the uniform tariff that if imposed on home imports would leave the aggregate imports at their
current level? In a partial equilibrium, when we ignore the substitution between products and the potential income effect due to tariff revenue redistribution, the OTRI is just a more sophisticated way to calculate the weighted average tariff of a country, with the weight of a good set equal to the product of the good’s import demand elasticity and its share in total import. Irwin (2009) also applies the same approach to study the historic level of protection of the US.

We refer readers to Kee, Nicita and Olarreaga (2008, 2009) for the formal derivation of the OTRI of a country. In this paper, we adopt a fixed weight method to compare the OTRI of a country across two years, where the bilateral trade flow data and elasticity estimates of the base year (2008) are used as weights:2

\[
OTRI_{c2009} - OTRI_{c2008} = \frac{\sum_n \sum_p m_{ncp}^{2008} \varepsilon_{ncp} (t_{ncp}^{2009} - t_{ncp}^{2008})}{\sum_n \sum_p m_{ncp}^{2008} \varepsilon_{ncp}},
\]

where \( m_{ncp} \) is the bilateral import value of country \( c \) for good \( n \) from partner country \( p \), \( t_{ncp} \) is the ad-valorem tariff of country \( c \) on good \( n \) from country \( p \), and \( \varepsilon_{ncp} \) is the import demand elasticity of country \( c \) for good \( n \) from country \( p \). Superscripts indicate the year of the variables. In this way, the difference in the OTRI of a country between 2008 and 2009 only captures trade policy changes, and does not reflect the collapse of trade during the crisis period.

While the trade policy of a country could also consist of other non-tariff measures, here, due

\[\varepsilon_{ncp} = \frac{a_{nn}}{s_{nc} + s_{ncp} - 1}.\]

\[\]
to data limitations, we mainly focus on tariffs. However, unlike the earlier papers, we utilize the bilateral tariffs between country pairs at the HS 6 digit good level in our calculation of the OTRI. Moreover, we also employ the bilateral import demand elasticity at the same level of aggregation as the tariffs. Finally, when possible, we include any anti-dumping duties that were imposed during the crisis period.

Once the change in the OTRI of a country is calculated, some back-of-an-envelope calculations can be made to figure out the impact on trade flows. One way is to use the change in the OTRI multiplied by the trade weighted import demand elasticities of the country. Then,

$$\text{change in trade using the OTRI} = (OTRI_{c,2009} - OTRI_{c,2008}) \sum_n \sum_p m_{ncp,\text{2008}}^2 \cdot m_{ncp,\text{2008}}^2. \quad (2)$$

Note that there is no bound for the calculation of change in trade in this formula, thus it is possible for the change in trade to be higher than the existing level of trade. An alternative approach would be to calculate the change in tariff at the tariff line level for each product from each partner country, multiply that by the bilateral import demand elasticity to obtain the change in trade at tariff line level and then constrain the fall in trade to be no more than the level of imports in 2008. Summing all changes in trade at the tariff line level across all partners gives us the total change in trade,

$$\text{change in trade using tariffs} = \sum_n \sum_p \max \left[ m_{ncp,\text{2008}}^2 \cdot m_{ncp,\text{2008}}^2 \cdot (t_{ncp}^{2009} - t_{ncp}^{2008}), -m_{ncp,\text{2008}}^2 \right]. \quad (3)$$

3 Data

We obtained tariff data for 135 countries from the International Trade Center (ITC) in Geneva. For India, Japan and South Korea we supplemented the ITC data with MFN schedules from other
Figure 1 summarizes the raw data by plotting the average bilateral tariff of 2008 against that of 2009, along with a 45 degree line. Only 10 countries have higher average tariffs in 2009 than those of 2008. These countries are labeled in the figure and include Korea, Brazil, Argentina, China and Canada. For Canada, the average bilateral tariff was 3.2 percent in 2008, and 4.0 percent in 2009.\footnote{India’s 2008 and 2009 MFN schedule as well as Japan’s 2008 MFN schedule come from TRAINS. Japan’s 2009 MFN schedule was obtained from <http://www.customs.go.jp/english/tariff/2010/index.htm>. South Korea’s 2009 MFN schedule comes from <http://english.customs.go.kr/keweb/user.tdf?a=user.customtariff.CustomTariff&check=true&cn=ENGLISH_INFORMATION_KOREA>. For these three countries, we lacked ad-valorem equivalents of 2009 specific tariffs, hence we used the 2008 values.}

Data for anti-dumping duties are retrieved from the publicly available Global Anti-Dumping Database of the World Bank, which is maintained by Chad Bown (2009a). The dataset provides detailed information on anti-dumping cases. While data can be traced back as far as the early 1990s, given that our focus is the changes during the 2008-2009 period, we only use those cases that are initiated between June 2008 and September 2009, net of anti-dumping duties that were removed during the same period. By doing so, we only capture the change in anti-dumping duties during the two-year period, and not the level of anti-dumping for each of the two years. This is an important point, because many anti-dumping duties in 2008 and 2009 are due to cases filed before the crisis. As long as these duties were not removed from the second quarter of 2008 onward, they do not affect the change in the level of protectionism. Only the new cases and the removal of old duties are factored in the calculations.

