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Open Trade or Protectionism?

Developments in trade policy since 1995

2009 10

Kommerskollegium
National Board of Trade

The National Board of Trade is the Swedish governmental agency responsible for issues relating to foreign trade and trade policy. Our mission is to promote an open and free trade with transparent rules. The basis for this task, given us by the Government, is that a smoothly functioning international trade and a further liberalized trade policy are in the interest of Sweden. To this end we strive for an efficient internal market, a liberalized common trade policy in the EU and an open and strong multilateral trading system, especially within the World Trade Organization (WTO).

As the expert authority in trade and trade policy, the Board provides the Government with analyses and background material, related to ongoing international trade negotiation as well as more structural or long-term analyses of trade related issues. We also publish material intended to increase awareness of the role of international trade in a functioning economy and for economic development.

The National Board of Trade also provides service to companies, for instance through our SOLVIT Centre which assists companies as well as people encountering trade barriers on the internal market. The Board also administers the Swedish Council for Trade Facilitation, SWEPRO.

In addition, as an expert authority in trade policy issues, the National Board of Trade provides assistance to developing countries, through trade-related development cooperation. We also host Open Trade Gate Sweden, a one-stop information centre assisting exporters from developing countries with information on rules and requirements in Sweden and the EU.

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Foreword

Sweden has a long history of making use of opportunities for international trade. Trade greatly contributes to our welfare and economic development. We are significantly more dependent on international trade, both export and import, than many of our neighboring countries. This is why it is important that good opportunities exist for international trade, without unnecessary barriers standing in the way. Protectionism is harmful to the Swedish economy.

Globally, the growth of international trade is outpacing production, and investments are increasing more rapidly still. This study by the Swedish National Board of Trade shows that the twelve years following 1995 saw a period of increased openness and free trade. Meanwhile, progress in trade policy has been limited in recent years. A common impression obtained from various investigations is that support for protectionism is on the rise, perhaps as an effect of globalization.

The National Board of Trade is the Swedish public authority tasked with preventing barriers to trade and promoting free trade. In my head role in this endeavor, I sometimes think that our efforts towards free trade should be aimed increasingly at counteracting new protectionism. This is why we have chosen to conduct a study that illustrates long term trends in trade policy.

This study is not about the effects of - or reactions to- the economic crisis. The crisis has led to a drastic decline in international trade. Protectionist measures have increased, though dangerous levels have not been reached - yet. The study examines whether protectionism was already on the rise before the crisis began. Therefore it is rather an examination of the state of trade policy and the world trade system at the time of the crisis' impact.

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Summary

World trade has undergone a period of strong expansion since 1995. Trade in goods has grown more rapidly than the economy as a whole. The same trend can be seen for trade in services. Foreign direct investments have increased even more.

Today, however, the situation appears less optimistic. The WTO and the OECD are predicting the greatest downturn in international trade since the Second World War. The economic crisis has intensified the debate on protectionism in trade and there are worries that protectionist measures will hurt the world trading system. However, worries about protectionism existed even before the current economic crisis. It is against this background that the National Board of Trade studied developments in trade policy during the period from 1995 to 2007. Trade policy instruments were analyzed in order to determine whether trade has become more open, or has gone in the opposite direction. We sought to maintain a nuanced approach towards measures and regulations that create barriers to trade. For this reason, we have distinguished between protectionist rules intended to protect domestic industry from foreign competition, and other rules with a restrictive effect on trade.

Since 1995 - the year the World Trade Organization (WTO) was created – the regulatory framework for international trade has gradually become more open. The WTO's regulatory framework indicates a minimal level of openness which is legally binding. In many areas, such as subsidies, technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS), today's international regulatory framework creates greater predictability in trade. Since 1995, 26 new countries have joined the WTO. In addition to the WTO, many countries have signed various regional and bilateral agreements in which they commit themselves to engage in an open trade policy.

During this period, use of traditional trade barriers, such as tariffs and quotas, has declined. Most developed countries have low tariffs on industrial goods and have made commitments in the WTO not to raise them. Many developing countries also have relatively low tariffs but their opportunities for raising them are much larger, since they generally have a lower level of commitments in the WTO.

Trade in the agricultural sector has traditionally been protected from foreign competition, particularly in the developed countries. However, there are several indications that trade is becoming more open even in the agricultural sector. The aggregate level of protection is falling and support systems are becoming less trade distortive.

For the most part, cross-border import and export of goods has become easier. The time required for import and export has been reduced as many countries now require fewer documents and less complicated cross-border procedures than they did just a few years ago. It is more difficult to ascertain whether the rules governing trade with industrial and agricultural goods have become more or less restrictive to trade since 1995. More and more measures are coming under discussion in the WTO committees Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS). However, this is likely to be a natural consequence of the increased internationalization of trade. As more countries and types of products become involved, new conflicts are arising between the various systems of regulation. This does not necessarily mean that the regulations have changed or become more restrictive. An increased number of reports may a result of countries' having increased respect for the WTO's rules on openness and transparency and higher ambitions regarding health, the environment, and security.

When tariffs are lowered, many countries often wish to use trade defense instruments to protect certain sectors. There are three kinds of such instruments, namely anti-dumping, countervailing measures and safeguards. During the past few decades, an increasing number of countries have introduced legislation for anti-dumping. India and China have had an increasingly heavier hand with these instruments in recent years. The total number of global inquiries, the first step towards and anti-dumping tariff, has remained relatively constant during this period. The number of anti-dumping measures introduced tends to vary with the state of the economy. Beyond this tendency, however, we are not able to identify any clear trends pertaining to anti-dumping measures. Since world trade has increased by 170 percent during this period, however, this means that the *proportion* of trade affected anti-dumping measures has nevertheless decreased.

For most of the larger trade nations, the trend since 1995 has been that the import of services has exceeded the increase in GDP. We are therefore able to draw the conclusion that rather than worsening during the period from 1995 to 2007, conditions for trade in services likely improved. Regulations for foreign investments have also been liberalized in recent decades, particularly in Europe.

The National Board of Trade concludes that protectionism did not increase during the period from 1995 to 2007. However, existing regulations provide a relatively large amount of discretionary room for countries to introduce protectionist measures, which could potentially have a negative impact on certain countries and sectors.

In general, the WTO commitments made by developing countries have been less in depth, which often entails a lower degree of liberalization and more generous opportunities for countries to take protectionist measures, including raising their tariffs. In the agricultural sector, there is more discretionary room for the protectionist use of trade instruments than in the industrial sector, which tends to be used primarily by the developed countries. There are also more generous opportunities to use safeguard measures for agricultural products.

The three WTO agreements on anti-dumping, countervailing and safeguarding measures all provide considerable opportunities for countries to interpret what motivates various trade policy operations. For this reason, there is ample opportunity for protectionism in this area.

As trade becomes increasingly internationalized and more types of products are traded among more countries, regulations governing health, environmental and security requirements are becoming more and more common. These trade regulations can have a major impact and may in practice represent barriers to trade which are difficult to overcome. We cannot exclude that trade procedures, technical rules and SPS regulations may be used in a protectionist manner, though this is less likely to be the case.

As regards subsidies, the international regulatory framework remains weak, and relatively few countries have made commitments regarding public procurement that grant market access to foreign suppliers. Many countries can therefore favor domestic companies in public procurements or support them using government subsidies.

In the service and investment area, there is a relatively large amount of discretionary room for countries wishing to safeguard their market from foreign competition using more restrictive regulations. The openness that exists for trade in services is guaranteed to a lesser extent in WTO commitments than for trade in goods. As regards foreign investments, however, experience shows that previous crises have not given rise to more restrictive regulations.

The overarching purpose of the study was to examine longterm trends. It is our belief that the risk for increased protectionism should be seen in a historical context, with fewer barriers to trade in place today than in 1995, when the WTO was created. World trade has undergone a long period of increasing openness in trade regulations, and is therefore better equipped today to meet any potential backlash in the form of greater barriers to trade. This is not equal to saying that protectionist measures are not harmful for the economy, particularity in a global recession. Protectionist measures have a larger impact as many companies are now more dependent on imported input goods, for instance, due to the internationalization of their production chains. At the same time, however, the increasing degree of integration in these production chains are making it more difficult to introduce protectionist measures that will not damage a country's own economy.

1. Open trade or protectionism?

1.1 "Protectionism is on the rise!"

World trade has undergone a period of strong expansion. Since 1995, world trade in goods has increased by 170 percent in nominal terms (108 % in real terms), and trade in commercial services has grown by 161 percent (101 % in real terms). Trade has grown more rapidly than the economy as a whole, which grew 84 percent in nominal terms during the period studied.

In 1995, trade comprised almost 22 percent of the world economy. Twelve years later, in 2007, this figured increased to 32 percent.

Today's situation has changed somewhat, however, and world trade is now facing the greatest decline since the Second World War. The World Trade Organization, WTO, predicts that the volume of world trade will decline 9 percent during 2009 (WTO, 2008). The OECD is even more pessimistic, predicting in its *Economic Outlook* a decline in international trade of 13.2 percent in 2009 (OECD, 2009).

A general decline in demand combines with difficulties faced by companies, particularly those which are small and medium in size, in attaining credit to provide a partial explanation for the downturn.

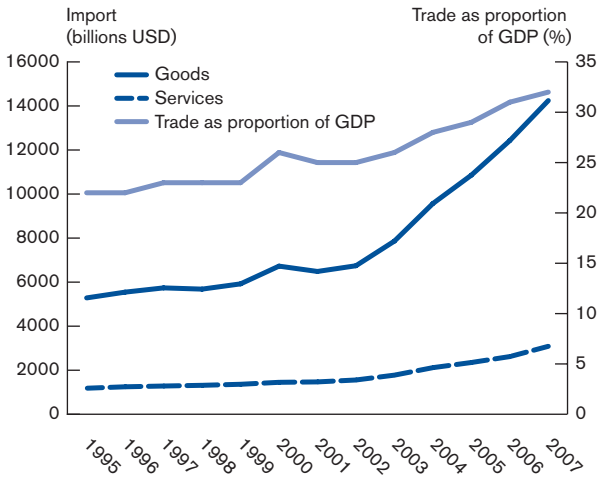
Some worry that the economic crisis will impel countries to introduce protectionist measures to safeguard their own economy and reduce trade. A number of organizations, including the WTO and the World Bank, are watching the developments carefully.

Even before the economic crisis, warnings about increased protectionism were common, both in the public debate and from international organizations and academia.

In November 2003, Niall Fitzgerald, chairman of the multinational Unilever group, was quoted in Financial times as saying: *"There is a rising tide of protectionism in many parts of the world and we risk a perfect storm if action is not taken immediately by world leaders"*. The Swedish agricultural news periodical *Jordbruksaktuellt* expressed it more boldly in May of 2002 with its headline, "It's going to be a protectionist year". In an article the same month, the Swedish morning paper Svenska Dagbladet writes of "storm clouds on the free trade horizon", and points out a unique situation in which the executives of the IMF, WTO and the World Bank all three warn of increased protectionism. Warning flags for increased protectionism have appeared on and off for a number of years. Politicians, business leaders, economists and representatives for international organizations often return to the risk of increased protectionism.

How well do these views correspond with the increase in trade recorded before the economic crisis? Did protectionism really grow uncontrollably, as many warned? And is the current situation even worse today? In order to answer these questions, the National Board of Trade examined developments over time and highlighted long-term trends.

Figure 1. Trade developments 1995-2007



Global import of goods and commercial services and the proportion of the GDP comprised by import. (see Appendix 1 for data)

1.2 About this study

The government and the international community are responsible for building regulatory framework that is sustainable in the long term and which facilitates trade and helps create the best possible conditions for long-term economic growth. The regulatory framework for trade policy establishes rules for trade and can thereby reduce the discretionary room for engaging in protectionist policy.

The study by the National Board of Trade was commenced in 1995. It examines developments in the conditions for international trade until 2007. How does today's regulatory framework for trade policy differ from that of 1995? Has trade policy become more open, or has protectionism increased? Another of its objectives is to discuss

whether trade instruments can be used for protectionist purposes and to illuminate potential risks of this taking place.

The focus of the study is mostly on trade in goods, but services as well as foreign direct investments are also discussed.

Barriers to trade that may arise due to non-governmental measures, such as private specifications for goods, corporate codes for for environmental and social reasons and corruption are not included in this study. The focus is on import protectionism, restrictions against exports are thus not considered. Neither is financial protetctionism.

1.3 Protectionism and measures with a restrictive effect on trade

In this study, protectionism is defined as a trade-restrictive measure (or regulation) which a country introduces to safeguard domestically produced goods and services from foreign competition. The study's point of departure is that protectionism is negative for the economy, as it often entails an economic cost for the society, at least in the long term. However, it is important to emphasize that a country may introduce protectionist measures without a breach against its international agreements with other countries. Anti-dumping measures against import of goods perceived as price dumping is an example of this type of protectionist measure. The absence of a regulatory framework or deficiencies in the design of regulations can also enable protectionist measures.

There are a number of measures which restrict trade, but which the National Board of Trade has chosen not to describe as protectionist. In this study, we will instead discuss regulations or measures with a restrictive effect on trade. These are regulations that impact trade which countries introduce for purposes other than safeguarding of the domestic economy, such as ensuring the fulfillment of security requirements, protection of human, animal and plant health, and environmental considerations. Increasing international trade and greater complexity in goods being traded has resulted in an increase in both the number and significance of these regulations. There is no doubt that such rules impact trade, sometimes restrictively. Such regulations, however, are not necessarily protectionist. Regulations can be designed so as to represent unnecessarily serious barriers for other countries wishing to conduct trade with the country. According to our definition, regulations which are intentionally designed in a trade restrictive manner would be defined as protectionism. This is a complicated digression, however. Before we introduce our study, we can state that there is rarely a simple answer to the question of what defines protectionism.

2. Public opinion

The public's attitude towards open trade and globalization should have an impact on a country's trade policy. Therefore it is of interest to study how the population in various countries views trade and increased globalization.

2.1 Trends in global opinion on trade and imports

In 2002 and again in 2007, Pew, an independent American opinion institute, asked respondents in 47 countries whether they believed that "trade is good for your country" (see Figure 2). In all countries and in both years, a considerable majority responded in the affirmative. During this period, support for trade had fallen in 14 countries and increased in only four. In seventeen of the countries responding, little or no change took place over time (The Pew Global Attitudes Project, 2007).

The greatest decline in support for trade was seen in the United States. In 2002, 78 percent of respondents felt that trade was good for the United States. Five years later, the figure had dropped to 59 percent, the lowest of any country in the study. However, according to the Pew study, the younger generation of Americans has a more positive attitude towards international trade than the older generation. In the 2008 Congressional elections in the United States, trade issues were a higher priority on the agenda than ever before, and candidates which a protectionist platform gained ground. Significantly more expressed protectionists are now seated in Congress than before[1].

Support had also declined in other Western countries studied, albeit the decline was less dramatic in than in the United States. It should be noted that support for trade was stronger in Europe than in the United States.

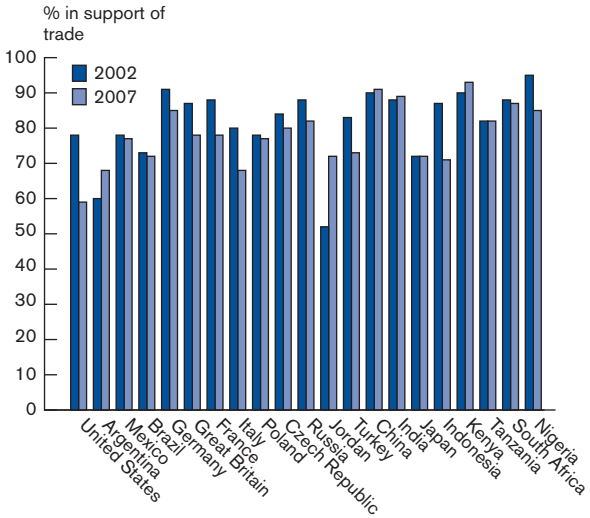
Developing countries generally had a more positive view of trade than did the traditional developed countries. Support declined considerably in Indonesia, and the greatest increase was seen in Jordan. It should be noted that during this period, Jordan signed a broad free trade agreement with the United States, which may be part of the explanation for the change in this country.

At the same time, it is important to note that the question above is broad and that the response might be less positive if the question addressed "import" or "foreign competition." It is possible that many respondents interpreted the question to mean export only. One indication that this may be the case comes from another study, this one addressing import alone, where support was considerably lower. In 1998, the *Economist* conducted a study in 22 countries in which participants were asked to respond to the statement that "the best way to improve the economy and employment rate in this country is to remove import restrictions to increase our international trade."

Figure 3 compares the 1998 *Economist* study, which deals specifically with import, and the 2002 Pew investigation which addresses trade in general for a selection of six countries. The comparison shows clearly that there is less support for openness towards import than for trade in general. Between 70 and 90 percent of respondents in the Pew study has a positive attitude towards trade. Responses were distributed less evenly among the options in the *Economist* study. Support ranged from 22 percent in Russia to approximately 52 percent in Germany.

