Shaping New Regional Governance in East Asia [Vol. I]
A Common Vision for Mutual Benefit and Common Prosperity
Edited by East Asia Foundation · Jeju Peace Institute

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Shaping New Regional Governance in East Asia:

A Common Vision for Mutual Benefit and Common Prosperity

[Volume I]

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Using and Abusing Government Intervention and Trade Policy

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Introduction

The financial crisis of 2009-2010 has been unprecedented in its global impact, harkening comparisons to the 1930s Great Depression. Indeed, the fastest growth industry in the wake of the subprime mortgage crisis in the United States is comparisons to the 1930s. As many analysts have pointed out, governments mishandled the 1930s depression. The Federal Reserve failed to support commercial banks, leading to the failure of 4,000 banks, lack of deposit insurance led to consumer losses, an inadequate fiscal stimulus package delayed recovery until the onset of the Second World War, and most importantly for this paper, massive protectionism with the passage of the Smoot-Hawley bill led to tariffs over 65 percent, causing a collapse of world trade that sharply exacerbated the depression.

By contrast the response to the current financial crisis has been very different. In the United States, the Federal Reserve has supported commercial banks and bond insurance companies, with very few failures in this sector. Deposit insurance has been increased, and depositors have not lost money. Similar programs to help economies in trouble have been developed elsewhere, as I review below. Most importantly, there has not been a massive turn toward higher tariffs, quotas or arrangements such as the U.K. Imperial Preference scheme or the German Schacht Plan that linked Eastern European economies through preferential accords to the German economy.

Yet despite this relatively benign trade environment, and the apparent success of fiscal and monetary measures to mitigate the ferocity of the current crisis, there has been a rise in what Richard Baldwin and Simon Evenett have called "murky protectionism."[1] As they note, in addition to the usual raising of tariffs, quotas and subsidies that often accompany economic downturns, governments have been using health and safety standards, buy national provisions, and "green policies" to boost their domestic economies—but often in a hidden discriminatory manner that on the surface are consistent with their WTO obligations. In their view, such policies can quickly escalate into a trade conflict that will harm the economic recovery prospects of the global economy, and thus Baldwin and Evenett call for standstills and surveillance, exit strategies for intervention, promoting the WTO Doha Round, and resisting green protectionism.[2]

This paper goes beyond this useful but vague descriptor of "murky protectionism" to analytically consider the different implications of protectionist actions. As I will argue, many governments are using the financial crisis as an opportunity to not only salvage their beleaguered economies but also create policies and use government intervention to protect their firms in some cases and create new industries. This industrial policy approach, pursued by several countries, but most egregiously by China and to a lesser extent the United States, is further tilting the uneven global playing field, making it even more challenging for firms around the world to boost their fortunes in a difficult economic environment.

1) "The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G-20," VoxEU.org publication, 2009.

2) Ibid., p. 5.

An Overview of National Responses to the Crisis[3]

Most countries have been involved in an aggressive response to the financial crisis, although one could not really argue that the response has been particularly well coordinated. Instead, governments have pursued policies to help stimulate their domestic economies. In the United States, for example, the Troubled Asset Relief Program (TARP) has helped banks through asset purchases backed by $700 billion. In addition, the auto sector has received approximately $40 billion, and the most significant domestic package, as well as an increasingly controversial one, has been the one promoted by President Obama to the tune of $787 billion, which includes tax cuts, help to encourage employment, and spending for energy, infrastructure, healthcare, education and science. Of this package, only about $250 billion will be spent in 2009, leading critics to complain about the slow pace of expenditures. Still, the overall package puts the United States in second place among the G20, accounting for 5.9 percent of its 2008 GDP (Saudi Arabia is first with a $49.6 billion package, which is 9.4 percent of GDP).

The exact figures on spending and expenditures are subject to change. Eswar Prasad and Isaac Sorkin in *Assessing the G-20 Economic Stimulus Plans: A Deeper Look* have used somewhat different numbers than what has been reported in the media, as they have calculated the

3) This overview draws partly on work by the Economics and Research Analysis Group at Frost & Sullivan Inc., with whom the author serves as chief economist.

