



## China and the threat of protectionism

**In a global economic environment still reeling from the financial crisis and a vast contraction in world trade, the fight between countries for market share – and ultimately revenue – has become even more intense. Governments have faced pressure from their constituents to save and create jobs and wealth, and in the complex system governing commerce between countries, desperate times seem to have inspired desperate protectionist measures. Having in 2009 become the world's leading exporting nation, built on a decades-long booming economy very successful in gaining global market share by means of cheaper exports, China has reason enough to fear protectionism.**

### Tough times

China's exports were not part of the strong rebound of its economy last year under the force of stimulus-led investment. While increasing industrial output and retail sales featured strongly in China's drive for 8 per cent GDP growth in 2009, falling exports were a major drag on growth throughout the year. While China's exports may have been decreasing on average (the World Bank estimates China's exports fell by 12.4 per cent in 2009 and net exports dragged down annual GDP growth by 3.4 per cent), because of what the World Bank calls "the strong and increasing fundamental competitiveness" of China's manufacturing industry, China is expected to continue increasing its global market share this year.

With echoes of the Great Depression, global trade flows dried up at an unprecedented post-war rate of 15 per cent between Q2 2008 and Q2 2009. But have global responses to the financial crisis been much different from the pervasive protectionism in the 1930s? Global Trade Alert (GTA) has found that of the 280 state initiatives that have been implemented

since November 2008, a total of 192 unfairly favoured domestic commercial interests. Tariffs were found to have been used 31 times against Chinese interests, and 56 countries implemented bailouts or import licensing. In the entire GTA database, bailouts and state aids were the most frequently-used methods of discrimination, accounting for more than 30 per cent of all discriminatory measures. Indeed, non-tariff forms of protectionism (so-called "creeping protectionism") like bailouts and state aid have become defining features of the global response to the financial crisis.

Evidence of an increasing protectionist trend can also be found in the World Bank-sponsored Global Antidumping Database. In a report published in October, it reported that in Q3 2009, WTO-member governments had initiated 44 new product-level investigations for the imposition of import restrictions such as antidumping and global safeguards. The number for Q3 represented a 52.6 per cent increase compared to the same period a year earlier. The cumulative number of such new requests for protection throughout the first three quarters of 2009 rose 30.3 per cent compared to the

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same period in 2008, which in turn was 36.4 per cent higher than in 2007. While the targeting of imports from China in this regard is not a new phenomenon, industry demand for new import restrictions against China nonetheless increased by 22.7 per cent in 2008, and by an estimated 7.8 per cent in 2009.

### Fighting by the rules

Instead of engaging in tit-for-tat retaliation, China has indicated that it would rather appeal to the WTO. While the WTO did manage to arbitrate trade disputes in the past between the US and countries in Europe, it remains to be seen whether China is similarly able to use the organisation's dispute settlement mechanism to prevent the imposition of new trade barriers. In the first few years after its accession to the WTO in 2001, China was only challenged in one dispute. Yet the period 2006-2008 saw a number of new disputes brought against China: alleged discriminatory treatment in China of auto part imports (by the US, EU and Canada, 2006); tax refunds and subsidies (by the US and Mexico, 2007); China's treatment of intellectual property-intensive industries such as movies, music and books (by the US, 2007); and the regulation of foreign financial information firms like Bloomberg, Dow Jones and Thomson-Reuters (by the US, EU and Canada, 2008). For its part, since 2001 China has dabbled in three WTO disputes of its own, although these did not provide a thorough indication of China's strategy and intentions in such disputes. It has been biding its time, however, choosing to be a 'third party' observer in over 60 WTO disputes, and the increasing use of these against China since 2006 has signified the growing appreciation, among its major trading partners at least, of China as a major political player.

**Biggest Targets of Discriminatory Measures Recorded in the Global Trade Alert Database, June-September 2009**

Target	No. of discriminatory measures imposed on target	No. of trading partners imposing discriminatory measures	No. of pending measures which would harm target if implemented
1. China	99	56	77
2. The US	86	49	19
3. Germany	84	30	30
4. France	78	29	24
5. Japan	78	46	23
6. Belgium	78	28	21
7. The UK	72	29	20
8. Netherlands	71	28	18

### Stones on the road

The global financial crisis could have initiated a tide of protectionism like that which occurred during the Great Depression. Yet it did not. The Annual Report by the Director General of the WTO, released in November, concludes that the world economy is about as open today as it was before the crisis started. New trade-restricting or distorting

measures that the WTO has observed since October 2008, moreover, have affected no more than one per cent of world merchandise trade, and have focused on agricultural and iron and steel products. However the threat posed by protectionism will persist until economic recovery is well-established. Indeed, the threat of protectionism facing China appears to be far from over. The investigations carried out by Global Trade Alert found 77 measures pending which, if implemented, would harm Chinese commercial interests. Because it takes 12 months to prepare a case alleging dumping, China is due for a protectionist backlash in 2010. Yet while the imposition of a protectionist measure is often caught up in a media frenzy with heated calls for retaliation, trade disputes are an undeniable part of complex trade relationships between countries. When answering questions in an online forum of (Chinese newspaper) People's Daily in November, Serge Abou, the Ambassador for the EU Delegation of the European Commission to China, reassured his Chinese audience that trade conflicts are only normal. He compared them to stones on a road. When you walk on a road, he said, the thing you care about should be the destination, not the stones on it.

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