In the *Economist* study, 47 percent of all responses chose the option: "the best way to improve the economy and employment rate in this country is to protect local industry by limiting imports." Almost half of all respondents, then, could be described as

Figure 2 Support for international trade in 21 countries in 2002 and 2007



Source: The Pew Global Attitudes Project (2007) *World Publics Welcome Global Trade – but not Immigration: 47-nation PEW global attitudes survey* p. 14. (selection of countries by the National Board of Trade)

protectionists according to the definition used in this report. The strongest support for protectionist trade policy can be found in the Southeast Asian countries: Malaysia, Indonesia and the Philippines.

These figures are more than ten years old, and much has happened in the global economy since 1998. It was this year that Asian countries were hit by a financial crisis that threatened to develop onto the global scale. The *Economist* notes that protectionism often arises in times of economic recession, which may explain why the Southeast Asian countries are particularly protectionist beginning in the late1990s. We were unfortunately unable to find more recent figures on global attitudes towards import alone. However, figures abound on attitudes towards the significantly broader issue of globalization.

2.2 World opinion on globalization

In 2008, BBC conducted opinion polls in 34 countries which showed that global opinion was very split (PIPA and Globescan 2008). 50 procent of respondents felt that globalization was happening too quickly, while 35 percent felt it was happening too slowly. In 22 countries, the majority of respondents felt that the process was too fast. In wealthy countries, the majority felt that globalization needed to slow down to prevent the gap between rich and poor countries from becoming too large, while the majority in poor countries felt that the processes needed to speed up so that these very gaps could be closed. Only a small minority, however, felt that globalization was happening "much too quickly"; most respondents did not want to put the brakes on development. The greatest support for the position that globalization is taking place too slowly can be found in the traditionally protectionist country of Brazil, where many now appear to be seeing the many opportunities on the global market. Here, a full 30 percent of respondents felt that globalization was happening too slowly. On the other end of the spectrum is Spain, where a full 39 percent felt that globalization was taking place too quickly. Spain is a country that has seen dramatic globalization taken place in recent decades.

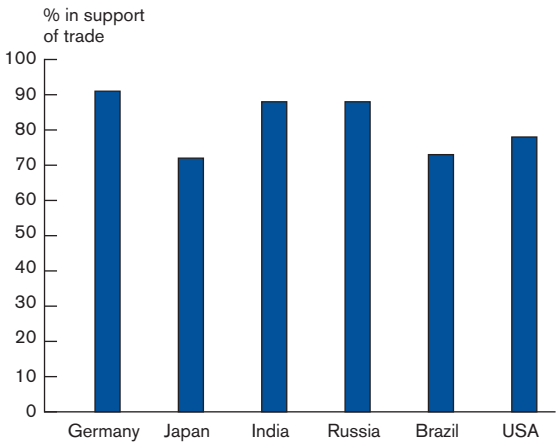
In 2006, the Gallup opinion institute conducted its annual study, *Voice of the People*, in 64 countries. In the poll, 38 percent of those interviewed responded that globalization was good for their country, while 15 percent stated that it was bad. The rest were unsure or felt that the net effect was close to zero.

This shows that a very large part of the world's population has no knowledge or no opinion on these complicated issues. In general, however, support for globalization appeared to be higher in poor countries than in wealthy countries, and was highest in Africa (Leger Marketing, 2006).

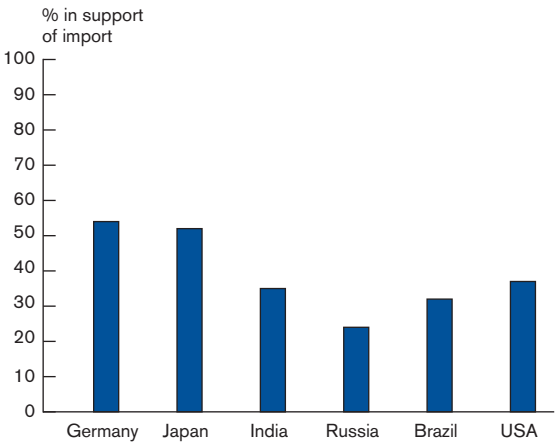
According to the Gallup poll, the greatest resistance to globalization could be seen in Eastern and Central Europe. Only 23 percent were in support of globalization, while almost as many (21 percent) opposed it (Leger Marketing, 2006). As regards the "old" EU, the EU Commission in a 2004 study showed great variation in attitudes towards globalization among the member countries, from 47 percent acceptance in Greece to 78 percent in the Netherlands, with an average of 63 percent for the EU as a whole. The North-South dimension which was

Figure 3 Two figures showing support for trade and import

Support for trade (Pew, 2002)



Support for import (Economist, 1998)



Sources: Pew *Views of global change* (2007) and the Economist *Liberalism lives* (1998)

expected to be seen was not followed consistently. Italians were more positive than the British. Fifty-six percent of those interviewed saw globalization more as an opportunity than as a threat for their countries. The opposite view was found only in France, Greece, and Belgium (EOS Gallup Europe, 2004).

In the Pew study, respondents were also asked about the impact of the presence of foreign companies. The study was conducted in 2002 and in 2007. Of 47 countries, the majority of respondents in 41 countries felt that foreign companies have a positive impact on their countries. The trend, however, is for an increasing number of people in the wealthy part of the world to have skeptical attitude towards the impact of foreign companies. Only in France, however, did the majority of respondents have a negative view of multinational companies in 2007. There were changes in opinion over time, however: the attitude became more negative in all wealthy countries. Among the developing countries, there was no clear trend; support rose dramatically in India, and fell dramatically in China. In general, however, in enthusiasm for foreign direct investments was higher in developing countries than in wealthy countries (The Pew Global Attitudes Project, 2007)

To conclude, public opinion might have become slightly less positively inclined towards trade and increased globalization, beginning in the early 1990s and continuing until today. However, the majority still takes a positive view on these issues. A clear picture is nevertheless difficult to obtain. This is perhaps not so surprising, as conditions and the ability to benefit from international trade and globalization vary among the world's countries.

3. The trade policy framework

There has been much activity in the trade policy arena over the last 15 years. The year 1995 saw the conclusion of the Uruguay Round after eight years of negotiation and the establishment of the World Trade Organization, WTO. The founding of the WTO has probably been the most significant event for the institutional regulatory framework since the formation of its predecessor the GATT (General Agreement on Tariffs and Trade) after the second World War. Shortly after the completion of the Uruguay Round came the beginning of an ambitious new set of multilateral negotiations: *The Doha Round*.

In conjunction with the Doha Round, an increasing number of countries have chosen to enter into free trade agreements to ensure mutual openness in trade.

3.1 Growing membership body in the World Trade Organization (WTO)

The World Trade Organization, WTO, is the organization that regulates trade on an international level. The organization's objectives are a higher standard of living and full employment, to be attained through increased trade and production, among other means. By becoming a member in the organization, a country commits to abide by its jointly established regulations. These regulations vary by trade topic, but all seek to create open and predictable trade relations. Members also engage in negotiations regarding market access commitments for goods and services, meaning that countries bind the highest tariff they may set for various goods, and the barriers they may impose on market access for services. These bindings set limits on the use of for example tariffs and other means of blocking entry of foreign goods to a country's domestic market. Finally, membership in the WTO also means that a country is subject to the WTO's system for dispute settlement and agrees to undergo the trade policy review process. All of these measures combine to limit a country's ability to engage in protectionist trade policy.

The WTO plays a central role in ensuring open trade policy. The number of member countries has grown from the original 128 to 153 in June of 2009. No country has ever left the World Trade Organization. This does not mean, however, that all members practice particularly open trade policy. Countries that joined the WTO at the time of its formation did so under more moderate conditions for membership; the binding agreements required of them were less stringent than those required today. With the exception of the LDC countries, new members have been subject to increasingly rigorous membership requirements. They have not been allowed entry without a comprehensive liberalization of their trade policy. Membership in the WTO has reduced the ability of the 25 new member countries to introduce protectionist measures. Particularly significant in this regard was China's joining of the WTO in 2001. Pursuant to the negotiations surrounding its membership in the WTO, China was required to drastically liberalize its trade policy.

With the entry of not only China, but also other countries with large or growing economies as well, such as Taiwan, Vietnam, Saudi Arabia and Ukraine into the WTO, an increasingly large proportion of world trade is conducted among WTO member countries.

The Doha Round has reached a hitch

The Doha Development Round is the latest in a series of WTO negotiations intended to liberalize international trade and strengthen the WTO's regulatory framework for trade policy. The negotiations, which began in 2001, seek to address more than twenty trade topics, which is significantly more than any previous round. The negotiations are divided into five main areas: agriculture, market access for goods and services, trade facilitation and rules. All are to be included in what is known as a *single undertaking*. The round has also been called a development round, since it is clear from the mandate that a special focus shall be placed on the situation of developing countries.

The original goal was to reach an agreement before January 1 2005. As with previous international trade policy negotiations, however, the Doha Round has lasted longer than planned, and the negotiations remain unconcluded. The Doha Round has also been characterized by breaks and interruptions in negotiations due to the countries' being unable to agree on the conditions for continued negotiations. There has been only weak political pressure to reach a settlement. Observers also note that industry has been less of a driving force

in the Doha Round than in its predecessor, the Uruguay negotiations.

Quite a few results have already been achieved in the Doha Round negotiations, and at the ministerial meeting in 2008, a breakthrough was believed to be imminent. Following the meeting, WTO Director-General Pascal Lamy stated that there were 20 questions to be resolved at the ministerial level and that 18 of them had been resolved. In the end, the momentum was broken by a conflict between the United States and India regarding a temporary special safeguard mechanism (SSM for agricultural goods).

Before the ministerial meeting even began, agreements had already been made to abolish all export subsidies by 2013. The developed countries have also undertaken to greatly reduce their trade-restrictive support of domestic agriculture, and to lower tariffs on agricultural products. Decisions are also in place to grant the LDCs (least developed countries) tariff- and quota-free access to the rest of the world's markets. The WTO's decision process, whereby all the countries perform a "single undertaking" after the entire round is concluded, means that none of the aforementioned results of the negotiations are fully complete before the entire round is concluded.

The difficulties faced in reaching a conclusion in the Doha Rounds do not necessarily entail an increase in protectionism or less openness in trade. They have, however, prevented further gains in trade liberalization and clearer rules from becoming realized.

In 2006, the National Board of Trade conducted a study which simulated the potential outcomes of the Doha Round. The study examined four topics of the negotiations: liberalization of agriculture, market access for industrial goods, liberalization of services, and trade facilitation. In the study, potential increases in revenue on a global level in 2006 were estimated at 0.2–0.7 percent of the initial gross domestic product (GDP), or between 730 and 2400 billon SEK. The lower figure is projected from a scenario with less liberalization, and the higher figure from an outcome of negotiations which would result in a more comprehensive liberalization (National Board of Trade, 2006). To these gains should be added other more long term dynamic effects, partly arising from increased competetion, and which are probably larger.

Risks for the future

In the worst case scenario, the Doha Round could fail, and even if concluded, it could generate only limited gains compared to what many countries would desire to see. When the round began, the World Bank and other organizations were optimistic that it would bring significant gains. As the negotiations progressed, however, expectations were lowered, particularly after the collapse of the ministerial meetings in Cancun in 2003.

When the WTO does not deliver more open trade conditions in the short term, many countries turn instead to bilateral and regional agreements to accomplish the same end. Because of the difficulties in reaching an internal consensus, the WTO may run the risk of being reduced to an organization that merely monitors compliance with existing agreements, and no longer a forum for generating new liberalization measures. This would still confer an important role to the WTO, since the enforcement of existing WTO agreements comprises an important barrier to protectionism.

It seems very unlikely that countries should leave the WTO in order to be absolved from their commitments. It also appears unlikely that existing WTO-agreements would be annulled or changed. This would require consensus from the WTO, which is unlikely to be attained. However, countries may wish to modify their WTO commitments, for example by increasing certain tariffs. In order to do so, they must negotiate with other member countries about compensation in the form of lowering other tariffs.

4. Bilateral and regional free-trade agreements

Do free trade agreements lead to more openness in trade?

Due to the lack of progress in the Doha Round, a number of countries have entered into a series of bilateral and regional free trade agreements.

By definition, free trade agreements are discriminatory. Even if no new trade barriers can be raised against third countries, it may be relatively speaking more difficult for third countries (particularly developing countries lacking in resources) to successfully negotiate an agreement that is favorable to them. Many developing countries' markets are so small that the major trade nations have little interest in negotiating free trade agreements with them.

If country A has a free trade agreement with country B in which C is not included, this may mean that companies from country B may engage in export with country A without paying tariffs, while companies from country C must may tariffs, putting them at a competitive disadvantage. Naturally, the companies in country C may perceive this as protectionism. However, what is in fact taking place is a distortion of competition. Distortions disrupt natural comparative market advantages and redraw the playing field. If trade takes place between A and B which, in the absence of a free trade agreement
between A and B, would instead have occurred between A and C, this is a case of trade diversion. An ineffective trade pattern has developed, resulting in an economic loss for the society as a whole.

Free trade agreements lead to more openness in trade between the contractual parties. At the same time, however, agreements can create new barriers to trade in the form of more complicated trade procedures. For example, the administrative procedures for meeting the rules of origin requirements contained in these agreements usually do not simplify the process for companies. The large number of trade agreements makes it more difficult for enterprises to get an overview of the trade rules.

It is important to recall that a trade creation effect may arise, which is when existing trade increases in the new free trade region, or new trade arises in a place where it had not taken place before. An example of the latter scenario is when a domestic producer in country A faces competition from a more effective competitor in country B, a company which was previously unable to gain entry to country A's market due to trade barriers which have now been dissolved through a free trade agreement.
This results in an economic gain. Thus, under some but not all circumstances, free trade agreements lead to increased efficiency in trade patterns.

Within the WTO, there are regulations regarding regional trade agreements. Many agreements, particularly those signed between developing countries, have as their primary objective the strengthening of political connections, and contribute to a lesser extent towards greater openness in trade between the parties. The WTO's regulatory framework does not actually permit such agreements. In order to reduce the risk of distortion, only agreements that cover almost all trade are
allowed by the WTO.

The WTO's *enabling clause*, which grants exceptions to this rule, is used frequently. This clause makes three allowances: developing countries are permitted to give limited preferences to one another; LDCs are permitted more comprehensive preferences than other countries; and non-mutual agreements may be signed between developed and developing countries. It also enables a number of agreements that create the risk of redistributing trade rather than generating additional trade. This, too, is only distortion rather than protectionism. Unfortunately, empirical research shows that the majority of agreements are limited in their scope and therefore do little to generate new trade (OECD, 2008a).

There are, however, examples to the contrary, such as those agreements that are considerably more far-reaching than the WTO's regulatory framework and that oblige the parties to deep integration. Examples are those that contain prohibitions against anti-dumping between the parties; common rules for competition, public procurement, and investments; and harmonization of technical regulations. In accordance with the EU's strategy for bilateral agreements, any agreements it enters into must be of major commercial significance and must result in considerably more extensive liberalization than would the WTO. In a world dominated by agreements of this kind, economic integration is strengthened while discretionary room for protectionism is limited.

Developments since 1995

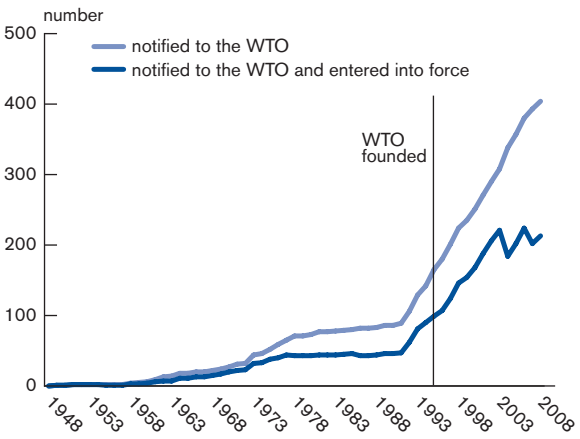
The number of free trade agreements worldwide has doubled since 1995, from approximately one hundred to just over two hundred (see figure 4). Examples of these agreements are that between the United States and Central America[2] and CARICOM, the EU's new EPA agreement with the Caribbean countries. Other agreements are under negotiation, such as that between Japan and Australia and between the EU and India.

According to the EU Commission, approximately one-third of all world trade is covered by some type of free trade agreement. If all of the negotiations currently underway are successful, this figure may increase to half of all trade. If all of the agreements that are under discussion, but have not yet reached the negotiation stage, are implemented, the proportion will reach a full 75 percent (OECD, 2008a).

Risks for the future

What does the future look like in terms of protectionism? One hope is that every new agreement a country signs will reduce the value of previous agreements, and trade will gradually become more open until discrimination and distortion are ultimately eliminated (OECD, 2008a). This hope is based on the theory that free trade agreements lay the foundation for multilateral free trade. However, this would require that the agreements at least meet the minimum WTO requirements (Baldwin and Thornton, 2008).