[Table 1] Stimulus Packages Across the Globe

	Initial Conditions		Spending in 2009			Total size of stimulus		
	Gorss Public Debt (percent 2008 GDP) (%)	Fiscal Balance (percent 2008 GDP) (%)	USD amount (bb)	Percent 2008 GDP (%)	Tax cut share (%)	USD amount (bb)	Percent 2008 GDP (%)	Tax cut share (%)
Argentina	51.0	1.7	4.4	1.3	0.0	4.4	1.3	0.0
Australia	15.4	0.3	8.5	0.8	47.9	19.3	1.8	41.2
Brazil	40.7	N/A	5.1	0.3	100.0	8.6	0.5	100.0
Canada	62.3	0.1	23.2	1.5	40.4	43.6	2.8	45.4
China	15.7	0.4	90.1	2.1	0.0	204.3	4.8	0.0
France	64.4	-2.9	20.5	0.7	6.5	20.5	0.7	6.5
Germany	62.6	0.9	55.8	1.5	68.0	130.4	3.4	68.0
India	59.0	-4.2	6.5	0.5	0.0	6.5	0.5	0.0
Indonesia	30.1	-1.3	6.7	1.3	79.0	12.5	2.5	79.0
Italy	103.7	-2.7	4.7	0.2	0.0	7.0	0.3	0.0
Japan	170.4	-3.1	66.1	1.4	30.0	104.4	2.2	30.0
Korea	27.2	0.9	13.7	1.4	17.0	26.1	2.7	17.0
Mexico	20.3	0.0	11.4	1.0	0.0	11.4	1.0	0.0
Russia	6.8	6.2	30.0	1.7	100.0	30.0	1.7	100.0
Saudi Arabia	17.7	11.2	17.6	3.3	0.0	49.6	9.4	0.0
South Africa	29.9	0.2	4.0	1.3	0.0	7.9	2.6	0.0
Spain	38.5	-2.4	18.2	1.1	36.7	75.3	4.5	36.7
Turkey	37.1	-1.5	0.0	0.0	N/A	0.0	0.0	N/A
UK	47.2	-4.8	37.9	1.4	73.0	40.8	1.5	73.0
US	60.8	-3.2	268.0	1.9	44.0	841.2	5.9	34.8

Source: Eswar Prasad and Isaac Sorkin, *Assessing the G-20 Economic Stimulus Plans: A Deeper Look*, The Brookings Institution, March 2009

new spending amounts in the fiscal packages, and thus their numbers in Table 1 do not exactly match the commonly cited amounts that the news media reports.[4]

The response in other countries has been aggressive as well. In Canada, for example, the plan includes the Economic Action Plan, focusing on tax cuts ($16 billion), stimulus spending on infrastructure and energy ($10 billion), support for the unemployed, and improving the functioning of the financial system. Of the approximately $43 billion, a little more than half will be spent in 2009.

In Mexico, the government has responded with infrastructure spending of $6.91 billion and an increase of $12.63 billion in financing through development banks and the National Infrastructure Fund Procurement program to support small and medium enterprises. Of the total new money calculated by Prasad and Sorkin of just over $11 billion, all will be spent in 2009.

Europeans have also spent heavily to bolster their economies, although the packages have been based nationally, rather than through the EU, with only about 15 percent coming on an EU-wide basis, thus casting doubts about the benefits of European integration when it comes to crisis responses. Germany, while initially reluctant to spend on a fiscal stimulus, has now created a package of over $130 billion and will spend about $55 billion in 2009. Its packages focus on investment spending and tax cuts, as well as infrastructure, education and incentives for new auto purchases. At this point, among the G20 countries, Germany is the fifth-largest in terms of spending as a percentage of GDP.