Table 1 presents some summary statistics on the countries that have added anti-dumping duties since the second quarter of 2008.\footnote{In addition to the 13 countries listed in Table 2, Global Anti-dumping database also have information for 5 more countries of the 135 present in our dataset: Pakistan is not included because we have no data on its 2009 tariff schedules; we also have no trade flow data for South Korea and South Africa at tariff line level; we fail to match the AD data with trade data for Indonesia and Peru due to tariff reclassification.} For the most part, changes in anti-dumping duties only affect
less than 1% of imports, ranging from US$8.5 billion in the EU to US$350 thousand in Chile. Nevertheless, given that some countries cannot unilaterally increase their tariffs without violating WTO agreements, AD may well be one of those few legitimate channels to increase trade protection during the crisis period. In addition, given that AD duties are imposed at the tariff line level, which for many countries is represented by 8 or 10 digit HS codes, we first need to identify the share of these goods in the bilateral trade of the corresponding HS 6 categories, and only impose AD duties on the goods affected. In doing so, we avoid imposing AD duties on all tariff-line goods within an HS 6 category, even though we are still making the assumption that AD duties affect all bilateral trade within HS 8 goods and are not distinguishable among different firms that export. For some countries, such as Turkey and India, only a portion of AD cases have information on the actual AD duties imposed (see Table 2 last column). For the missing AD duties, we use the inverse of our bilateral import demand elasticity estimates to infer the minimum prohibitive AD duties.

4 Results

Figure 2 plots the level of OTRI constructed using bilateral tariffs in 2008 against the level of OTRI constructed using bilateral tariffs in 2009 and AD imposed during the 2008-2009 period. Most countries are located below the 45 degree line, indicating that most countries have further liberalized during the crisis. However there are quite a few exceptions, notably Malawi, Russia, Turkey, China, Argentina, Canada, and Brazil. For Malawi, its OTRI for 2008 is 7.1%, while for

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6In the working paper version of this paper, we also compare the OTRI constructed using MFN tariffs with the OTRI constructed using bilateral tariffs. We found that MFN tariffs tend to overestimate the level of protection of a country by 75 percent. On the other hand, allowing for bilateral import demand elasticities marginally increases the overall level of protection, as bilateral elasticities tend to be larger than multilateral elasticities that are common across all trading partners within an imported product. At the sample mean the OTRI constructed using bilateral elasticities is 2 percent larger than the OTRI constructed using multilateral elasticities. Finally, our results are robust to exclusion of AD from the calculation.
2009 is 8.3%, which implies an increase of 1.2 percentage points. Likewise, Russia increases its OTRI from 9.6% to 10.8%. For Turkey, the increase in tariffs of agricultural products pushes up its OTRI from 2% to 2.7%. The OTRI of China, Argentina and Canada each increases by 0.3 percentage points. Although small, such increases in the overall level of tariff protection could significantly disrupt trade if imports are very elastic.\(^7\)

For the most countries, adding AD does not change their OTRI in any significant way, with the exception of the US, the EU and India. Incorporating AD duties increases the OTRI of the US by half a percentage point. This seemingly small number in fact prompted trade to decrease by US$24 billion, if we allow AD to affect more than the existing level of pre-AD trade (see (2)), or by US$3 billion if we assume the maximum effect of AD and other tariff increases cannot exceed the existing trade in 2008 (see (3)). Likewise, for the EU, incorporating AD duties causes its OTRI to increase by 0.1 percentage points. As a result, imports of the EU drop by US$2 billion. This exercise shows that while anti-dumping may not increase the overall level of protection by much, it has been in fact the main instrument used by the US and EU. Another heavy user of AD is India. Without AD duties, the OTRI of India decreases by 0.2 percentage points from 2008 to 2009.\(^8\) Once AD duties are included, the change becomes positive 0.1 percentage points, indicating that AD have made the overall level of trade restrictiveness of India worse. The net trade effect of the changes in tariff and AD duties for India is about US$306 million.\(^9\) Nevertheless, in a global scale, such duties

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\(^7\)Detailed OTRI estimates for each of the countries are available upon request and are also available in the working paper version of this paper (Kee, Neagu and Nicita, 2010).

\(^8\)For Chile, India and Japan we use their MFN tariffs and AD to calculate their OTRI, since 2009 bilateral tariff schedules are not available.