Figure 4 Regional trade agreements, notified and active (1948-2008)



Source: WTO RTA Gateway at National Board of Trade (2009) Global trade patterns, 2009:5

The conclusion to be drawn is that while free trade agreements lead to more openness in trade, they create, at least in the short and medium term, distortions in the flow of trade. Whether these distortions can be reduced/eliminated in the long term, remains to be seen.

4.1 Rules of origin

Rules of origin can function as barriers to trade

Rules of origin are those regulations that are used to determine the origin of a product, in other words, to determine the country or the region from where a product is imported. With today's global production patterns, where inputs from several countries are often used in the production of a final product, it can be complicated to determine the country of origin of a product.

A free trade agreement becomes meaningless without rules of origin that specify how large a portion of a product may be produced outside of the free trade area, without the product losing the agreed upon tariff exemption. Without rules of origin, the country which has the lowest external tariffs risks becoming a transit country for goods that are imported to the free trade area from a third country. If the EU were to have a free trade agreement with Kenya without rules of origin, 100 percent of a "Kenyan" product could be produced in China only to be shipped via Kenya on its way to the EU. Thereby, the Chinese product would get the tariff exemption agreed between the EU and Kenya. This would not benefit Kenya by any significant measure.

Rules of origin are therefore necessary and should be balanced, to the extent that an appropriate percentage of foreign inputs are permitted. If the percentage is too high, the participants in the agreement do not benefit, rather the third country benefits. If the percentage is too low, participants in the agreement cannot benefit from internationally competitive input products. If the permitted percentage is too low, results may be that a producer cannot utilise the tariff reduction in a free trade agreement, or alternatively that a producer changes to a less competitive supplier of a particular input product within the free trade area, or finally that costly investments are made by the producer himself to meet the rules of origin requirements.

What constitutes an appropriate percentage is, however, a subject of debate. This can allow for certain interests in importing countries to argue that the percentage should be low, so that exporting countries will have greater difficulty in really benefiting from the agreement's tariff reductions. If, for example, in its free trade agreement, the EU had not allowed Kenya to buy Chinese input products in sufficient amounts for production that is intended for the EU market, perhaps Kenya cannot compete with the EU's internal production. Then, the EU has constructed rules of origin towards a protectionist end.

Additionally, a potential source of protectionism has to do with administrative procedures. If the process involved in verifying the status of the country of origin for customs authorities is too long and difficult, it can, in and of itself, become a barrier to trade. Protectionist interests can therefore push for more strict demands on certification of origin, burden of proof, etc.

The trend since 1995

It is not simple to see the extent to which rules of origin as a whole have progressed towards more or less restrictiveness. It is complex to assess how restrictive rules of origin are and compare them to one another and over time. Regulations differ among various product areas and among various agreements. Generous rules of origin in one sector can, in addition, be without real value if little trade takes place between trading partners in the sector.

Estevadeordal and Suominen (2004) is one of a few studies that compare country of origin regulations with one another over time. It finds that the average level of restriction in free trade agreements has increased during the 1981 – 2001 period. The study includes 155 countries during the period.

On the other hand, however, Estevadeordal and Suominen conclude that, for example, the USA's rules of origin have become less restrictive over time (Baldwin and Thornton, 2008). According to them, the rules of origin in NAFTA[3] are more restrictive than in the USA-Chile agreement of 2004, which is in turn more restrictive than CAFTA[4] of 2005 which, finally, is more restrictive than the USA-Peru and USA-Chile agreements which were negotiated during 2006.

Simultaneously, regulations have become more sector and product specific. The rules of origin requirements on agricultural and textile products are, according to Estevadeordal and Suominen (2004) the most restrictive. These sectors are also often those that are seen as the most protected in the EU and in the USA.

Risks in the future

Every new free trade agreement that is negotiated gives rise to new, unique rules of origin. The increased occurrence of free trade agreements in the world means, therefore, an increased risk of creating new barriers to trade in the form of unfounded restrictive rules of of origin.

Secondly, the trend towards more and more overlapping free trade agreements can further increase the risk that new agreements are constructed with restrictive rules of origin towards protectionist ends. Such a risk can arise with free trade negotiations if a country anticipates the possibility that a negotiating party can, in the future, enter into a free trade agreement with a third country. Then the stakeholder negotiating the first agreement may want stricter rules of origin in light of the potential for input products from a third country entering the negotiating party's port tariff-free. Such desires have been expressed in the EU in negotiations with South Korea, since it is not possible to ignore the possibility that South Korea may, in the future, negotiate an agreement with China or Japan.

Further, in order to verify country of origin, administrative procedures can become even more complicated when one country is party to several various free trade agreements. It becomes more complex for customs officials to determine if a product is of one origin or another if it is necessary to consult a number of various rules of origin protocols (Krueger, 1997).

Finally, there is a risk that rules of origin become obsolete, which can increase their effect as trade barriers. With globalisation, production chains are becoming all the more internationalised. Today's rules of origin are not always adapted to how companies organise their production. In the EU, a reformation of rules of origin is presently ongoing with the intention to modernise and liberalise the rules. If the formation of rules of origin does not develop at pace with how companies organise their production, these regulations will soon comprise ever-greater barriers to free trade.

5. Trade in goods

5.1 Developments in trade

Worldwide trade in agricultural and industrial goods has increased dramatically in recent decades. In 2007, trade in goods was 170 percent (in nominal terms) higher than in it was 1995. In real terms the increase was 108 percent.

All of the largest trade nations increased their imports between 1995 and 2007. This group includes the 56 countries which either in the beginning or the end of the period from 1995 to 2007 represented at least 0.2 percent of total world trade in goods. Together, these countries made up a total of 92 percent of all trade in goods in 2007. The average nominal annual increase in imports for the majority of countries is between 5 and 20 percent (see Figure 5).

The solid line in the figure below represents where a country would fall if its trade in goods increased at the same pace as its GDP. Trade in goods increased more rapidly than the GDP in all countries, so values for all countries lie above the solid line.

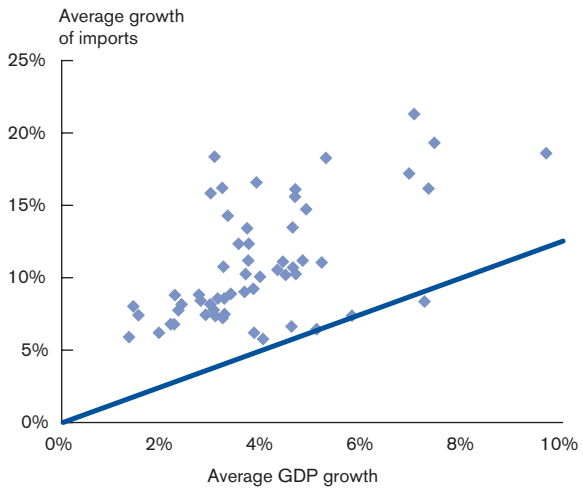
There also appears to be a correlation whereby countries with the highest average GDP growth also have the highest increases in import. This correlation shows that countries undergoing a process of economic growth have also implemented trade liberalizations. China and India are two such examples.

One common way of measuring the significance of trade for a country is to calculate the magnitude of trade as it relates to the gross domestic product (the "trade-to-GDP-ratio"). The higher the ratio of trade to GDP, the greater the importance of trade for a country. International trade tends to be more significant for smaller countries whose neighbors are open to trade. The trade-to-GDP ratio is often lower in large countries with a significant domestic market, or geographically isolated countries that face high transport costs to reach export markets (Love and Lattimore, 2009).

The below figure shows the relationship between a country's openness to trade in 1995 (measured as the proportion of the GDP represented by import of goods) and the average increase in trade between 1995 and 2007.

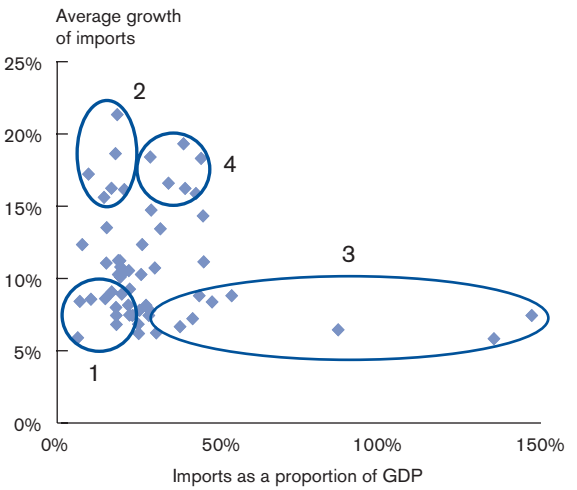
Four overarching trends can be found, along with strong geographical connections (see Fig. 6).

Figure 5 Average growth of import of goods compared to GDP growth (%) 1995 - 2007



This figure shows the average annual change in import of goods and in GDP for the largest trade nations between 1995 and 2007. The horizontal axis shows the average annual percentage increase in the gross domestic product between 1995 and 2007. The vertical axis shows the average annual increase in imports of goods for the same period (see appendix 2 for data). Internal EU trade is included.

Figure 6 Average growth of import of goods (%) 1995-2007 compared to import of goods as a proportion of GDP



The figure shows the findings for the world's largest trade nations. The horizontal axis shows import of goods as a proportion of the GDP in 1995, which is an indicator of the significance of trade in each country. The vertical axis shows the average annual increase in import of goods between 1995 and 2007.

1. A low trade-to-GDP ratio and a weaker increase in imports than other countries. This group includes large OECD countries such as *Japan, France, Germany* and the *United States*. These countries were all relatively speaking open to trade in 1995, so it is not surprising that they have some of the lower percentage increases. These countries also have large domestic markets, which explains why trade represents a smaller proportion of the GDP.
2. A low trade-to-GDP ratio and a stronger increase in imports than other countries. *India, Turkey, China* and *Russia* are large developing countries that saw rapid growth during this period. These countries also implemented trade liberalizations which led to an increase in trade.
3. High trade-to-GDP ratio and a weaker increase in imports than other countries. This group includes those countries known as the Asian tigers, *Thailand, Singapore, Hong Kong* and *Malaysia*, which implemented economic reforms in the 1980s. They are relatively small, trade-dependent countries who have maintained an open trade policy during this period. Their percentage changes are therefore lower than those of other countries.
4. High trade-to-GDP-ratio and a stronger increase in imports than other countries. This group includes the Eastern European countries such as *Slovakia, Belarus, Bulgaria* and the *Czech Republic*. These countries are located a region which saw a strong increase in imports during this period. For some of these countries, this can be explained by preferential access to the EU market via the Europe Agreements and later, in some cases, membership in the EU. Like the developing countries experiencing rapid growth in group two, increases in trade took place based on relatively low initial levels, which explains the high percentage increase.

These results appear to confirm the trade theories given above.

One commonality among all of the countries examined is an average annual increase in imports of over 5 percent. In all of the countries, import grew more rapidly than did the rest of the economy. This increase in openness was partially made possible by changes in the regulatory framework for trade policy that will be examined in the coming sections.

5.2 Tariffs for industrial goods

Tariffs can be used to protect domestic industry from competition

High tariffs are a classic strategy within trade policy for favoring domestic industry, since tariffs make imported goods more expensive; or, in the case of very high tariffs, they can prevent import altogether. Tariffs can be used in this way to protect sensitive sectors. In many developing countries, tariffs are viewed first and foremost as a source of income for the national treasury. Though protectionist elements can clearly be seen in the use of tariffs in these countries, it is nevertheless difficult to determine whether they are being used as a protectionist instrument.

Since 1947, tariffs for industrial goods have been regulated by the GATT (General Agreement on Tariffs and Trade), which has been a part of the WTO since 1995. The member countries negotiate *bound tariffs*, the maximum tariff levels they commit to apply to other countries.

Within the WTO, a country may not discriminate against other WTO members by applying different tariffs to different countries. This is according to a WTO regulation called the most-favored nation principle (MFN) which prohibits both negative and positive special treatment among WTO member countries. Exceptions to this can be made by invoking the GATT's rules of exception. As discussed above in the part on free trade agreements, the exceptions are in fact som many that they almost constitute the rule. In many cases, the tariffs encountered by export companies are appreciably lower than the applied MFN tariffs. This is due to the fact that many countries have signed free trade agreements or belong to customs unions that grant tariff-free market access to other members. Developing countries also have more favorable access to markets in the EU, the United States, Canada and Japan under certain specific preferential agreements, such as the GSP (Generalized System of Preferences) and the AGOA (African Growth and Opportunity Act). Consequently, this means that the tariff reductions have been greater and the tariffs are lower than what the analysis below indicates.

Developments since 1995

Within the WTO, there are *bound* and *applied* MFN tariffs. The bound MFN tariffs are the maximum tariffs countries have committed to apply to other WTO countries. Bound tariffs function as a barrier against tariff increases[5]. A country may however apply a lower tariff. This raises the question as to

why countries do not lower their bound tariffs to the levels they actually apply? The answer is that many countries wish to maintain the opportunity to raise tariffs to the bound level if it becomes desirable to do so.

From 1995 to 2007, world trade experienced a period of successively lower tariff levels. This occurred as the WTO member countries implemented the results of the Uruguay Round which concluded in 1994 and resulted in a reduction of tariffs especially for developed countries. Outside of the WTO's multilateral system, developing countries themselves implemented liberalizations of their trade policy and lowered tariffs towards other countries. These liberalizations were often implemented as part of a larger reform package. An example of this is China, which began liberalizing its trade policy in the 1990s, following the same pattern the "Asian tigers" had used in the 1980s (National Board of Trade, 2009).

The average trade-weighted applied tariff was reduced by nearly 50% in both developed and developing countries from 1995 to 2007. In developing countries, however, average trade-weighted tariffs remain almost twice as high as in developed countries. It is important to remember that the lower average tariff in 2007 may be not only due to an actual reduction of the applied tariffs but also to changes in trade patterns (i.e. more trade taking place at tariff lines with lower tariffs), (see Table 1).

The trade-weighted average tariff is thus determined both by tariffs and by the amount of trade taking place at a certain tariff line. This provides a picture of the average protection level. However, in order to describe tariff developments during this period with certainty, simple averages were examined for the largest trade nations (those comprising 0.2 percent of world trade either in 1995 or 2007) (see Table 2).

Average unweighted applied MFN tariffs fell in almost all countries between 1995 and 2007. Only three out of 35 countries raised their average tariff level; these were Vietnam, Morocco and Mexico. These increases may not only the result of countries' taking the opportunity to raise their applied tariffs, but also due to revisions in the classification system for goods (HS, Harmonized System).

The developed countries have low average tariff levels, ranging from 0.6 percent (Norway) to 3.8 percent (the EU and Australia).

There is greater variation in the average tariff outside the group of traditionally developed countries. Both Hong Kong and Singapore had a zero-tariff policy in 1995. No changes took place in these countries during the period studied. India, China, Egypt, Pakistan and Nigeria reduced their

Table 1 Trade-weighted average applied MFN tariffs for countries in Table 2

	1995	2007
All countries	6,2	3,4
Developed countries	4,5	2,3
Developing countries	8,8	4,9

The developed countries are Australia, Canada, the EU countries, Japan, New Zealand, Norway and the United States. The rest of the countries are considered developing countries. Where data is lacking from UNCTADs TRAINSs-database for 1995 and 2007, data from the nearest following year available in TRAINS is used in most cases for 1995, and data from the nearest preceding year for 2007.

Table 2 Unweighted average applied MFN tariffs 1995 and 2007, including percentage of difference.

Country	1995	2007	Tariff reduction (percentage)
Argentina	12,4	11,4	-1
Australia	6,2	3,8	-2,4
Brazil	13,5	12,5	-1
Chile	11	6	-5
Colombia	13,5	11,8	-1,7
Egypt	27,7	12,5	-15,2
EU	6,1	3,8	-2,3
Philippines	19,3	5,8	-13,5
Hong Kong	0	0	0
Inda	30,1	13,2	-16,9
Indonesia	15,4	6,7	-8,7
Israel	8,1	4,2	-3,9
Japan	3,5	2,5	-1
Canada	8,7	3,7	-5
Kazakhstan	9,6	2,7	-6,9
China	21,9	9	-12,9
Malaysia	8,8	7,9	-0,9
Morocco	18,4	20	1,6
Mexico	13,1	13,3	0,2
Nigeria	26,8	11,4	-15,4
Norway	5,8	0,6	-5,2
New Zealand	5,8	3,2	-2,6
Pakistan	51,7	13,8	-37,9
Russia	11,4	9	-2,4
Saudi Arabia	12,2	4,7	-7,5
Singapore	0	0	0
South Africa	14,8	7,6	-7,2
South Korea	7,6	6,6	-1
Thailand	20,8	10	-10,8
Turkey	8,2	4,8	-3,4
Ukraine	6,4	4,4	-2
USA	5,1	3,1	-2
Venezuela	13,5	12,7	-0,8
Vietnam	15,5	15,7	0,2
Belarus	12,6	11	-1,6

For those countries lacking data for 1995 and 2007, data was taken from the preceding or following years. The source for tariff data is UNCTAD TRAINS, which can be found in the WITS database. The figures given do not include specific tariffs. For the following WTO countries in the table above, the proportion of specific tariffs exceeds 2 per-cent of the tariff lines: India, Israel, New Zealand, Norway, Thailand and the United States. Tariffs in these countries are likely to be slightly underestimated. Additional countries not listed are Iran, which lacks information prior to 2004, and Taiwan. Countries that have joined the EU since 1995 are included in the EU value given for 2007, but not in 1995.

average tariffs the most during this period. The largest reduction took place in Pakistan; however, tariff reductions in the nations of India and China were of the greatest significance, due to the size of these countries. China's tariff reductions are a result of the country's entry into the WTO, while India implemented large reductions unilaterally.