Among other European countries, the UK's package is about $40 billion, with nearly all to be spent this year. France has a significantly smaller package, with expenditures of about $20 billion, again with all being spent in 2009. The Italians have put together a very small

4) Eswar Prasad and Isaac Sorkin, *Assessing the G-20 Economic Stimulus Plans: A Deeper Look*, The Brookings Institution, March 2009. Total expenditures and amounts to be spent in 2009 are based on this article.

fiscal stimulus of $7 billion, which contrasts sharply with Spain's $75 billion package amounting to 4.5 percent of its 2008 GDP and the third-largest among the G20. A significant boost of 800 million euros has been allocated for the auto sector.

Turning to Asia, the largest stimulus package by far has been the Chinese one. Although the Chinese press reports this as a stimulus of $586 billion, Prasad and Sorkin report this package as being $204.3 billion in new money. Even this amount is 4.8 percent of China's 2008 GDP, putting China just after the United States on this dimension. A key difference, of course, is that the U.S. gross public debt was 60.8 percent of GDP, but China's is only 15.7 percent. For its part, Japan, although the most indebted of the G20 countries with a gross public debt of 170.4 percent of GDP, still generated a large stimulus package of nearly $105 billion, about 2.2 percent of its 2008 GDP. Its economy, highly dependent on exports, has been in sharp decline with an expected fall in GDP in 2009 of -6.5 percent. India's stimulus package has been very minor, $6.5 billion, but its greater focus on domestic markets has led to expectations of growth in its economy of 7.0 percent in 2009, even though exports have been declining. Finally, South Korea's export-driven economy has suffered significantly, with a projected growth rate if –3 percent in 2009. Its government has developed a $26.1 billion stimulus package, accounting for 2.7 percent of its GDP.

Implications of "Murky Protectionism"

To this point, my focus has been on fiscal stimulus packages. But an important and potentially hazardous development is the move toward various forms of protectionism in the context of fiscal stimulus. As monetary policy has reached its limits with interest cuts to nearly 0 percent, and fiscal stimulus programs are increasingly

[Table 2] Implementing Jurisdiction

Implementing Jurisdiction	Number of Measures	# Implemented	Number Deemed Discriminatory	Tariffs Lines Affected	Trading Partners Affected	Posted In Last 30 Days	Implemented In Past 30 Days	Discriminatory Measures In Past 30 Days
G20	76	48	37	497	146	49	30	23
G8	46	22	19	185	124	28	12	11
United States of America	26	7	6	34	96	13	2	2
Russian Federation	11	8	8	154	98	9	6	6
Indonesia	8	8	6	116	103	6	6	5
China	5	4	2	30	14	4	4	2
Japan	4	4	4	3	22	3	3	3
Belarus	4	4	3	68	96	4	4	3
Malaysia	4	3	2	293	115	3	2	1
Mexico	4	3	2	59	14	4	3	2
Saudi Arabia	4	3	2	6	17	4	3	2
Kazakhstan	3	3	2	5	7	1	1	0
European Communities	3	2	1	6	41	2	1	0
India	3	3	1	184	107	1	1	0
Argentina	2	2	2	35	14	0	0	0
Ukraine	2	2	2	1112	50	0	0	0
United Arab Emirates	2	2	2	0	0	2	2	2
Viet nam	2	2	2	6	11	0	0	0
Kuwait	2	2	1	25	3	1	1	1
Thailand	2	2	1	42	96	2	2	1
Zambia	2	2	1	1	10	1	1	0
Canada	2	0	0	1	9	2	0	0
Australia	1	1	1	0	28	0	0	0
Brazil	1	1	1	4	26	0	0	0

Ecuador	1	1	1	101	25	0	0	0
Ghana	1	1	1	0	0	1	1	1
Iraq	1	1	1	14	5	0	0	0
Philippines	1	1	1	1	4	0	0	0
Republic of Korea	1	1	1	0	0	1	1	1
Switzerland	1	1	1	2	53	1	1	1
United Kingdom of Great Britain and Northern Ireland	1	1	1	0	8	0	0	0
LDCs	1	0	0	0	0	1	0	0
Bosnia and Herzegovina	1	1	0	2	2	1	1	0
Chinese Taipei	1	0	0	9	13	1	0	0
Côte d'Ivoire	1	0	0	0	0	1	0	0
France	1	1	0	2	41	1	1	0
Germany	1	1	0	1	42	0	0	0

