

The paradoxical return of protectionism

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Globalisation is very closely related with economic development. The periods of greatest dynamism in trade and GDP were the decades leading up to the First World War, those following WW II and, more recently, the period between the mid-1980s and the onset of the crisis in 2009. This latter period was characterised by the prominent role played by emerging markets, sharp falls in transport costs and logistical and technological improvements that favoured the development of global value chains connecting widely scattered markets, factors and consumers.

None of this dynamism would have been possible without the development of a multilateral governance of global trade, through the World Trade Organisation (WTO), or without China's opening up to the outside world and to market rules. These policies of integration and collaboration are somewhat more at risk with the US government's latest measures imposing tariffs on imports of steel and aluminium. Although this is a qualitative leap, it is far from being the first sign of the rising tide of protectionism in the world in general and in the US in particular. The tally of measures restricting the flow of goods, services and persons kept by Global Trade Alert (GTA), an initiative of the Centre for Economic Policy Research (CEPR) at the request of the G20, shows an increase in such measures from 2010 to 2013, followed by a decline which has intensified in the past two years. However, such is not the case in the US. Whereas during Obama's presidency, from 2009 to 2016, 13% of restrictive measures came from the US, under Trump the percentage rose to 21% of the total in 2017, and in 2018, with information up to 12 March, they represent 44% of the total number of restrictive measures imposed worldwide. This is a simple tally, without weighting for the amplitude of their relative impact, but it is more than indicative of the challenge posed to the multilateral governance of trade by a change of policy of one of the countries that contributed most to its configuration. And the effect of the most recent measures, beyond the relative weight of imports of steel or aluminium, may be significant. Firstly because of the US' recourse to national security arguments of more than dubious relevance, given who its main suppliers are (Canada, South Korea, Germany and Mexico) and the specific types of products imported. Secondly in view of the high tariffs imposed and their indiscriminate nature in principle and indefinite duration. And thirdly because of the bilateral approach that underlies them, the explicit possibility of escaping the measures in return for a quid pro quo. This undermines multilateralism and with it the conflict resolution mechanisms based on rules, institutions and, in short, predictability. It is the art of (bilateral) negotiation, which not only generates uncertainty and therefore per se acts as a brake on economic activity, investment and employment, but may also provoke retaliatory measures. Measures which by the way are also governed by the WTO in the event of trade disputes between countries.

The paradoxical thing moreover is that unlike previous episodes there should be a surge in protectionist measures in an economic context which in the US is characterised by prolonged cyclical expansion, with sustained growth at close to 3% p.a.; a very low unemployment rate, probably close to the level compatible with full employment; financial markets that are not exactly risk-averse, and contained financing costs. The response to the paradox is the triply erroneous diagnosis of the US authorities. Firstly in making the bilateral trade balance an economic policy objective, whereas it is simply a balance resulting from multiple forces on which by the way other recent measures such as the tax reform exert pressure in the opposite direction. Secondly in pursuing job retention in the face of economic efficiency instead of improving workers'

employability. And lastly in generating uncertainty, the brake par excellence on activity and employment. Paradoxical, but real.

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