It is important to keep in mind that high tariffs on individual goods which are traded extremely rarely or not at all can have a major impact on a simple average. In this respect, the trade-weighted average tariff gives a better indication of the extent of tariffs at the tariff lines where trade actually takes place. The trade-weighted average tariff in 2007 was 8.6 percent in India and 4.1 percent in China The simple average tariff in both countries was almost twice as high.

A lowering of the average applied unweighted MFN tariff may be the result of major changes in a small handful of tariff lines which do not necessary involve much trade. This is why it is important to supplement an overall view of the situation with a look at what proportion of tariff lines were lowered between 1995 and 2007. This metric helps show more clearly whether countries implemented a general tariff reduction, or lowered only a handful of their tariff lines. (All data and technical explanations can be found in Appendix 3.)

Between 1995 and 2007, the countries listed in the table increased on average 6 percent of their tariff lines, lowered 48 percent and left the rest unchanged. The traditionally developed countries, which albeit comprise only 7 countries (with the EU defined as a single country), are more homogeneous. Four of these seven countries did not raise any of their tariff lines. Among developing countries, there is greater variation in the proportion of tariff lines raised. Morocco, Russia and the Ukraine raised more than 10 percent of their tariff lines. Morocco is also one of only two countries to raise its average unweighted tariff levels during this period.

Developed countries have lower tariffs compared to developing countries, and most lowered more than half of their tariffs. Australia is an exception in this group, having lowered only 20 percent. In developing countries, just under half of all tariff lines were lowered, but there is also a great deal of variation among these countries. Chile, Pakistan, the Philippines, China and India lowered more than 90 percent of their tariff lines, while Colombia, Venezuela and Vietnam only lowered between zero and five percent of their tariff lines.

There is a strong correlation between average tariff reductions and proportion of tariffs lowered. In most countries, the proportion of tariff lines lowered was equal to or higher than the percentage tariff reduction. The EU, for example, lowered 78 percent of its tariff lines, indicating that the average tariff reduction of 38 percent did not result from a drastic reduction in a small handful of tariff lines, but from a general lowering of tariffs.

Two patterns are evident among the countries that had the highest tariff levels in 2007. These countries either belong to the group which lowered the highest proportion of tariffs, or to the group that lowered the lowest proportion of tariff lines. The first group consists of Egypt, India, Nigeria, Pakistan and Thailand. The latter group includes Argentina, Brazil, Colombia, Morocco, Mexico, Belarus, Venezuela and Vietnam.

Table 3 illustrates the relationship for all countries, regardless of tariff level. Most countries show a strong correlation between the average tariff reduction and the proportion of tariff lines lowered. The countries with an above average tariff reduction also lowered a higher proportion of their tariffs than average. Accordingly, most of the countries with a below average percentage tariff reduction also lowered a lower proportion of their tariffs than average.

Hong Kong and Singapore are not included in the above table as they have zero tariffs.

It can be said in summary that a general tariff reduction took place during this period, which can be seen both in the fact that the average unweighted applied MFN tariff was lowered in most countries, and the fact that tariff reductions were not limited to a handful of tariff lines.

Table 3 Relative tariff reduction and proportion of tariffs lowered between 1995 and 2007.

Percentage tariff reduction	Proportion of tariff lines lowered: Above average	Proportion of tariff lines lowered: Below average
Above average	Chile, Egypt, EU, Philippines, India, Indonesia, Canada, China, Nigeria, Norway, Pakistan, Saudi Arabia, Thailand, Turkey, United States	Australia, Israel, Kazakhstan, South Africa, New Zealand
Below average	Japan	Argentina, Brazil, Colombia, Malaysia, Morocco, Mexico, Russia, South Korea, Ukraine, Venezuela, Vietnam, Belarus

The countries have been divided into four groups based on whether their percentage tariff reduction and proportion of tariffs lowered fall above or below the average for the 33 countries. See appendix 3.

Risks for the future

How generous are the opportunities for countries to raise their tariffs if they wish to protect a particular product on the domestic market from foreign competition? Which countries may raise their tariffs without breaching their commitments in the WTO?

In order to answer these questions, three variables were examined: the bound MFN tariff (the maximum tariff level which countries in the WTO have committed not to exceed), the applied MFN tariff (the tariff actually applied to other WTO members) and *binding coverage*. A binding coverage of 100 percent means that a country has bound all of its tariffs in the WTO. A simple average is used here (see Table 4).

Table 4 Average (unweighted) applied MFN tariffs, bound MFN tariffs and proportion of tariffs bound in 2007

Country	Average applied MFN tariff 2007 (simple)	Average bound MFN tariff 2007 (simple)	Binding coverage %
Argentina	11,4	31,9	100
Australia	3,8	11	96,7
Brazil	12,5	30,8	100
Chile	6	25	100
Colombia	11,8	35,4	100
Egypt	12,5	27,7	99
EU	3,8	4	100
Philippines	5,8	23,4	62
Hong Kong	0	0	37,3
India	13,2	34,3	69,8
Indonesia	6,7	35,6	96,1
Iran	25,8	Not a WTO member	
Israel	4,2	9,2	72,8
Japan	2,5	2,5	99,6
Canada	3,7	5,3	99,7
Kazakhstan	2,7	Not a WTO member	
China	9	9,1	100
Malaysia	7,9	14,9	81,9
Morocco	20	39,2	100
Mexico	13,3	34,9	100
Nigeria	11,4	48,6	6,5
Norway	0,6	3,1	100
New Zealand	3,2	10,9	99,9
Pakistan	13,8	35,5	37,4
Russia	9	Not a WTO member	
Saudi Arabia	4,7	10,5	100
Singapore	0	6,4	65,1
South Africa	7,6	16	95,8
South Korea	6,6	10,1	94,5
Thailand	10	24,2	71,2
Turkey	4,8	17,6	39,6
Ukraine	4,4	5	100
USA	3,1	3,2	100
Venezuela	12,7	34	100
Vietnam	15,7	10,4	100
Belarus	11	Not a WTO member	

See caption under Table 3 for more information. Saudi Arabia (2005), Ukraine (2008) and Vietnam (2007) recently became members of the WTO. There is no data in UNCTAD TRAINS on bound tariffs for these countries. Information on bound tariffs and the proportion of bound tariffs was therefore taken from the tariff profiles on the WTO homepage. "MFN tariffs" for countries who have not yet joined the WTO are the average simple applied tariffs given in TRAINS.

A comparison between bound and applied MFN tariffs shows that the EU, the United States and Japan have a marginal discretionary room for raising tariffs. For the most part, their applied tariffs fall at the same level as their bound tariffs. Other developed countries such as Australia have a fair amount of room for maneuvering. In many developing countries, however, the situation is quite different. Here, large gaps continue to exist between applied tariffs and the level at which countries bound their tariffs in the WTO. Applied MFN tariffs in many developing countries could be doubled, tripled, quadrupled or even quintupled before reaching the ceiling binding. One exception to this is China: upon joining the WTO, China bound its tariffs at the same level as its applied tariffs. Vietnam joined the WTO in 2007 and has yet to lower its MFN applied tariffs to the level it committed in its WTO accession negotiations.

Binding coverage shows what proportion of all tariffs in a given country have been bound in the WTO. Many developing countries have bound a lesser proportion of their tariffs than have the developed countries. Tariffs that have not been bound in these countries may be raised without restriction. Examples of countries with a relatively low binding coverage are Nigeria, Pakistan, India and Turkey. In countries that have not joined the WTO, such as Russia, there are no restrictions in place regarding how much tariffs may be raised.

According to a study by the IFPRI (International Food Policy Research Institute), world trade would fall by almost 8 percent if all countries raised their tariffs to the bound level. In high-income countries, the increase in the avergare tariff would be 50 percent, from the average applied tariff of 3 percent to 4.4 percent. In middle-income countries, the increase would be 130 percent, from 8 to 19.8 percent. The gap between applied and bound tariff levels is greatest in the least developed countries (LDCs). The increase would amount to 270 percent, from 9.8 to 36 percent on average. (International Food Policy Research Institute [IFPRI], 2008).

The conclusion to be drawn from this is that the regulatory framework of the WTO provides considerable discretionary room for countries wishing to do so to act in a protectionist manner and use higher tariffs to protect particular sectors or individual goods. For countries with ceiling bindings (where applied tariffs are lower than bound tariffs), a conclusion of the Doha negotiations would result in an increased binding coverage and in a closing of the gap between bound and applied tariffs. This would not lead to any real increase in market access. It would, however, limit countries' discretio-

nary power for engaging in protectionist policy by raising tariffs. For countries such as China where bound and applied tariffs are the same, the Doha negotiations would entail an actual lowering of tariffs.

5.3 Quantitative restrictions

Quotas amount to protectionism

Quantitative restrictions in the form of quotas are more detrimental to trade than tariffs. Tariffs function as a tax that makes import more expensive without directly preventing it. Quotas, on the other hand, restrict import to a quantity amount, weight, or value per year. In principle, import over a certain fixed level is prohibited, resulting in a total ban on import. In practice, this can mean very little in certain cases when quotas are so generous as to permit all intended import.

Processing and management of quotes requires a comprehensive licensing system, which in itself reduces the efficiency of trade.

Developments since 1995

Due to their detrimental effects on trade, quotas have in principle been prohibited for industrial goods in the GATT agreement since its inception in 1947. Special circumstances apply to agricultural products. There has been one major exception to the ban on quotas for industrial goods, namely those on textile and clothing goods. Importing countries have been able to negotiate per annum quantitative import limits on these goods with exporting countries. In other words, trade in textile and clothing goods has been an exceptional case for decades and has enjoyed powerful protection from international competition, despite the fact that quotas initially were intended to be temporary measures. At the same time, it should be noted that import of textile and clothing goods was gradually becoming more liberalized as quotas increase.

As part of the Uruguay Round, a new Agreement on Textiles and Clothing (ATC) was signed, stipulating the abolishment of all quotas within ten years. Though some have been skeptical that this would in fact take place, it should be noted that compliance with this agreement has been good. Initially, a certain chaos broke out, particularly in the EU, where countries attempted to use temporary safeguard measures to extend the transition period to quota-free trade. In principle, however, quotas were abolished January 1 2005, and since January 1 2008, even the safeguard measures that directly applied only to China have been abolished.

Risks for the future

It can be said that world trade with industrial goods is quota-free with the exception of a handful of temporary safeguard measures. This is undeniably a step away from protectionism, and it is an irrevocable step, according the WTO regulatory framework. As long as the WTO's regulatory framework is respected, quotas may no longer constitute part of a new protectionist policy in the world, except in the few countries who are not yet members of the WTO.

5.4 The agricultural sector

Protectionist agricultural policy primarily restricted to developed countries

Agriculture is a special case in the international regulatory framework of the WTO. There is greater discretionary room for using trade policy instruments in a protectionist manner for agricultural products than for industrial goods. For example, export subsidies can be used under certain conditions for agricultural products, although they are prohibited entirely for other products. There are also more generous opportunities in place for using safeguard measures. This state of affairs owes in part to effective lobbying on the part of influential agricultural organizations, but it is also due to the perception of agriculture by many countries as being more than simply just another sector of the economy. In developed countries, the protection of agriculture is motivated in part by a desire for a certain amount of self-sufficiency, by the significance of the agricultural sector to preserve the countryside, or by the importance of agricultural production for the preservation of a country's cultural landscape, traditions, or biodiversity. Developing countries emphasize the importance of agriculture for rural development and for poverty reduction.

Trade in agricultural products is significantly less open than trade in industrial goods. This is perhaps most clearly seen in the fact that the global average applied MFN tariff is 14.5 for agricultural products compared to 2.9 percent for industrial goods (Martin and Mattoo, 2008). In developed countries, tariff structures for agricultural products are often significantly more complex than those for industrial goods; tariff quotas, seasonal tariffs, compound tariffs and the like are common for agricultural goods[6]. Furthermore, tariff structures for agricultural goods often have a distorting effect, with very high tariffs – sometimes several hundred percent – on certain products, and nonexistent, or considerably lower, tariffs on many other products. It is also common with tariff escalation in the agri-

cultural sector i.e. the tariff structure for agricultural products is set up in such a way as to provide stronger incentives for imports of raw materials rather than imports of processed products.

Moreover, there is a special safeguard (SSG) in the WTO's Agreement on Agriculture that may be applied by approximately 40 member countries in order to impose additional tariffs in the event of lower import prices or import surges[7]. No proof of injury to domestic producers is required to take advantage of this provision, making it extremely useful for countries with protectionist interests. The SSG is not very widely applied, but some countries invoke it more or less regularly for certain products (e.g., the EU, for sugar).

In the agricultural arena, there is a large difference between the average bound MFN tariff and the average applied MFN tariff; in other words, there is a binding overhang, also referred to as "water." This means that the applied tariffs may be raised, creating uncertainty for exporters to these markets. This is true of both developed and developing countries. According to a study by Martin and Mattoo (2008), the global average applied MFN tariff was 14,5 percent in 2007, while the average bound tariff was 40.3 percent[8]. The largest gap was seen in the least developed countries, where the average applied MFN tariff was 12.5 percent, and the average bound MFN tariff was 94.1 percent. Because tariffs are an important source of revenue for the national budget in many poor countries, it can be important that these countries retain the option of raising their tariffs. The large gap between the bound and applied MFN tariff also enables countries to vary their level of protection in order to stabilize prices for agricultural products.

The degree of protectionism varies widely by country and by industry, but by and large, protectionist measures in the agricultural sector can contribute to distortive effects on trade. Developed countries play a central role in this: the World Bank (2008a) estimates that the developed countries are responsible for approximately 75 percent of trade distortions in agriculture. The effect of this trade-distortive policy is downward pressure on prices for agricultural products on the world market. One effect of this is diminished incentives for investments in agriculture in countries that do not support agricultural production. According to the World Bank (2008a), average prices for agricultural products on the world market have been pushed down by 5 percent as a result of the trade policy implemented today. Downward pressure on world market prices for certain products such as cotton, oilseeds and dairy products is estimated to be significantly greater.

Developments since 1995

The WTO's Agreement on Agriculture took effect January 1 1995. It was the first time that a multilateral agreement in this sector was created within the GATT/WTO. Certainly, trade in agricultural products had been included in the GATT since its inception in 1948, but it was surrounded by numerous exceptions to regulations on border protection, subsidies, etc. The effects of this agreement are believed to be minor in practice. However, the agreement did result in restricted opportunities for the use of export subsidies for agricultural products.

Tariffs are the trade policy instrument which causes the largest costs in terms of welfare losses in the agricultural sector. According to the World Bank (2008a), tariffs are responsible for approximately 90 percent of welfare losses as a result of global agricultural policy. Given the major significance of tariffs, it is fortunate that applied tariffs appear to have fallen since 1995. The World Bank's 2008 World Trade Indicators show that average applied tariffs, including preferences, have fallen in the OECD countries from 20.7 percent during the period from 1995 and 1999 to 14.8 percent from 2007 and 2008[9]. Applied tariffs have also dropped appreciably in other middle-income countries (from 15.7 percent to 10.5 percent) as well as in low-income countries (from 23.9 percent to 12.9 percent). As regards tariff escalation, however, there appear to be negative developments in a number of countries. According to the 2008 World Trade Indicators, tariff escalation has increased since 1995, primarily in the OECD countries, meaning that the developed countries have increased their protection of the processing industry[10]. This can be partially explained by the fact that many processed products are exempt from liberalization in bilateral agreements. A negative trend in tariff escalation can also be noted in middle-income countries.

Although the WTO's Agreement on Agriculture has not had major impact, trade in agricultural products has become more open since 1995. One way of studying developments in the support to agriculture in the OECD countries is to examine the OECD's PSE index *(Producer Support Estimate)* which gives an overall picture of the total support given to agriculture in the OECD countries. The percentage PSE indicates the *proportion* of farm incomes that comes from some form of support. However, this figure does not specify how detrimental this support is to trade, i.e. the extent of its negative consequences for agriculture in other countries.

Figures from the OECD (see Table 5) show that the average farmer in the OECD has become somewhat less dependent on support. In 1994-1996, almost one-third of OECD farmers' income came from some kind of support. This number fell to one fourth in 2005-2007. Therefore revenues from the market are becoming increasingly important for incomes from agriculture (even if this trend is occurring slowly). Percentage PSE figures should be interpreted with caution, however, as this statistic reflects both changes in policy and in developments on the world market[12].