Source: Global Trade Alert, July 28th 2009

[Table 3] Affected Trading Partner

Affected Partner	Number of Measures	Number Implemented	Number Deemed Discriminatory	Number of jurisdictions whose measures probably harming this trading partner	Posted in Last 30 Days	Implemented in Past 30 Days	Discriminatory Measures in Past 30 Days
G20	71	48	39	32	35	19	15
G8	59	40	32	29	29	15	11
China	48	36	29	27	23	13	10
Germany	40	27	21	20	22	12	8
France	35	24	21	21	18	9	8
Italy	35	24	18	20	19	11	8
United Kingdom of Great Britain and Northern Ireland	35	23	20	21	19	9	8
United States of America	33	27	23	22	16	10	9
Japan	32	24	20	16	16	9	7
Canada	29	19	16	15	16	8	7
Republic of Korea	28	21	16	16	17	10	7
Sweden	28	19	16	16	16	9	8
Belgium	27	21	19	17	13	9	8
Thailand	26	21	18	17	13	8	6
Spain	25	18	14	16	14	9	6
Australia	24	16	14	14	16	8	7
India	24	17	13	18	14	7	5
Mexico	24	16	13	14	14	7	6
Austria	23	15	13	14	13	7	6
Finland	23	16	14	14	14	9	8
Netherlands	22	16	14	14	12	8	7
Turkey	22	18	15	15	13	9	7
Brazil	21	15	12	16	12	6	5
Czech Republic	21	14	11	12	12	7	5
Russian Federation	21	18	14	17	11	8	5
Singapore	21	17	14	13	12	8	6
South Africa	21	17	15	19	11	7	6
Hungary	19	13	10	11	12	8	6
Hong Kong	18	13	11	13	12	7	5
Portugal	18	13	10	11	11	7	5
Slovakia	18	14	11	10	12	9	7
Switzerland	18	12	10	12	9	4	3
Argentina	17	13	11	14	9	5	4
Denmark	17	11	10	12	10	6	6
Latvia	17	13	10	12	10	7	5
Lithuania	17	12	9	11	10	6	4
Romania	17	13	10	13	10	7	5

Source: Global Trade Alert, July 28th 2009

[Table 4] Statistics for Type of Measure

Type of Measure	Number of Measures	Number Implemented	Number Deemed Discriminatory	Number of jurisdictions implementing this measure type	Posted in Last 30 Days	Implemented in Past 30 Days	Discriminatory Measures in Past 30 Days
Tariff measure	30	22	13	19	21	14	6
Trade defence measure (AD, CVD, safeguard)	10	5	4	5	4	3	2
Public procurement	10	5	3	6	7	3	1
Sanitary and Phytosantiary Measure	9	6	7	6	6	4	5
Other service sector measure	9	3	3	4	6	1	1
Non tariff barrier (not otherwise specified)	8	6	5	5	6	4	3
Import ban	7	4	4	5	3	1	1
Export taxes or restriction	7	5	2	9	6	4	2
Migration measure	6	4	4	5	2	0	0
Local content requirement	6	2	2	3	6	2	2
Bail out measure	5	5	4	4	4	4	4
Export subsidy	5	5	4	4	2	2	1
Investment measure	5	2	0	4	4	2	0
Technical Barrier to Trade	5	0	0	1	2	0	0
Quota (including tariff rate quotas)	2	1	1	2	2	1	1
Consumption subsidy	2	1	0	2	2	1	0
Intellectual property protection	2	0	0	2	1	0	0
State trading enterprise	1	1	1	1	0	0	0
MFN liberalisation	1	1	0	1	1	1	0
Competitive devaluation	0	0	0	0	0	0	0
Foreign policy motivated	0	0	0	0	0	0	0
Import subsidy	0	0	0	0	0	0	0
State-controlled company	0	0	0	0	0	0	0
Sub-national government measure	0	0	0	0	0	0	0
Trade finance	0	0	0	0	0	0	0

Source: Global Trade Alert, July 28th 2009

feared to be inflationary, there has been growing interest in various forms of trade policy as an instrument of government policy, often in the context of fiscal packages.