\(^9\)Our estimated changes in trade are not directly compatible to Bown (2009b). For example, for the worse case scenarios, Bown’s estimates of the AD impact in the US, EU and India are US$7 billion, US$8 billion and US$4 billion, respectively. The differences can be attributed to the following. First, our estimates are based on tariff line (HS 8 digit) data, rather than HS 6 digit data. In other words, within an HS 6 digit category, only those HS 8 digit goods that are affected by AD are included in the calculation, while Bown’s estimates use HS 6 digit trade flows. Second, we use 2008 trade value in our calculation while Bown’s estimates based on 2007 trade value. Third, our AD coverage is from June 2008 to September 2009, while Bown’s estimates are from the first quarter of 2008 to the
hardly explain the huge collapse in trade, which further suggests that this global collapse in trade is probably not because countries are becoming more protectionist, but instead relates to factors such as demand shocks.

Detailed analysis further shows that, for most countries, most of the changes in the OTRI are driven by increased protection in the agricultural sector. For example, in India, the removal of a temporary tariff reduction on palm oil and the introduction of some anti-dumping duties on agriculture products in 2009 resulted in an increase in protectionism in the agricultural sectors by about 8.3 percentage points. Likewise, Turkey increased tariffs on a wide range of agricultural products, which pushed its OTRI for agricultural goods from 21.2% to 31.4%. Canada and Malawi also have large increases in their OTRI on agricultural products. On the other hand, the overall increases in the OTRI of Russia, Argentina and China are mainly driven by increases in tariffs in the manufacturing sector (i.e. the rise in the car tariffs of Russia and textile tariffs of Argentina).\(^{10}\)

Overall, if we sum up all the negative trade impacts due to increased tariffs and AD duties, total world’s imports may have decreased by US$43 billion. In 2008, the value of world imports was about $11 trillion, this implies that the changes in trade policy may have decreased world’s imports by 0.4 percent. According to the latest estimate of the WTO (WTO, 2010), the world’s imports contracted by 24 percent in 2009. Thus our results show that the trade policy changes discussed above can explain less than 2 percent of the collapse in the world’s import.

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10 The detailed analysis can be found in the working paper version of this paper (Kee, Neagu and Nicita, 2010) or are available upon request.

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first quarter of 2009. Forth, we take into account the bilateral import demand elasticities in the calculation of trade impact due to AD. Finally, we include tariffs and AD in our calculation of trade changes, while Bown’s estimates only focus on AD. For the EU and India, the negative impacts on trade flows due to AD are partially offset by their overall tariff reduction during the two year period.
5 Conclusion

The fear that countries may raise tariffs to protect their domestic markets in the wake of the largest global recession since the Great Depression has not materialized. Comparing the published 2008 and 2009 tariff schedules of a wide range of countries shows that only a handful of countries have raised their tariffs in a significant way. These countries include Russia, Malawi, Argentina, Turkey and China. The increase in motor vehicle tariffs in Russia not only restricted imports, it also caused one of the first reported crisis-related demonstrations. For some other countries, such as the US and the EU, most of the policy actions during the crisis are not about tariffs but anti-dumping duties. Nevertheless, even after taking anti-dumping duties into account, evidence provided in this paper suggests that the trade impact due to trade policy changes can explain no more than 2 percent of the collapse in the world trade.

References


Table 1: Anti-dumping Duties Affected Imports in 2008-2009

<table>
<thead>
<tr>
<th>Country</th>
<th>Value (US$000)</th>
<th>Share in total import (%)</th>
<th>Share of AD import with AD data (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>336,499</td>
<td>0.59</td>
<td>32.33</td>
</tr>
<tr>
<td>Australia</td>
<td>50,931</td>
<td>0.03</td>
<td>100.00</td>
</tr>
<tr>
<td>Brazil</td>
<td>657,543</td>
<td>0.38</td>
<td>76.14</td>
</tr>
<tr>
<td>Canada</td>
<td>578,787</td>
<td>0.14</td>
<td>100.00</td>
</tr>
<tr>
<td>Chile</td>
<td>350</td>
<td>0.00</td>
<td>100.00</td>
</tr>
<tr>
<td>China</td>
<td>990,444</td>
<td>0.10</td>
<td>100.00</td>
</tr>
<tr>
<td>Colombia</td>
<td>21,919</td>
<td>0.06</td>
<td>100.00</td>
</tr>
<tr>
<td>European Union</td>
<td>8,560,695</td>
<td>0.38</td>
<td>100.00</td>
</tr>
<tr>
<td>India</td>
<td>1,405,095</td>
<td>0.44</td>
<td>23.35</td>
</tr>
<tr>
<td>Japan</td>
<td>27,417</td>
<td>0.004</td>
<td>1</td>
</tr>
<tr>
<td>Mexico</td>
<td>3,171</td>
<td>0.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Turkey</td>
<td>361,681</td>
<td>0.18</td>
<td>2.03</td>
</tr>
<tr>
<td>United States</td>
<td>3,538,908</td>
<td>0.16</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Note: Data retrieved from Global Anti-dumping Database of World Bank.
For India, the Actual AD affected trade is 2.2 billion US dollars, however only 1.4 billion is matched to tariffs reclassification.
Figure 1: Comparing Average Bilateral Tariffs, 2008 vs. 2009

Figure 2: Comparing the OTRI in 2008 and 2009