Though there have been some changes in the right direction, farmers in the EU still receive a greater proportion of their income from support (29 percent) than the average OECD farmer, while American farmers receive a significantly lower proportion from support (12 percent). In the latter case, the proportion of American farmers' income constituted by support has depressed only marginally since 1995. OECD figures also indicate that there are still countries, such as Norway, Switzerland and Korea, where support makes up a greater proportion of incomes in agriculture than does the market.

As we have already seen, support for agriculture can be trade distorting to varying degrees, and the most detrimental support is that which significantly impacts farmers' production decisions, that is to say *what* and *how much* farmers will produce. What have been the developments in the use of trade distorting support? Statistics from the OECD show that the use of the most trade distorting form of support has declined in OECD countries over the past ten years. During the 1994-1996 period, 72 percent of all agricultural support in OECD countries was of the variety that has a strongly disruptive effect on trade[13]. The same figure for the 2005-2007 period was 55 percent on average. The change is very clear in the EU, where agricultural policy reform resulted in a reduction in the proportion of total support constituted by support characterized as trade-distortive, from 62 percent to 43 percent from 1994-1996 to 2005-2007. Because the EU is responsible for approximately one-half of all agricultural support in the OECD, reforms in the EU have a major impact on OECD statistics. In the United States, too, developments were in a trade-friendly direction, and the proportion of the most trade-distorting support fell from 48 percent to 33 percent.

The *Producer Nominal Protection Coefficient* is another OECD index that shows that protectionism has decreased somewhat in the OECD countries. This index, abbreviated as pNPC, gives a comprehensive picture of the extent to which agricultural policy contributes to the isolation of producers from the world market. The index shows in a simplified manner how much higher prices (including support based on commodity output) producers may benefit from as compared with the world market prices. If the figure exceeds one, producers receive a price higher than that on the world market, meaning that the country's producers are protected from competition. Table 6 shows the pNPC statistics for OECD countries.

As is shown above, in 2007, average prices in almost all OECD countries were approaching the

Table 5 Percentage PSE – proportion of farm incomes coming from some type of support

Country	1986–1988	1994–1996	2005–2007
Australia	7%	8%	5%
EU[11]	40%	36%	29%
Iceland	76%	59%	66%
Japan	64%	61%	50%
Canada	36%	19%	21%
Korea	70%	70%	62%
Mexico	28%	8%	14%
New Zealand	10%	1%	1%
Norway	70%	67%	62%
Switzerland	77%	69%	60%
Turkey	16%	14%	22%
USA	22%	13%	12%
OECD	**37%**	**32%**	**26%**

Source: Data from 1986-88 and 2005-2007 from OECD (2008). Agricultural Policies in OECD Countries: at a glance 2008. Data from 1994-1996 from the OECD database at www.oecd.org (data retrieved 2009-01-08).

Table 6 Producer's Nominal Protection Coefficient – pNPC in OECD countries

Country	1986–1988	1994–1996	2005–2007
Australia	1,04	1,04	1
EU[14]	1,76	1,38	1,19
Iceland	4,1	2,37	2,61
Japan	2,63	2,47	1,94
Canada	1,39	1,14	1,13
Korea	3,32	3,23	2,46
Mexico	1,34	1,02	1,06
New Zealand	1,02	1,01	1,01
Norway	4,15	2,73	2,12
Switzerland	4,8	3,15	1,89
Turkey	1,17	1,09	1,23
USA	1,14	1,07	1,05
OECD	**1,5**	**1,34**	**1,2**

pNPC > 1.00 means that a country's producers benefit from higher prices than those on the world market. Source: Data for 1986-88 and 2005-2007 from OECD (2008). Agricultural Policies in OECD Countries: at a glance 2008. Data for 1994-1996 from OECD's database at www.oecd.org (data retrieved 2009-01-08). For Mexico, the average refers to the period from 1991 to 1993.

world market level. However, the average OECD farmer is still paid 20 percent more for production than the farmer whose products are sold at the world market price. In Australia and New Zealand, prices are equal to or near the world market prices, which is due in part to the low level of border protection in these countries, but also to the fact that these countries are net exporters (without an export subsidy) and are thus strongly influenced by the world market price. In the EU and Japan, and even in the most protectionist countries South Korea, Norway, and Switzerland, there is less of a gap today between what farmers are paid on the domestic market and what they receive on the world market than it once was..

Viewed in their entirety, the OECD's statistics show that farmers in developed countries have become somewhat more dependent on the market for their income. Although agricultural support has also become less trade distorting, more than half of the OECD's agricultural support is still of the most trade-disruptive nature.

Risks for the future

It is a positive development that many developed countries are using less trade-distorting support. There is, however, a risk of "box shifting", meaning that the form of support may change while the total volume of support remains at high levels[15]. The distortive effect on trade will of course be reduced if use of the most trade-distorting forms of support declines, but certain trade distortions remain even with decoupled support. Both OECD and the World Bank have pointed out that decoupled support is not neutral and may distort trade by increasing farmers' risk propensity, by evening out income and functioning as an insurance, and by making it easier for farmers to obtain credit than it would be otherwise.

High applied tariffs on agricultural goods will probably disrupt and distort trade for many years to come. This is likely to be case even if the Doha Round results in a new Agreement on Agriculture that reduces the bound MFN tariffs. This is due in part to the many exceptions to general tariff reductions that stand a strong chance of being granted in the settlement; and due to large binding overhangs (also known as "water", meaning a large gap between the bound and applied MFN tariff). Martin and Mattoo (2008) concluded that a new Agreement on Agriculture with numerous exceptions would mean that trade-weighted applied MFN tariffs would fall from 15.1 percent to 10.1 percent in the developed countries. In the developing countries (not including the LDCs) the change in the average trade-weighted applied MFN tariffs would be negligible, from 14.0 to 13.9 percent. Even if the effects on the average applied MFN tariffs were marginal in the developing countries, bound tariffs would be reduced by around 10 percentage points. This diminishes opportunities for raising tariffs in the event of low world market prices, and thus contributes to a lower risk of increased protectionism in South-South trade.

Even without a a deal in the WTO, trade with agricultural products will continue to be liberalized between countries through bilateral agreements. Normally, however, the most sensitive agricultural products will still be granted exceptions from liberalization in these agreements. Therefore there is a risk that the level of tariff protection for certain types of goods, such as sugar, dairy products, beef and many processed products, will not be significantly lowered through bilateral liberalization.

It is also important to remember that today's agricultural sector is impacted by more than just agricultural policy. Energy and climate policy can have a significant effect, because many renewable fuels (biogas, bioethanol, and biodiesel) can be produced using agricultural commodities.. Therefore there is a risk that energy and climate policy may become a new source of subsidies for the agricultural sector, particularly if increased self-sufficiency is a political objective. This type of protectionism can be more difficult to comprehend than traditional agricultural support, because the instruments used here – e.g. tax incentives and quota systems – are not likely to be required to be reported to the WTO's Committee on Agriculture.

5.5 Trade defense instruments

Defense instruments are often misused in a protectionist manner

There are three types of trade defense instruments permitted by the WTO. These are anti-dumping, countervailing and safeguard measures. Anti-dumping measures are used to combat dumped imports; countervailing measures to combat subsidized import; and safeguard measures are used against unexpected, large-scale increases in import in order to give domestic enterprise time to adjust[16]. While anti-dumping and countervailing measures are only applied to products from certain countries deemed to be dumping or using subsidies, safeguard measures cover import of the product in question from all countries at the same time.

Here we will concentrate on anti-dumping measures, as these constitute 85 percent of all trade defense instruments as regards their utilization. The regulations and practices that apply to countervailing measures against subsidies are nearly the same, although these are less common. One reason that countervailing measures are less frequently encountered is that they are aimed at other countries' governments, while anti-dumping measures focus on individual companies. Safeguard measures are the trade defense instruments that have traditionally seen the least application. It should be noted, however, that the requirements for proof of damage set forth when safeguard measures are applied are not as stringent as those of other instruments.

As regards the ability to introduce anti-dumping measures, it is important to note that not all export priced lower than prices on the domestic market can be classified as dumping. Three conditions must be met in order for an anti-dumping instrument to be applied: 1) Price dumping must take place; 2) there must be significant damage to industry on the import market; 3) the dumped import must be responsible for the damage. Exclusively in the EU, there is an additional condition that 4) the application of anti-dumping measures must be in the best interest of the economic community. Here, the economic community also includes importers, user industry and consumers.

An intense debate is underway between those who believe that trade defense instruments are mainly being used to safeguard weak industries which are vulnerable to competition, and those who believe that trade defense instruments help maintain an even playing field.

The strongest proponents of trade defense instruments, however, are those active in the traditional manufacturing industry and its trade associations, (Davis, 2009). The position of the National Board of Trade is that the use of trade defense instruments should be viewed as a protectionist measure rather than as a benefit to economic development. It is the Board's contention that the time for using these instruments in a globalized world with fragmented production chains has passed, and that "protection" against open trade ultimately leads to inefficient production and high costs for the consumer.

Developments since 1995

Anti-dumping is a limited phenomenon when seen within the context of trade as whole. It affects a small number of sectors (chemicals, steel, plastic and certain electronics goods) almost exclusively, while the rest of trade remains almost entirely unaffected. According to the EU commission, only approx. 1-1.5 percent of all import of goods in the EU is impacted by anti-dumping measures, though a larger proportion of import is affected indirectly by virtue of the dampening effect they have on threatened industries/companies. It is important to point out here that increasing fragmentation and globalization of production chains means that the impact of the anti-dumping instrument may be affecting domestic companies to a higher degree than before.

The economic significance of anti-dumping instruments has received a great deal of attention from researchers. Knetter and Prusa (2000) examined the relationship between anti-dumping and GDP growth and the current exchange rate for the four largest users of anti-dumping from 1980 to 1998. A strong correlation was found between anti-dumping and the exchange rate: the higher the exchange rate, and thus the more import and the lesser the competitive advantage a country has, the greater the number of anti-dumping investigations initiated there. The correlation between anti-dumping and the GDP whereby a decline in growth leads to a rise in anti-dumping investigations, was weaker, however, and only statistically significant when the steel sector is included in the analysis.

According to Irwin (2005), which examined data from the United States, this phenomenon can be explained by the fact that the overall economic outlook may be positive, even though some sectors may be suffering. Furthermore, the GDP is not a good indicator, because some sectors (often steel, for example) seek anti-dumping measures even in times of a healthy economy in general.

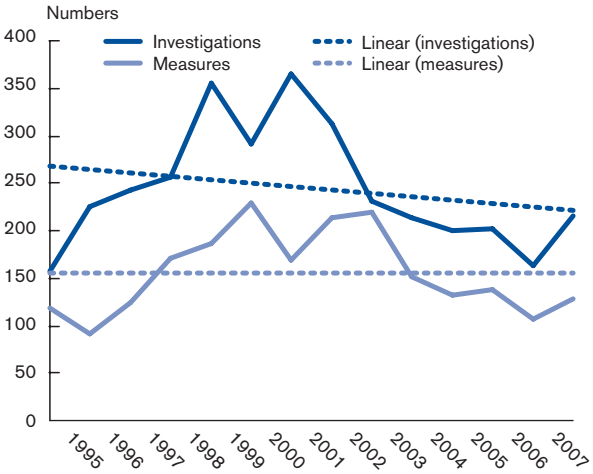
Irwin instead identifies unemployment as a better indicator than GDP growth. Growing unemployment gives rise to an increasing number of anti-dumping investigations. One interesting observation from Irwin's research is that the number of anti-dumping investigations rose as the general level of tariff protection fell, leading to an increase in import penetration. Irwin shows a clear negative correlation between anti-dumping and lowered tariffs.

The fact that global tariffs have fallen so appreciably and for such a long time may have resulted in a need for countries to "protect" themselves against undesired import which can no longer be restricted by the current tariff structure. Forty years ago, only four countries had anti-dumping legislation. Now, there are more than 40 such countries, and many more across the globe have made preparations to be able to introduce anti-dumping laws

in the future (Swedish National Board of Trade, 2008a). This is somewhat of a bad sign, because it is only once a country has anti-dumping regulations in place that they may begin to be applied. It is also interesting to note that large developing countries such as India and China have recently taken an increasingly heavy hand with anti-dumping measures, particularly with regards to import from other developing countries.

There are several different ways of measuring the degree of anti-dumping activity. One simple way is to see how many investigations have been initiated by the government, and how many of these have ultimately resulted in measures being taken[17]. Figure 7 shows the developments in the number of investigations and measures of all the countries that applied anti-dumping instruments during the period from 1995 to 2008. As is shown in the figure, there is considerable variation in the number of cases from year to year, but an appreciable rise in activity can be seen around the year 2000, followed by a dramatic decline and another rise around the year 2008. A long-term downward trend can be seen in the number of investigations. However, the fact that the number of measures introduced appears to remain stable over the long term means that the probability of an investigation resulting in the introduction of a measure has increased. Previously, only just over half of all investigations led to a measure being taken; today, the number is closer to 60 or 70 percent.

Figure 7 AD investigations and measures 1996-2008



Number of anti-dumping investigations and measures per year 1995-2008 in all countries using anti-dumping instruments. Source: WTO. Preliminary figures used for 2008.

As noted above, the state of the economy plays in important role in the application of anti-dumping measures. Table 7, below, shows an analysis conducted from this perspective.

The period between 1995 and 2008 has been divided into four three-year sub-periods and one two-year sub-period for 2007 and 2008. Average growth varied among the five periods, from 3.6 to 3.7 percent during the first two periods, followed by a fall to below 3 percent around the year 2000 as a result of the Asia and IT crisis, and a strong rise after 2004 to almost 5 percent annual global growth. Although the economy remained fundamentally unchanged during the first and second subperiods, the number of anti-dumping activities rose dramatically. Once the economy slowed, however, anti-dumping activities stopped increasing and remained stable, then fell off dramatically as the economy flourished. The current financial crisis is not yet visible in the GDP data; according to preliminary data, there was positive growth for the years 2007-2008, meaning that the economic effect will not be seen for a few years. However, preliminary data shows a relatively dramatic increase in anti-dumping activity for the second half of 2008.

Seen within the context of developments in trade as a whole, however, anti-dumping developments show quite a different picture. While the value of world trade increased by 170 percent nominally between 1995 and 2007, the number of investigations and measures has remained relatively constant over time. The *relative quantity* of anti-dumping cases has therefore fallen. A smaller proportion of import companies and a smaller proportion of trade transactions were exposed to, or risked exposure to, anti-dumping measures in 2008 than was the case in 1995.

Table 7 Average number of anti-dumping investigations and measures per year in various economic cycles

	1995–1997 (3,7 %)	1998–2000 (3,6 %)	2001–2003 (2,9 %)	2004–2006 (4,8 %)	2007–2008 (4,5 %)
Investigations	208	302	303	205	189
Measures	112	195	201	140	117
Approval rate	54%	65%	66%	68%	62%

All countries using anti-dumping instruments are included in the calculation. Figures refer to average number for each period.
Source: WTO for anti-dumping data; IMF for growth. Preliminary figures used for 2008.

Risks for the future

Theoretically, there is no upper limit to the number of trade defense instruments that can be introduced simultaneously. The three WTO agreements regulating anti-dumping measures, countervailing measures and safeguard measures leave countries relatively free to interpret what motivates various types of trade policy interventions[18]. Opportunities for protectionism are relatively abundant.

The regulatory framework for anti-dumping is weak in some countries – particularly developing countries – and can easily be misused. On the other hand, it affects very few goods and can take a long time to take effect due to the requirement for prior investigation. Safeguard measures, on the other hand, can be introduced without long prior investigations and advanced requirements for evidence. Additionally, there is a special safeguard mechanism, TPSSM, which any WTO member may apply against China[19].

The risk of countries' introducing anti-dumping, countervailing and safe-guard measures out of reprisal for measures directed against them should not be underestimated. A trade war, as it is often called in the media, can take place between countries with trade defense instruments as a weapon.

An international agreement on competition such as is used in the EU for resolving internal competition issues would be a more productive way of ensuring fair competition than the current system of anti-dumping and countervailing measures.

5.6 Trade procedures

Slow trade procedures may create barriers to trade

Trade procedures refer to all information flows and all administration necessary for companies to export or import. The term includes official measures, such as customs and other border procedures, as well as private activities such as transport, insurance, and payment processes. In this study we will focus on government procedures. These activities take place at a country's borders and is performed by the customs authority or other government bodies. The purposes of such procedures are to collect tariffs, prevent smuggling, gather trade data and prevent the entry of dangerous products to the market.

Trade procedures have become the subject of increasing attention during the past decade, and several studies have concluded that slow, inefficient, bureaucratic and sometimes corrupt procedures at the border passage create major barriers to trade, and that simplifying these procedures could result in significant economic gains[20].

It is often limited resources and capacity that are behind the complicated and onerous trade procedures that have a restrictive effect on trade. It cannot be excluded, however, that countries may at times introduce measures at the border with the explicit intention of creating obstacles to trade.