The newly developed Web site, Global Trade Alert, coordinated by the Centre for Economic Policy Research and funded by foundations, governments and the World Bank, provides a listing of measures that have been implemented or are being contemplated by governments. This effort to shed light on the actions of states may deter some of the most egregious forms of discriminatory intervention. Examples of still incomplete reports (the Web site only began operating in early June 2009) can be found in Tables 2, 3 and 4.

These tables provide examples of the type of data that has been gathered through an "open source" effort, with individuals and governments being able to report measures taken by others anonymously, although vetted by the Global Trade Alert staff for accuracy. Table 2 illustrates the countries (jurisdictions) implementing trade measures, Table 3 the countries being affected by the actions of the countries in Table 2, and Table 4 the types of measures that are being taken.

At first glance, in Table 2 the country taking the most trade affecting measures (though not the most discriminatory ones) is the United States. But if we consider the number of tariff lines affected,

[Table 5] Sector Affected

Affected Sector	Sector name	Number of Measures	Number Implemented	Number Deemed Discriminatory	Number of jurisdictions implementing this measures in this sector	Posted in Last 30 Days	Implemented in Past 30 Days	Discriminatory Measures in Past 30 Days
4	Fish and other fishing products	7	6	5	7	6	5	4
72	Water transport services	6	4	2	5	3	1	0
87	Business services n.e.c.	6	4	2	5	6	4	2
22	Dairy products	4	3	2	4	4	3	2
84	Computer and related services	4	3	1	4	4	3	1
1	Products of agriculture, horticulture	3	2	2	3	3	2	2
2	Live animals and animal products	3	2	1	3	3	2	1
21	Meat, fish, fruit, vegetables	3	1	2	3	3	1	2
23	Grain mill products, starch	3	2	2	3	2	1	1
29	Leather and leather products	3	2	1	3	3	2	1
38	Furniture; other transportble	3	2	1	3	3	2	1
15	Stone, sand, and clay	2	1	1	2	2	1	1
20	Food products, beverages	2	1	0	2	2	1	0
24	Beverages	2	1	1	2	2	1	1
25	Tobacoo products	2	1	0	2	2	1	0
27	Textile articles other than	2	2	1	2	2	2	1
32	Pulp, paper, and paper products	2	1	1	2	2	1	1
34	Basic chemicals	2	1	1	2	2	1	1
39	Wastes or scraps	2	1	0	2	2	1	0
44	Special purpose machinery	2	2	1	2	2	2	1
47	Radio, television, and communication	2	1	1	2	2	1	1
48	Medical appliances, precis	2	1	1	2	2	1	1
49	Transport equipment	2	2	1	2	2	2	1
61	Sale, maintenance and repair	2	1	0	2	2	1	0
64	Hotel and restaurant services	2	2	1	2	1	1	0
73	Air transport services	2	1	0	2	2	1	0
74	Supporting and auxiliary tr	2	1	0	2	1	0	0
85	Research and development	2	1	1	2	2	1	1
86	Legal, accounting, auditing	2	1	1	2	2	1	1
89	Intangible assets	2	1	1	2	2	1	1
3	Forestry and logging products	1	0	0	1	1	0	0
10	Ores and minerals; electric	1	0	0	1	1	0	0
11	Coal and lignite; peat	1	0	0	1	1	0	0
12	Crude petroleum and natural gas	1	0	0	1	1	0	0
13	Uranium and thorium ores	1	0	0	1	1	0	0
14	Metal ores	1	0	0	1	1	0	0
16	Other minerals	1	0	0	1	1	0	0
17	Electricity, town gas, steam	1	0	0	1	1	0	0
18	Water	1	0	0	1	1	0	0
26	Yarn and thread; woven an	1	1	1	1	1	1	1
28	Knitted or crocheted fabric	1	1	1	1	1	1	1
31	Products of wood cork, st	1	1	1	1	1	1	1
33	Coke oven products; refine	1	0	0	1	1	0	0