Developments since 1995

There are major differences between developed and developing countries when it comes to trade procedures, due to the limited resources and capacity in developing countries. However, it is not always a matter of inefficiency alone; there are often concrete factors behind the need developing countries have to protect their border. One such example might be that their government is more dependent on tariff revenues and that their focus therefore lies on ensuring that these revenues are received, usually at the expense of facilitation. However, inefficient and non-transparent procedures at the border also enable corruption. There may be strong resistance against facilitation on the part of certain groups who profit from corruption. Increasingly, however, developing countries are acknowledging that trade procedures need to be improved and that improvements could lead to major gains in development.

Since 2005, the World Bank has been gathering data from countries around the world on the efficiency of their trade procedures. The figures are presented as part of the bank's ambitious annual Doing Business report. However, caution should be taken when interpreting these figures, as they are based

Table 8 Number of documents and amount of time required for the average trade transaction

	Documents for export	Documents for import	Time for export	Time for import
2006	4,94	6,55	12,8	14,04
2007	4,7	5,55	11,74	12,91
2008	4,58	5,26	11,43	12,12
2009	4,43	5,04	11,1	11,9
Reduction during the period	**-10%**	**-23%**	**-13%**	**-15%**

For export: time from the factory until the good is loaded on a ship at the port of export.
For the import: time from unloading at the import port until arrival at the importer. Shipping/transport times not included.
Source: Figures taken from World Bank's Doing Business Indicators, and processed by the National Board of Trade.

on a number of assumptions and therefore must be viewed as a rough indication of the situation in a country, rather than an exact measurement.

The National Board of Trade has calculated the trade-weighted annual mean value for some of the World Bank's indicators: the number of documents and amount of time required both for import and for export. Countries whose trade comprises at least 0.2 percent of world trade are included (see Table 8).

On average, more documents are needed for import than for export. In 2009, an average of four documents are needed for export, and five are needed to import. Seen like this in aggregate, therefore, it appears to be marginally more difficult to import goods than to export them, which makes sense given that countries have a legitimate need to monitor goods crossing their borders, and less need to control goods leaving their territory. At the same time, most initiatives for trade procedure improvements take place on the import side; these seem to be effective, since we can see significantly greater improvements to the situation on the import side than on the export side.

The World Bank's indicators also show a reduction in the time required to import and export during this period. Import and export times are an important factor with a significant impact on trade. A study from the World Bank shows that for every day a shipment of goods is delayed due to export or import procedures, trade declines by one percent (Djankov, Freund and Pahm, 2006).

To conclude, slow trade procedures, whether motivated by protectionism or other reasons, appear to be decreasing in significance.

Risk for the future

Trade facilitation is one of the subjects of negotiation in the Doha Round. Although no specific agreements exist today, there are three GATT articles that address import and export procedures, transparency in the regulatory framework, and transit. The negotiations are aimed at improving and modernizing these articles. Before a WTO agreement is negotiated on trade procedures, countries have opportunities to introduce procedures intended to create barriers to trade. This is somewhat unlikely to happen, however, since many countries have entered into other international non-binding conventions, such as the WCO Kyoto convention, in which they commit to meet certain requirements for simple procedures and transparency.

The attacks of September 11, 2001 in the United States resulted in the introduction of measures in the United States and elsewhere intended to prevent exploitation of the trade flow by terrorists. One consequence of these measures is slower trade procedures. The United States' program of scanning all containers entering its territory is one example of a measure that runs counter to trade facilitation efforts (SWEPRO, 2009). This initiative has been strongly criticized, not least in the EU. However, it is too early to predict the overall effect of all of the new security programs, as they also include some components that have a facilitative effect on trade.

5.7 Subsidies

Subsidies can create both intended and unintended barriers to trade

There is no universal definition of 'subsidy.' Often, the term refers to some form of financial transfer from public to private agents without any requirement for something in return. Subsidies are used for a number of different political ends, be they social, environmental, regional, or scientific. They can also be used to serve various national interests pertaining to food and energy supply. Agricultural subsidies, however, are excluded from discussion here.

A subsidy is rarely intended to have an impact on trade. Many subsidies nevertheless affect world trade to some extent. They create trade distortions by granting various types of advantages to domestic producers. Foreign companies, who do not benefit from the subsidies, face more difficulties as they attempt to compete. Subsidies have a tendency to extend the lifetime of companies that are non-competitive or insolvent, thereby weakening the competitive advantage of more effective companies, particularly in countries that do not grant corresponding subsidies. Often, this form of support leads to a reduction in world trade, as import may be replaced by domestic production.

From a citizens' perspective, subsidies contribute to lowered prices on subsidized goods, while tariffs, on the other hand, increase the price. The opposite is true for the state: subsidies are an expense, while tariffs are a revenue. Therefore subsidies are not available as an option for the majority of developing countries. They are mainly used in developed countries and developing countries with good public finances.

The WTO Agreement on Subsidies and Countervailing Measures, which applies to all WTO members, primarily regulates horizontal subsidies and subsidies for industry[21]. The agreement, which was negotiated as part of the Uruguay Round in 1995, represents a significant sharpening of previous regulations. The agreement attempts to find a

balance between the right to use subsidies and the desire to reduce their trade-distorting effects. According to the WTO Agreement on Subsidies and Countervailing Measures, a subsidy is defined as a financial contribution from a government or other official authority in the form of a direct transfer of funds (a grant, loan, loan guarantees, tax credits or other type of public services, etc.) or income aid or price support with a beneficial effect. In order to be considered as such by the agreement, the subsidy must also be specific, meaning that it must be directed at particular companies or industries, or at the companies within a certain region. This form of subsidy is considered to have the most distorting effect on trade. Even subsidies requiring objective criteria and neutral conditions can still be considered specific if they can only be applied in practice to a limited number of companies.

The agreement on subsidies divides subsidies into prohibited and actionable subsidies. Prohibited subsidies refer to various forms of export refunds or subsidies whereby payout is contingent on the inclusion of local contents in production. Most subsidies, however, are permitted but actionable, meaning that they can be countered using either the WTO's dispute resolution mechanism or countervailing measures. Even though clear categories and regulations exist, it can be difficult for companies to demonstrate a "benefit" to the competitor in an official complaint. As a result, countervailing measures are used only infrequently.

Developments since 1995

It is impossible to say with certainty how the use of subsidies has increased or decreased since 1995, or whether their trade-distorting effect has grown or declined. It is reasonable to assume, however, that the regulations contained in the agreement on subsidies and its accompanying notification requirements have helped restrain the use of these subsidies, and contributed towards transparency (WTO 2006).

Because there exists no generally accepted definition of what constitutes a subsidy, there is no statistical information on the scope and application of subsidies. It is difficult to access information on their use in various countries, as governments do not systematically report this information, which may be politically sensitive. The sources that do exist vary in their definitions and classifications, preventing comparisons between countries and sectors. Sources that allow for comparisons between countries often exist only at an aggregate level or for a limited number of sectors. Furthermore, gaps are common for this type of statistic.

It is likely that subsidies have a significant impact on global trade flows. According to some estimates, global subsidies amount to 4 percent of the world's GDP. Other experts contend that subsidies constitute an average of around 6 percent of governmental expenditures, and 1 percent of the GDP (WTO, 2006). However, the most easily accessible information on subsidies can be found in the national accounts of various countries[22]. In most cases, the definition used in these accounts covers only one form of subsidy: direct payments. In order to obtain a more comprehensive picture of the magnitude of subsidies, more elements of subsidies should be included, such as tax relief and loan guarantees.

According to the current provisions in the WTO, member countries must submit information on their use of subsidies. Actual reporting on subsidies by WTO member countries, however, leaves much to be desired. One-third of all member countries have never reported their subsidies in accordance with the agreement on subsidies – others do so in a way that is not systematic, quantifiable, or otherwise does not allow for comparisons. There currently exists information for less than half of the WTO's member countries. During the period from 1995 to 2002, 54 countries provided quantitative information on horizontal and/or industry-specific subsidies covered by the agreement on subsidies. Most countries, however, report predominantly horizontal subsidies (for example, on environmental, scientific or regional support) rather than industry-specific subsidies (of which the most common involve support for the mining, coal, steel, forestry, fishing, shipbuilding, aviation and automobile industries).

According to WTO reporting, the mean value of global subsidies for industry constitutes less than 0.2 percent of the GDP. The weighted average sample shows that the proportion of the GDP made up by subsidies has declined from 0.26 to 0.2 between 1995 and 2002. The most significant declines were seen in Brazil, Japan, South Korea and Thailand. The proportion increased in Taiwan and Switzerland, and remained relatively constant in other countries. According to reports to the WTO, Canada, Japan and the United States grant relatively limited subsidies to industry, while the EU provides relatively large subsidies (more than three times the mean value).

A comparison of information on subsidies from various sources during the period from 1998 to 2002 unsurprisingly reveals major differences, calling into question the reliability of the data reported to the WTO. The United States reported an annual value of 16.3 billion USD for the period, which is less than half of the 41.5 billion in federal support alone

reported in the country's national accounts. Japan reported 4.2 billion USD to the WTO, but entered into its national accounts an amount over 34.3 billion USD. The EU (15) reported 93.6 billion USD; however, this is in line with the 109 billion EU reported in its national accounts. In order to obtain a better overview of the situation and the developments over time, it is important to make comparisons among different types of national sources.

Aggregated data based on national accounts collected over several decades show that the level of subsidies has changed significantly in developed countries. The average proportion of the GDP made up by subsidies was higher in the 1970s and 1980s than it was during the 1960s and 1990s (WTO, 2006). The level in the EU (15), Canada, Norway and Japan declined during the 1990s and in the beginning of the 2000s in comparison with the level during the 1970s and 1980s. The level remained more stable in the United States, but it was generally lower than in the other developed countries. Not surprisingly, the proportion of the GDP made up by subsidies is less in developing countries than in developed countries. Calculations based on national accounts for 1998 to 2002 (and a representative selection of countries) show that the proportion of the GDP comprised by subsidies was 0.6 for developing countries and 1.4 for developed countries. The WTO Agreement on Subsidies and Countervailing Measures, however, provides more far-reaching opportunities for certain groups of developing countries to apply subsidies to industry for purposes of promoting development.

Risks for the future

Because there are currently no competition regulations in existence at the national level which govern the granting of subsidies, there are no global provisions beyond the WTO Agreement on Subsidies and Countervailing Measures that govern the impact subsidies may have on competition on international markets. Thus the only subsidies that may be the subject of international action are those considered prohibited or actionable according to the ASCM agreement. This type of subsidy, however, comprises only a limited proportion of all subsidies.

In situations of economic difficulty, particularly in the global financial crisis, various types of subsidies and economic stimulus packages tend to come in demand. As regards stimulus packages (direct support and special loans and guarantees) and trade financing, these activities have a positive effect in many cases, as they counteract economic decline and promote trade by stimulating demand. Subsidies reduce consumer prices and production costs. Even this type of support can have a trade-distorting effect, particularly if national production and consumption is supported in such a way as to handicap foreign import. Within the current financial crisis, various countries' support for their domestic automobile industry has given rise to this type of problem.

In summary, it can be stated that today's globally integration production chains have made subsidies for national companies more cumbersome and less effective. It is difficult to prevent funds given to multinational group companies from being spent abroad. Therefore rather than supporting producers, there is a trend towards granting tax relief to consumers of the product in question, such as automobile purchasers.

5.8 Public procurement

Public procurement is often protected from foreign competition

Public procurement of goods and services by state or local government and other official bodies comprises a very large proportion of the world economy. In the EU, it is estimated that 16 percent of the Union's GDP is made up by public procurement, and the corresponding figure is thought to be even higher in developing countries[23]. In all countries, procurement by the public sector is the single largest source of demand in the economy. The goal of public procurement is first and foremost value for money, meaning that quality goods and services are purchased at the lowest possible price for the taxpayer. There can also be other, secondary objectives for public procurements. One phenomenon which is quite new is the use of strict environmental requirements to drive the creation of ambitious company environmental policies. The desire to stimulate local/national enterprises using procurement regulations that make it easier for domestic companies to win the contract, however, is not new. One motivation for this is to lead the taxpayers' money back into the local/national economy, though there may be other motivations as well, such as the desire to benefit a certain ethnic or social group. In other words, a completely open protectionist policy whereby the procuring country voluntary reduces its standards for value for money in order to instead benefit domestic companies at the expense of foreign companies.

Public procurement can favor domestic companies, for example by using preferences or requirements that the procurer purchase domestic products or services. The preferences are given to

domestic companies to make it easier for them to win the bid and thus keep away companies from other countries. A price preference of 10 percent means that even if the domestic company's bid is up to 10 percent higher, the company may still be awarded the procurement. If the procurer must purchase domestically, foreign companies are excluded from the market entirely.

Public procurement remains relatively unregulated in the WTO. Attempts at prioritizing the issue on the WTO agenda have been unsuccessful. In 2004, discussion on increased transparency in public procurement was discarded from the WTO's Doha Round agenda. A lack of transparency in public procurement creates a barrier to trade in that foreign companies may not even be aware of potential procurements taking place, or they may be unwilling to apply to compete on a playing field where the rules are unclear and corruption and contacts can play a determining role.

There exists one WTO agreement on this topic, the Government Procurement Agreement (GPA). However, only a minority of WTO member countries are members of this agreement. Only 41 of 153 countries have entered into this agreement, nearly all of which are developed countries, including the members of the EU and the United States. As a result, there are no specific restrictions whatsoever in place in most developing countries regarding discrimination of foreign companies in public procurement. Even countries that are members of GPA have generous opportunities for exempting certain sectors from foreign competition. The GPA allows countries to limit their market access commitments to the sectors and procurements they select. As a result, the GPA, with the many exceptions it allows, should not actually be viewed as an agreement, but rather as a large number of partial agreements which open up certain public procurements to foreign competition in GPA countries. As such, the GPA is a relatively weak agreement.

Developments since 1995

Few studies have attempted to quantify the occurrence of protectionism in public procurement. One study from 2000, using data from 1985, shows that in seven EU countries the average import proportion (the proportion of total goods purchased comprised by imported goods) of the public sector made up only two-thirds of the country's total import proportion. The private sector, in which companies are free to purchase whichever goods they wish, and which is driven by cost considerations, imports a greater proportion of its purchases than the public sector (Trionfetti, 2000). Data from Norway and Japan reveals a similar phenomenon (Evenett and Hoekman, 2006). Without more comprehensive data, however, and without a more systematic method of estimating the scope of the problem, there can be no time series statistics. We simply do not know which direction developments in public procurement have taken.

There are, however, certain indications on recent developments. The EU's rules on the topic have been modernized over the past few years, and new directives were created in 2004. Rules for the EU's internal market prohibit member countries from using protectionist measures inside the EU or EES. Public procurement has also become a part of many free trade agreements negotiated in recent years, including the EU-Chile and US-Australia agreements.

The new member countries of the EU have joined the WTO; beyond this, however, there are few new members to the GPA. Developed countries remain in the vast majority of member countries, and since their share of world trade is declining, the impact of the GPA is gradually restricted to an ever smaller proportion of world trade[24]. This trend may be halted, however, when China and a number of other newcomers to the WTO enter the GPA, as they have committed to do.

Risks for the future

There are generous opportunities for countries to limit access to public procurement for foreign companies. There is a tendency for more countries to use this inefficient means of stimulating their domestic economy.

Protectionism within public procurement costs the state, as "value for money" no longer remains the top priority. It can, however, appear to be less expensive than subsidies, and less politically sensitive on an international level than comprehensive tariff raises. Governmental support for domestic industry may also enjoy popular support at home. There is an obvious risk that this type of protectionism may spread, particularly in the absence of any strong legal barriers against it. The long-term trend, however, is for the WTO's agreement on public procurement (GPA) to include a growing number of countries, and for it to become increasingly difficult to engage in protectionist policies. Furthermore, public procurement has been included in many of the free trade agreements negotiated in recent years.

5.9 Sanitary and phytosanitary measures

Sanity and phytosanitary measures can be restrictive to trade, but do they constitute protectionism?

Sanitary and phytosanitary (SPS) measures are official regulations aimed at protecting the life and health of humans, animals and plants. More specifically, countries use these measures to ensure that consumers receive food products that are safe to eat, to prevent the spread of infectious animal diseases, such as foot and mouth disease, and plant pests that destroy or compromise the quality of fruits and vegetables. SPS measures are applied to both domestic and imported products and affect trade with live animals, fish, agricultural products, plants, food products and timber.

SPS measures can be restrictive to trade in several ways. It can be difficult for exporters to obtain information about the SPS regulations that apply to the export markets and to keep up with any changes to these rules. Therefore it is important with transparency, i.e. properly functioning flows of information. Another type of barrier occurs when producers/exporters are simply not able to meet the product requirements in place. This may be due to factors over which the individual producer has no control, such as an outbreak of foot and mouth disease or avian flu in the producer's region. In other cases, SPS measures have a restrictive effect on trade for certain producers due to the high costs necessary for adapting production to the new regulations. Furthermore, it may restrict trade that countries use *different* SPS measures, for instance the permitted food additives or the maximum residue levels for pesticides may vary by country. However, not all measures that have an impact on trade are necessarily protectionist.

Without SPS measures, international trade could result in the entry of unsafe products onto the market. In the absence of such measures, there would be a greater risk for the spreading of infectious animal diseases or plant pests, which could compromise the health and cause economic damage. Therefore SPS measures are required to ensure that trade functions properly and generates positive effects for both importing and exporting countries.

SPS measures per se should not be considered protectionist in nature, as their objectives are usually legitimate. However, in some cases SPS measures are used to protect domestic producers, either by the use of unnecessarily strict (disproportionate) requirements or by an application of the measures that puts a stop to trade. Another way of misusing SPS regulations is to allow application and approval processess to take much longer than is actually necessary. However, it is not self-evident that requirements for food products without scientific basis serve to protect domestic production; they can also serve to satisfy consumer opinion on controversial issues.

The provisions contained in the WTO Agreement on the Application of Sanitary and Phytosanitary Measures are intended to combat misuse of SPS measures and protectionism. These provisions seek to create a balance between the legitimate need for protection of human, animal and plant life or health and the goal of minimizing barriers to trade. These two interests are balanced by the requirement that SPS measures be based on scientific evidence . In order to facilitate trade, member countries shall also endeavor to use international standards, i.e. research-based guidelines jointly created by multiple nations.

Developments since 1995

The WTO SPS agreement entered into force in 1995. Along with it was created an SPS committee in the WTO to monitor the implementation of the agreement.

What, then, have been the developments in SPS measures since 1995? It should be noted by means of introduction that it is difficult to determine whether the SPS measures applied to trade have become more or less restrictive to trade, and whether it is more or less common that SPS measures be used in a protectionist manner.

There has been an upward trend in the exchange of information on SPS measures. The WTO member countries are obliged to notify to the SPS committee any new or modified SPS measures which could have a significant effect on trade. There is a trend towards an increased number of notifications to this committee since 1995. In August of 2008, more than 6400 new or modified SPS measures had been notified were reported, along with just over 1000 temporary emergency measures[25]. The developed countries were responsible for just over half of these notifications, with the United States issuing far more notifications than any other nation (28 percent of all notifications).

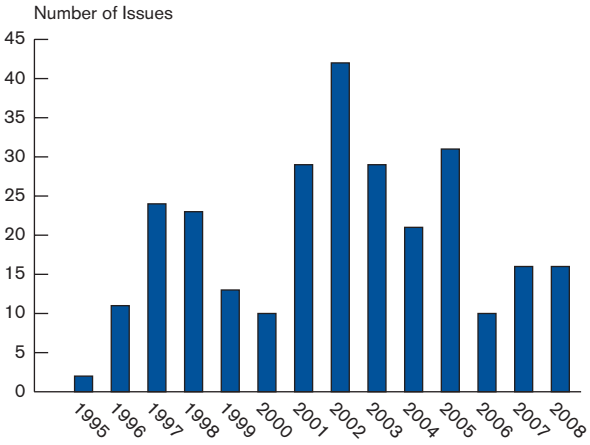
An increasing number of notifications does not necessary mean that for each year there are more SPS measures which impact or prevent trade. The increase may be due in part to greater transparency: there may be an improvement on the part of the WTO member countries in fulfilling their obligation to report changes in their SPS rules. This is a favorable development, since it entails that

exporting countries are receiving more information about important changes on the export markets and are thus being given ever better opportunities to provide comments on proposed SPS measures before they take effect.

However, there are still a number of countries that neglect to notify changes in their SPS regulatory framework, and this lack of information may create barriers to trade. Nearly one-third of the WTO's member countries had not notified a single SPS measure as of the end of 2008. All of these countries were developing countries, and half belonged to the group of least developed countries. The lack of notifications from these countries may be due to their being without a functional national system for making notifications to the WTO. However, it may also be due to few SPS measures being introduced in these countries during the period examined. Although developments regarding transparency and SPS measures have taken a positive direction, there is still plenty of work to be done in this area.

How often are SPS measures seen as illegitimate barriers to trade? The WTO Secretariat's compilation of specific trade concerns brought up in the SPS committee provides one indication. When a WTO member country finds that another country has introduced or is attempting to introduce a measure that is not based on an international standard, that lacks scientific basis, or that represents an unnecessary barrier to trade, the issue may be raised in the SPS committee. The idea is that the country that finds the measure not in compliance with the SPS agreement is to request a scientific justification for the measure, or an explanation as to why no international standard was used as its basis. In many cases, the country bringing attention to the specific trade concern in the committee will receive support from other countries.

Figure 8 New specific trade concerns raised in the WTO's SPS committee 1995-2008



Source: WTO document G/SPS/GEN/204/Rev.9.

From 1995 to 2008, 277 specific trade concerns were raised in the WTO's SPS committee[26]. Approximately 40 percent of these pertained to measures introduced for protecting animals against diseases such as foot and mouth disease, BSE and avian flu. During the first few years of the SPS agreement, the number of specific trade concerns brought up in the SPS committee increased every year (see Figure 8). This development did not continue, however, and the number of trade concerns raised has actually declined in comparison with the first few years of the 2000s. One explanation for this decline may be that the enlargement of the EU has resulted in a reduction in the number of active players in the SPS committee[27]. It is important to keep in mind, however, that most trade concerns are likely to be brought up directly with the country responsible for the measures in question, without involving the WTO SPS committee. This is particularly true in cases where there is properly functioning cooperation between two countries, e.g. within the scope of a bilateral agreement or a formalized dialogue.

Which countries, then, are considered to be the source of trade concerns for other countries due to their SPS measures? The EU tops the list with 60 complaints, perhaps owning to the high level of protection for food safety, animal health and plant protection. Another important factor is that the EU is a large market and a desirable export destination for many countries. Many specific trade concerns have also been reported for the US and Japan. Among the developing countries, predominantly measures from China and Korea have been challenged.

The EU and the United States are the countries that have raised most specific trade concerns in other countries. The United States has raised more than 70 issues, and the EU, approximately 60. The EU has primarily challenged SPS regulations for beef which are significantly more restrictive than the international standard for BSE[28].

Do the discussions in the WTO SPS committee bring about results? In one-third of cases, the problem is reported to have been resolved either partially or completely. Approximately one-fourth of the specific concerns pertaining to the EU's SPS measures are reported to have been resolved. In some cases, specific trade concerns have been resolved using the WTO's dispute settlement mechanism. In most cases, however, no resolution is reported despite the fact that the issues are often raised in the SPS committee for a number of years[28]. This does not mean, however, that the SPS agreement and the SPS committee are ineffective. Both the agreement and the committee are likely to have a certain preventative effect regarding SPS measures which are protectionist in nature or difficult to justify.

Although there are international trade regulations in place for SPS measures, the major conflicts that have arisen in the SPS arena have turned out to be very difficult to resolve. This is perhaps most clearly illustrated in the WTO disputes between the EU and the United States on the EU's moratorium and national prohibitions of GMO (genetically modified organisms) and prohibition of the importation of hormone-treated meat.

As regards hormones, a simplified way of describing the debate is a collision between two different perspectives. The United States does not wish for the method of hormone treatment to be evaluated, but rather the end result (i.e. whether or not the beef is safe for human consumption). The EU finds it difficult to accept hormone treatment as a method because of the "unnecessary" risks involved when treating animals with growth hormones.

A ruling by the WTO dispute settlement body, found the EU's prohibition on imports of hormone-treated meat to lack a scientific basis. The import of hormone-treated beef into the EU remains prohibited, which the United States considers a breach of the ruling in the dispute. As a result, the United States has imposed retaliatory tariffs on certain products from the EU. The EU has conducted scientific risk assessments for the growth hormones currently in use and finds the EU's new decisions on prohibition of imports from 2003 to now be in compliance with the SPS agreement.

The EU and the United States have now reached a settlement in which they agree to bury this particular hatchet for a number of years. The EU will maintain its prohibition on imports of hormone-treated meats, and the United States is granted increased market access to the EU market for hormone-free beef. This dispute demonstrates that there are conflicts in SPS arena that can be very difficult to solve. Even if plenty of scientific studies have been carried out, tensions may remain regarding production processes, and it may be difficult to find a compromise in these areas no matter what is contained in the WTO's regulations. Is the EU's prohibition on imports for hormone-treated meat an example of protectionism? From the perspective of the United States, the answer is a definite 'yes.' Within the EU, some producers naturally have an interest in supporting the prohibition, as it leads to a reduction in import competition. This is the protectionist aspect of the prohibition. At the same time, the prohibition is likely to have strong support among many European consumers, which implies that there is another angle to the prohibition than support of domestic production.

It is impossible to say whether more protectionist SPS measures are being applied now than in 1995. Increased transparency has improved the situation in some ways, as WTO member countries are becoming better at informing one another about changes in their SPS regulations. The number of specific trade concerns raised in the WTO's SPS committee has varied over the years, and there is no trend to indicate that the concerns are on the rise. For the majority of the specific trade concerns, no resolution has been reported. This implies that countries are unwilling to change their SPS measures, even if they may be perceived by other countries as being protectionist or representing an unnecessary barrier to trade. The SPS agreement, however, may have had a certain preventative effect in combating protectionism after 1995, though this potential effect is impossible to measure.

Risks for the future

SPS measures will be of increasing significance for agro-food trade in the future. This is because trade barriers in the form of tariffs will continue their successive decline as more bilateral trade agreements come into force. A conclusion of the WTO Doha Round would reinforce this effect. This means that both the design and application of SPS measures can be expected to be of central importance for access to various markets. How countries deal with application and approval procedures will also be important. There are plenty of examples of how delays and exaggerated formalism in the processing of applications keep the market closed to new players.

As living standards rise in developed countries and many developing countries, it is predicted that consumers will set increasingly high standards for food safety. This may manifest itself either in the public SPS regulations or in more stringent requirements set by retailers, known as private standards. In both cases, trade will be impacted. There is a risk that producers, particularly small-scale producers in developing countries, may have a hard time meeting these requirements and may become excluded from important export markets entirely.

Many difficult SPS disputes are to be expected. In January 2009, the USA submitted a request for consultations, the first step in the WTO's dispute settlement mechanism, regarding the EU's prohibition on chemically-treated chicken[30]. As in the hormones case, this is a meeting of two different points of view on food production. In the United States, treatment with antimicrobial chemicals is seen as a safe and effective way of reducing the amount of salmonella bacteria and campylobacter in poultry. The determi-

ning question from the perspective of the United States is whether or not the chemically treated chicken is safe for the consumer. Within the EU, there is resistance against the method of reducing the number of bacteria in poultry, as this imposes the risk of replacing good hygiene in the food chain. There does not appear to be strong scientific support for this argument, however, and therefore it is uncertain at best whether the EU's prohibition will pass the scrutiny in the WTO. Other issues which may be controversial in the future are meat from cloned animals and food produced using nanotechnology, known as nanofoods. Nor has the book been entirely closed on the GMO dispute. Because the national prohibition on GMO has not been revoked, there is a considerable risk that the United States will decide to introduce retaliatory tariffs against products from the EU.

In conclusion, there appears to be a greater risk of misuse of SPS measures in times of economic recession. For countries wishing to do so, there are unfortunately plenty of opportunities to complicate the application of existing SPS measures and deliberately delay approval procedures in order to limit competition on the domestic market.

5.10 Technical rules

Can technical rules constitute protectionism?

'Technical rules' is a conceptual term for technical regulations, standards and procedures for conformity assessment[31]. These rules, which may apply to requirements for products, testing, certification and labeling, may either complicate or facilitate trade, depending on their design.

Like SPS rules, technical rules are requirements that must be met in order for an exporter to sell products on a certain market.

Many technical rules consist of standards. These are often a "language" for trade, both within and among various countries. Special "codes" refer to specific products, services or processes. Standards are of particular significance for trade with more technically advanced goods and components whether there is greater need for information than for simpler products, but there are also standards in place for simpler goods such as screws and nuts. Varying standards among countries may represent barriers to trade, but do not constitute protectionism.

If the legislature singles out a standard in legislation, it becomes compulsory, and thus becomes a technical rule. By introducing technical rules, the legislature seeks to attain certain legitimate ends such as security, health and environmental goals.

Technical rules have a major impact on trade, and can in practice represent difficult barriers to trade. If a country's regulatory framework for safety, environmental goals or health stands in the way of trade, this is called a "technical barrier to trade (TBT)."

Technical rules vary among countries and are caused by various factors such as traditions, rate of development and popular preferences. In Sweden, for example, we have a tradition of very high safety requirements for various products. Restricting import of a good which may be dangerous is not protectionism, although the option of restricting the import of such a product may be misused. It may also be the case that a country has different requirements than other countries by tradition. The fact that the EU and the United States have different mobile telephone systems is not necessarily an example of protectionism.

Thus, technical rules per se can not be considered protectionist. These rules usually have a legitimate purpose. It may occur, however, that technical rules, like SPS rules, are used to safeguard domestic producers either though the imposing of unreasonably high requirements or through a manner of application that stops trade.

When designing technical rules, it is important to take trade policy considerations into account. Otherwise the regulations risk creating unnecessary barriers to trade. In order to avoid this, the WTO countries are obliged to report to one another regarding new rules, which increases the possibility of the trade-restricting regulations being discovered and reworked. As for SPS rules, transparency is an important aspect for technical regulations. A significant barrier to trade for exporters may be that is difficult to keep informed about the technical rule in effect on the export market and any changes to these. Therefore it is important to have a well functioning information flow on what technical rules are in effect.

Another complication that may arise when analyzing the effects of technical rules on trade is the fact that the same rule may have different effects for different exporters, depending on what resources the company possesses. Certain exporters are simply not able to meet the requirements imposed on them. A new provision in the EU prohibiting chemical additives in a certain product may not pose great difficulties for an American company who can easily find a substitute for the prohibited substance. A competitor in Africa, however, may be unable to adapt its production as easily; for them, the same regulation may represent an insurmountable TBT, and they may perceive it as protectionism. The REACH directive which covers trade in chemicals in the EU exemplifies the way regulations in the EU are often perceived by other countries as creating TBT.

But since the same rules apply to European and non-European companies alike, it is difficult to label this directive protectionist.

Trends since 1995

Technical barriers to trade (TBT) have increased in significance over time as tariff levels have fallen. Furthermore, increasing internationalization means that trade is being conducted among an increasing number of countries with an increasing number of types of products. New conflicts are arising between different regulatory systems, though these regulations themselves may not have changed. Another source of TBT is regulation in new areas when the bar is raised in areas under existing regulations. One such example is the prohibition on the use of certain substances in production for environmental or health reasons.

The WTO Agreement on Technical Barriers to Trade (the TBT Agreement) aims to increase transparency in the development process for new regulations and to make regulations less restrictive to trade. Concerns regarding TBTs are discussed in the WTO in the Committee on Technical Barriers to trade (the TBT Committee), much like in the SPS-committe discussed above. In the committe members are given a chance to address *specific trade concerns*, measures taken by other members such as the introduction of new regulations. 211 concerns were raised during the period from 1995 to 2008.

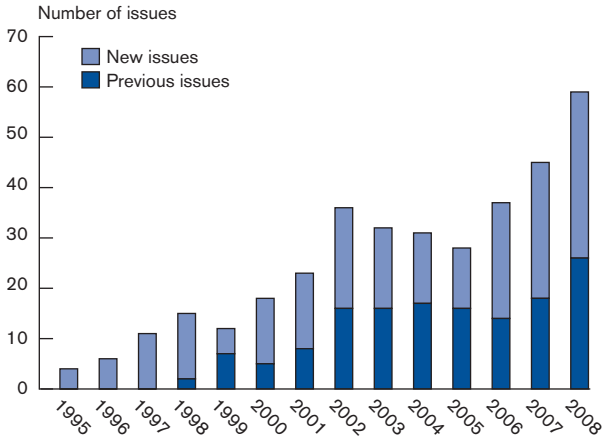
This period saw a trend towards an increase in the number of concerns raised for discussion in the TBT Committee (see Figure 9). An increase in the number of notifications does not necessarily mean that the number of TBTs increases every year. As in the SPS arena, the increase may due to increased transparency; WTO member countries may have become better at reporting changes. But the increasing number of notifications may also be due to countries' raising their ambitions in health, environmental and security goals during this period.

It is becoming increasingly common for issues to be raised more than once in the TBT Committee. Additional information and clarification is requested in the majority of cases. The requesting party usually finds that a TBT has been imposed. Common objections are that a measure lacks transparency, or is unnecessary or not legitimate.

Most questions, 73 percent, involve technical regulations. Another large proportion, 16 percent, involves conformity assessments. The measures that are most commonly challenged are regulations that address health and safety, though environmental regulations are also common.

Technical barriers to trade are closely connected with a the level of development of a country and the size of its market, which can be seen in the directionality of questions posed in the TBT committee. No measures taken by any of the least developed countries (LDCs) have been challenged. The countries whose measures have been the subject of the most discussions are the EU, the United States, and China. This is likely due the fact that these countries have large markets which are desirable export destinations for a number of countries.