35	Other chemical products;	1	1	1	1	1	1	1
36	Rubber and plastic products	1	1	1	1	1	1	1
37	Glass and glass products	1	0	0	1	1	0	0
40	Metal products, machinery	1	0	0	1	1	0	0
42	Fabricated metal products	1	1	0	1	1	1	0
43	General purpose machinery	1	1	1	1	1	1	1
46	Electrical machinery and a	1	1	1	1	1	1	1
50	Construction work and con	1	1	0	1	1	1	0
51	Construction work	1	1	0	1	1	1	0
52	Constructions	1	1	0	1	1	1	0
53	Land	1	1	0	1	1	1	0
60	Trade services; hotel and r	1	1	0	1	1	1	0
62	Commission agents	1	1	0	1	1	1	0
63	Retail trade services; repair	1	1	0	1	1	1	0
71	Land transport services	1	1	0	1	1	1	0
75	Post and telecommunication	1	1	0	1	0	0	0
80	Business services; agriculture	1	1	0	1	0	0	0
81	Financial intermediation se	1	1	0	1	0	0	0
88	Agriculture, mining and m	1	1	1	1	1	1	1
91	Public administration and	1	1	0	1	1	1	0
98	Private households with en	1	1	1	1	1	1	1
0	Agriculture, forestry, and fishery	0	0	0	0	0	0	0
30	Other transportable goods,	0	0	0	0	0	0	0

41	Basic metals	0	0	0	0	0	0	0
45	Office, accounting, and co	0	0	0	0	0	0	0
70	Transport, storage and co	0	0	0	0	0	0	0
82	Real estate services	0	0	0	0	0	0	0
83	Leasing or rental services	0	0	0	0	0	0	0
90	Community, social and per	0	0	0	0	0	0	0
92	Education services	0	0	0	0	0	0	0
93	Health and social services	0	0	0	0	0	0	0
94	Sewage and refuse dispos	0	0	0	0	0	0	0
95	Services of membership o	0	0	0	0	0	0	0
96	Recreational, cultural and	0	0	0	0	0	0	0
97	Other services	0	0	0	0	0	0	0
99	Services provided by extra	0	0	0	0	0	0	0

Source: Global Trade Alert, July 28th 2009

the United States is far behind with only 34, whereas Russia has 154, India 184, Malaysia 293, and so on. Table 3 indicates that China is the most "affected" trading partner, facing the largest number of discriminatory measures (29), followed by the United States (23), and then Germany, France, Italy, the UK and Japan at around 20. Finally, Table 4 illustrates the many different kinds of measures that are being tracked, from tariff and trade defense measures to quotas, technical barriers, export subsidies and the like.

The Global Trade Alert approach is a highly innovative and crucial effort in shedding light on protectionist actions. Yet several caveats must be considered in using this data in analyses of trade protectionist measures. First, as with any coding effort, there are some very important limitations. Measures are not always directly weighted, although the number of tariff lines affected gives us some insight into this question. Second, and most importantly, the data at this point, particularly for countries like China, is very incomplete, as this approach relies on individuals and teams who are willing to report what countries are doing. As the manager of this complex project has noted, much of the data has yet to come in or is extremely hard to track.[5]

Third, and most relevant for the argument of this paper, while carefully and comprehensively categorizing measures by implementing country, affected country and types of measures (see Table 5), this effort does not adequately illuminate the *strategies* of countries in the crisis. While the United States has been roundly criticized for "Buy American" provisions in its stimulus packages, generally with good reason, some countries are using the financial crisis and widespread

[Figure 1] Categorizing the Motivation for Protectionist Measures[6]

Sectoral Objective

Driving force	Defense of existing sectors	Promotion of new products and services
Firm–led measures	U.S. and European auto sector, agriculture, insurance, banking	Educational services
Government–led measures	Banking	Fuel efficient autos (U.S.), IT, wind turbines (PRC)

5) Personal communication, Prof. Simon Evenett, July 30, 2009.

6) To my knowledge, this figure is original, but I have not been able to conduct a comprehensive survey of the literature on industrial policy to ascertain its novelty. Please email the author if you have knowledge of such a previously published chart.

government efforts to manage it as an opportunity to bolster not only failing industries but also to systematically pursue an industrial policy that is stateled and harmful to fair competition.

Simply put, we can envision four categories of government action. On the Y axis or vertical dimension, we have either governments or firm lobbying as the driving force. On the X axis, we consider the sectoral objective being promoted by the policy. Figure 1 illustrates the basis argument with some examples.

The most important point to note about this figure is that it is often difficult to ascertain the driving force behind a particular policy initiative without an extensive case analysis of the action in question. Be that as it may, in at least some cases the origins of a policy initiative is well known.

In some countries, relatively inefficient firms have been actively lobbying for government action, good examples being General Motors and Chrysler in the United States. These measures have protectionist elements, as helping failing industries through financial aid obviously distorts competition. Such lobbying has also been taking place among European firms as well.[7] Also, in the typical U.S. fashion of defending old industries, firms receiving protection in the United States include restraints against Chinese chicken imports and switchblades.

A second type of pressure is for firms that are innovating new products to restrict competition as they attempt to develop their goods and services. One significant example of this is the heavy lobbying by American and European firms to institute unilateral tariffs on countries that have not agreed to cap-and-trade controls in connection with the effort to limit greenhouse gases. Although their concerns are understandable, without linking such measures to an international agreement and efforts to help developing countries limit their emissions, this approach is likely to stimulate widespread

7) See, for example, http://www.climatechangecorp.com/content.asp?ContentID=5967.

retaliation and conflict.

Governments have also taken their own initiatives, as in the widespread U.S. and European aid to the financial sector. Although clearly lobbied by banks and other financial enterprises, many of the measures undertaken by governments have been developed and promoted by government officials themselves with an eye to mitigating the effects of bank failures on the real economy. The Chinese have not given up on heavy export promotion, maintaining their traditional strategy. As of July 2008, renminbi appreciation has been blocked through intervention, exports are being heavily promoted with subsidies, raw materials prices have been lowered through export tariffs,[8)] and a strong "Buy Chinese" effort has restricted foreign purchases (despite promises to do so, China has yet to sign the WTO government procurement accord, eight years after joining the WTO).

Finally, we have efforts to promote or help newly developing industries through restrictive measures. Here, the measures being pursued by the Chinese government have little to do with coping with the financial crisis and much to do with state-led capitalism. Although most economists speak disparagingly of industrial policy efforts, companies that actually have to deal with state-supported competition as opposed to theoretical models are deeply concerned with unfair competition. The Chinese have been shielding their clean energy sector from competition to develop their own domestic firms, calling for 80 percent of equipment used in solar panel manufacturing to be Chinese sourced, and banning wind turbines with a capacity of less than 1,000 kilowatts as a means of undermining the competitive position of European exporters of the most popular 850-kilowatt design.[9)] Chinese complaints about carbon tariffs in view of their own industrial policy efforts ring hollow on this score.

8) *New York Times*, June 24, 2009.

9) See FT.com, in depth, May 28, 2009.

Conclusion

The efforts by governments to resolve the financial crisis that has affected the global economy is a welcome change from the feeble efforts of the 1930s that failed to reverse the collapse of the world economy and should be commended. We have seen signs of a growing recovery, as the many stimulus packages across the world and loose monetary policy have encouraged greater consumption and production. As many analysts have noted, the "murky protectionism" that has been clearly identified by analysts in the globaltradealert.org project can be very hazardous for global recovery.

This paper has focused not only on a general overview of protectionist measures but also on attempting to analyze theoretically the motivating forces behind the protectionist intervention we have seen. As I have argued, efforts to give firms unfair competitive advantages that further undermine what was not a very level playing field to begin with through the use of murky protectionist measures should be roundly condemned.