Figure 9 Number of specific trade concerns raised per year in the TBT Committee



Source: WTO.

Risks for the future

TBTs are likely to be among the most significant barriers to trade for a long time to come. They are by nature difficult to approach because there are often legitimate reasons for introducing a certain technical regulation. The barrier often arises not because of the regulation itself, but because regulations vary by country. This may be due to differences in for example weather conditions or regulatory traditions.

The TBT Agreement and its attendant committee have a certain preventative effect on the introduction of technical rules which are difficult to justify or are protectionist in nature.

It is clear, however, that as more and more products are traded on the global scale among an increasing number of countries, the greater the potential becomes for conflicting regulations. The challenge in reducing the effect of technical barriers to trade is to agree on common rules to the extent possible, and to create separate, national regulations only in exceptional cases. Collaboration on regulatory techniques towards "good regulatory practice" with the goal of reducing the trade restrictive effects of technical regulations is currently being conducted within various international organizations such as the WTO, UNECE (United Nations Economic Commission for Europe) and the OECD.

6. Trade in services

National regulations often impose barriers to trade in services

While most of the economy in all developed countries is comprised of service production, trade in services represents a less significant proportion of all trade. Services comprise an average of 72 percent of the GDP in developed countries, and 52 percent in developing countries. However, trade in services represents only 20 percent of all world trade, and has not expanded as a result of the growth in service production (Swedish National Board of Trade, 2009). Service trade is increasing but as trade in goods is also increasing the share of services in trade is not growing. These figures beg the question as to why trade in services is not more widespread on the global scale. Protectionism may partially account for this phenomenon, but it is not the entire explanation.

In the WTO's GATS agreement, cross-border supply of services is known as mode of supply 1. Examples of this are the cross-border supply of training courses and legal expertise. The Internet and other groundbreaking new technologies have brought radical improvements when it comes to the opportunities to trade this kind of services. Despite these advances, many services, such as taxi transit or hairdressing, are impossible to trade across national borders. They require both the producer and the consumer to be present, and can be neither stored nor transported. Services that require the simultaneous physical presence of both producer and consumer can also be defined as "fixed" services as opposed to "flexible" services, which can be transported and stored like goods (Bhagwati, National Board of Trade, 2009).

However, international trade in services can also take place within the boundaries of a country. The service consumer can travel to another country for a limited time. This is called consumption abroad (mode of supply 2) in the GATS and is most easily exemplified by a tourist. There is also the situation when a service provider temporarily go to another country, called temporary movement of natural persons (mode of supply 4) in the GATS. This can be exemplified with a computer expert dispatched to another country to deliver a service. The sale of services using either of these modes of supply is included along with the sale of flexible services in the traditional definition of trade in services.

A service company may establish itself permanently in another country and sell its services via a subsidiary, for example in the case of retail or restaurant chains. This is called mode of supply 3 in GATS terminology. According to WTO calculations, this mode of supply represented 41.2 percent of all trade in services in 2006 (National Board of Trade 2009). This type of foreign sales is not usually included in statistics on trade in services. It is normally covered instead by statistics on investments. If this kind of "service commerce" was included in the trade flows, which is not possible due to lack of data, probably the picture would be quite different. There would still be a gap between the share of services in GDP and the share of services in international commerce (including both trade and investments) but the gap would probably be smaller.

Public services such as defense and national administration represent a large proportion of service production, but are not usually traded on the international market. Other public services such as healthcare and education, on the other hand, are traded in high volume. It would, however, be inaccurate to claim that a public monopoly on institutions such as elementary schools is an example of protectionism, as access to this market is prohibited for *all* private companies, including domestic companies, a phenomenon which is common in the EU member countries.

Barriers to trade in services are plenty, however, and they are often related to various domestic laws and regulations. Though this type of barrier is generally less visible and more complex than tariffs and duties, it can have an equally inhibiting effect on trade. Examples of barriers to trade in services are various types of limitations such as the number of foreign citizens that may be employed in a specific sector. Because reducing barriers to trade in services often requires reform of domestic regulations, including those that govern migration, international negotiations on the subject of services are often particularly difficult and controversial.

Expansion of trade in service since 1995

In the introduction to this report, we stated that worldwide trade in services had increased by 161 percent in nominal terms and 101 % in real terms since 1995.

How has trade in services changed during the period between 1995 and 2007? We have chosen in

this report to examine the countries which had a market share of at least 0.2 percent either in 1995 or 2007. Statistics on trade in services are unfortunately neither complete nor entirely reliable. An examination of trade in services using modes of supply 1, 2 and 4 will therefore have to suffice[32]. The form of trade in services known as commercial presence, whereby a service company establishes itself permanently in a number of countries via subsidiaries (mode of supply 3 in GATS terminology) is not included in this study.

In all countries, the increase in import of services exceeded the growth of the gross domestic product. As is the case with trade in goods, no country reduced its import of services. This is illustrated in figure 10, which plots the development of GDP and import growth over time. The horizontal axis indicates the average annual growth of GDP from 1995 to 2007, while the vertical axis shows the average annual increase in import of services during the same period. For the countries that fall on the solid line, expansion of import of services was equivalent to growth of the GDP.

The chapter on trade in goods examined the size of import of goods compared to the gross domestic product. The same has been done for trade in services in Figure 11. The below figure shows the relationship between a country's openness to trade (measured as the proportion of the GDP represented by import of services) and the average annual increase in import during the period between 1995 and 2007.

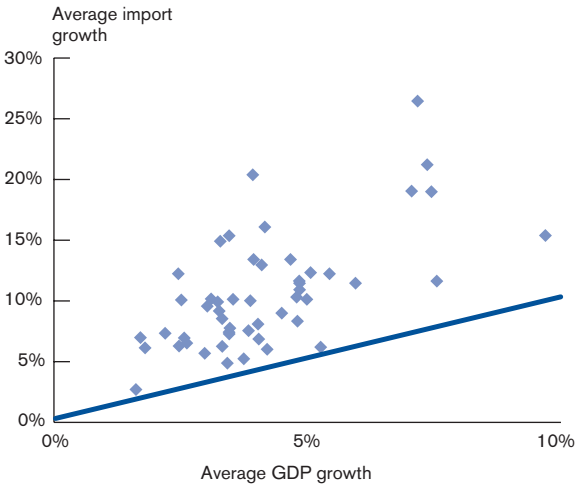
The figure shows the results for the largest trade nations in the world. The horizontal axis shows import in services as a proportion of the GDP in 1995, an indicator of the significance of trade in services in each country. The vertical axis shows the average annual increase in trade in ser-vices between 1995 and 2007.

Unfortunately, no groups of countries were found to have clear similarities in their development. General conclusions can not be drawn.

In summary, the trend was that trade in services, as with trade in goods, increased in scope for all countries during the period studied. In almost all countries examined, import of services expanded faster than the rest of the economy.

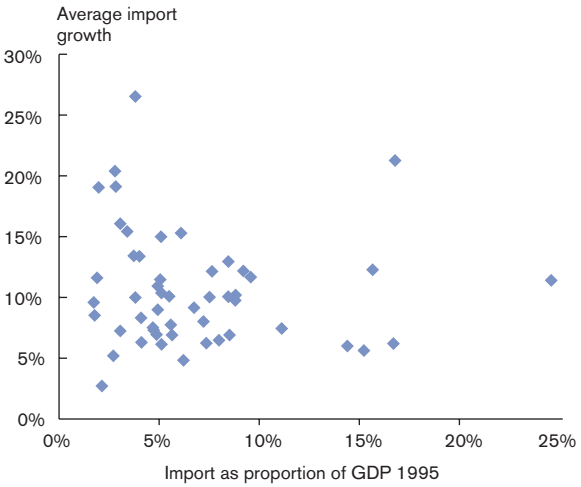
These statistics do not provide an explanation for the increase in trade in services. More openness in the relevant regulations may be one reason, along with new technologies that facilitate trade in services. In any event, it can be said with certainty

Figure 10 Average growth in import of services compared to GDP growth (%) 1995-2007



This figure shows the average annual change in GDP and import of services for the largest trade nations between 1995 and 2007. The horizontal axis shows the increase in the gross domestic product as an annual average percentage between 1995 and 2007. The vertical axis shows the average annual increase in import of services for the same period. See appendix 4 for data.

Figure 11 Average growth in import of services (%) 1995 – 2007 compared to import of services as a proportion of the GDP



The figure shows the results for the largest trade nations in the world. The horizontal axis shows import in services as a proportion of the GDP in 1995, an indicator of the significance of trade in services in each country. The vertical axis shows the average annual increase in trade in services between 1995 and 2007.

that trade policy has not prevented strong developments in trade in the service arena.

It is often difficult to determine the level of protectionism imposed by a certain barrier to trade in services. The relevant legal expertise is necessary in order to understand and estimate just how restrictive a certain provision is towards foreign companies. It is fairly easy to make such a determination when foreign companies are expressly prohibited from engaging in a certain activity; however, the issue is often more subtle than this. A more aggregated picture requires that all provisions be analyzed and given a numerical value indicating their level of restrictiveness, and that all the values then be properly weighted together. OECD is working on creating a Services Trade Restrictiveness Index (STRI) for professional services. This project is in an early stage and is facing complications due to inadequate data and problems with methodology. Only once the STRI has been completed and data projected for several years will there be a time series available to indicate how protectionism has developed within the service industry.

Risks for the future

The GATS agreement is designed completely differently from the GATT agreement. Countries can make market access and national treatment commitments (bindings) for only the service sectors they wish. They can choose their preferred mode of supply and the extent of their commitments. The average WTO country has only made commitments in approximately 15 percent of all service sectors (WTO, 2001). The large developed countries, however, have made commitments in the majority of sectors, and often services are also included in new free trade agreements. In many countries, there are sectors in which no commitments have been made, a fact which gives countries generous opportunities to introduce more restrictive regulations for foreign trade in services without committing a breach against their commitments according to GATS. In summary, openness for trade in services is in general less "locked in" than trade in goods.

Furthermore, as is the case with tariffs on goods, there is some binding overhang (also known as "water") in the service sector, meaning that a country's actual openness to import of services in a certain sector is greater than that country's commitments in the GATS. The country has chosen to open the sector in question more than it committed in the GATS. However, the country may reduce its openness to the committed level at any time. This is likely to be a very common situation. In Sweden, for example, openness to trade in educational services is much greater than indicated in the Sweden's GATS commitment. The drawback of this is reduced predictability, as actual openness is not backed up by an internationally binding agreement. There is a risk for the sector to be closed to international competition. One of the gains of the Doha Round would be for countries to make WTO commitments in sectors which are already open for trade in services, but which are not already guaranteed in GATS agreements. The Doha Round would thus reduce discretionary room for countries to engage in protectionist policy.

The extent of binding overhang ("water") in the service sector has been the subject of little study. In their study on the bank sector, Barth Nolle and Marchetti (2008) observed binding overhang in 19 of the 65 countries examined, meaning that the finance sector in these countries was more deregulated than could be seen in their commitments. Thus there was a risk for less open markets in these countries. However, the study also showed that in 42 countries, the finance sector was more closed than was indicated in GATS. In other words, many countries are not even in full compliance with their own GATS commitments.

Which sectors and modes of supply are under the greatest potential threat? Mode 1, cross-border trade, is one candidate. The issue of outsourcing (contracting out parts of production to other countries) has long been the subject of debate, primarily because many feel that outsourcing leads to the loss of jobs on the domestic market. Opposition to outsourcing and to the purchase of outsourced services has increased.

Hindrance to consumption abroad (mode of supply 2), whereby consumers themselves cross the border, is particularly unlikely to be imposed, as it is often difficult to engage in protectionist policy in this arena without closing the borders to exit and entry. However, it is not inconceivable that countries may erect barriers to the purchase of training and healthcare abroad, as well as to companies' repairing ships in foreign shipyards.

Mode 3 will be discussed in the next chapter, as it pertains to investments.

Finally, mode of supply 4 represents major risks. Permitting foreign service providers to deliver their services for a short time can be perceived in some cases as a threat to the domestic labour market, which may be particularly sensitive during times of economic crisis. It may be worth noting that it is easier to raise barriers against the temporary provision of services by foreign experts, as this type of access is regulated by visas and work permits, etc., rather than laws. Visas and work permits are often bureaucratic procedures that can vary quickly without waiting for slow changes in legislation.

7. Investments

Opposition to foreign investments can be a form of protectionism

One of the most tangible effects of globalization is the increase in foreign direct investments (FDI). In 2005, the value of foreign direct investments was 18 times what it was in 1980 (National Board of Trade 2008b).

Protectionism can affect both investments going in- and out of a country. Companies wishing to invest abroad may be hindered from doing so by their own government, which would prefer the investment be channeled into the domestic economy. This form of investment protectionism, which appears quite unusal despite a heated debate on outsourcing in not least the United States, is not included in this study, however. Our focus is on *inbound investments*.

On the one hand most countries wants to attract foreign investments, with the capital and know how they bring. Therefore, foreign direct investments are often actively encouraged by governments. But on the other hand, FDI expose local enterprise to tougher competition.If the purpose of the investment is, for example, to establish a new restaurant chain, then domestic firms may feel threatened and demand protection. Since an estimated 62 % of all FDI is in the services sector[33], which often competes with local business, the conclusion can be drawn that many foreign investments does have the potential to increase pressure for protectionist measures.

In such circumstances, barriers to FDI can work as tariffs in the sense that they protect local business from foreign competetion. It is not always, however, that an investment will represent competition for local enterprise. Often, investments work as a complement. An investment in a new tire factory which will manufacture products for a third country does not present a threat to established companies. Rather the opposite as it can contribute to growth and stimulate local enterprise.

This is only from a narrow economic perspective though and there are other aspects to this. The ambition to keep certain companies (national champions) under domestic ownership, or to protect self-determination in certain sectors or against certain interests can be protectionism, but it can also have other legitimate justifications, such as security policy.

When a country introduces measures to safeguard its domestic industry from foreign competition, this is protectionism. In the investment arena, this can be expressed as restrictions against the acquisition of domestic companies by foreign companies, either as a total prohibition on acquisitions or a requirement that the foreign company enter a joint venture with a domestic company.

There are other regulations which can present obstacles to investors, such as in-country residency requirements for the executive of a branch office. These regulations are motivated by other considerations than safeguarding of domestic industry, such as the invocation of liability in the event of bankruptcy.

Developments since 1980

Restrictions on foreign direct investments declined in the OECD countries from 1980 to 2000 according to a study from the OECD (Golub 2003). In this study, the OECD developed what is known as a restriction index, which sums up the limits of foreign ownership, screening requirements of foreign investment, and restrictions on foreign personnel and operational freedom. The OECD focused on formal barriers for foreign direct investments. It is worth pointing out though that some barriers may be more informal in nature and not written in the law.

The study covers 23 OECD countries and 9 sectors (8 service sectors as well as the manufacturing industry). The OECD then weighs together all sectors to an aggregate index between 0 and 1, where 0 means complete openness in all sectors and 1 means that all sectors are completely closed. The study was conducted in 2003, and the figures for 1980 and 1990 have been extrapolated and are therefore not entirely reliable. The OECD emphasizes that the findings must be interpreted with caution, as they are based on a subjective assessment of the degree of restrictiveness of various countries' governments (see Figure 12).

From 1980 to 2000, restrictions declined considerably, primarily in Europe. No increase was observed in any country, though the degree of restrictions remained constant during this period in the United States and Japan. Since approximately half of all of foreign direct investments worldwide take place within the EU, the EU has a significant impact on the figures. Most of the deregulation in the EU took place in the 1990s. This decade saw the most deregulation of investment flows in the rest of the world as well. The OECD also notes that in all countries, regulations on investments are more liberal in manufacturing than in services. In 2000, the index was at an average of 0.09 for manufacturing investments, and 0.76 for investments in the

energy sector, which is the most regulated area of the service sector. The index declined for all sectors, and the greatest decline can be seen in telecom and the airline industry.

In 2006, the OECD conducted a new study using similar methodology, this time on 42 countries, including the largest non-OECD countries (Koyama and Golub, 2006). These countries comprise a very large majority of the total world economy, which makes it possible to draw general conclusions. China and India are the most restrictive, with an index reaching just over 0.4. But even in these countries, the OECD finds that openness outweighs the restrictiveness. In all but nine countries, the index was below 0.2 and in the large EU countries, it is even under 0.1. The index reflects a period of increased openness to foreign direct investments worldwide, reaching a relatively high level by the year 2000.

This increased openness is partially the result of decisions in the various countries, but also a result of other factors such as external political pressure, EU membership for some countries, and - for many developing countries – conditions for IMF and World Bank loans. Deregulation of the domestic economy has often been conducted in parallel with measures aimed at opening up the country to the world economy. One such example might be the opening of a country's telecom sector for all private agents at the same time, meaning both domestic and foreign interested parties.

Developments during the period from 1995-2007

The value of total foreign direct investment assets has grown more rapidly than the world economy. In 1995, the value of the assets worldwide was 9.4 percent of the global gross domestic product. Ten years later, in 2005, the corresponding figure was 22.7 percent.

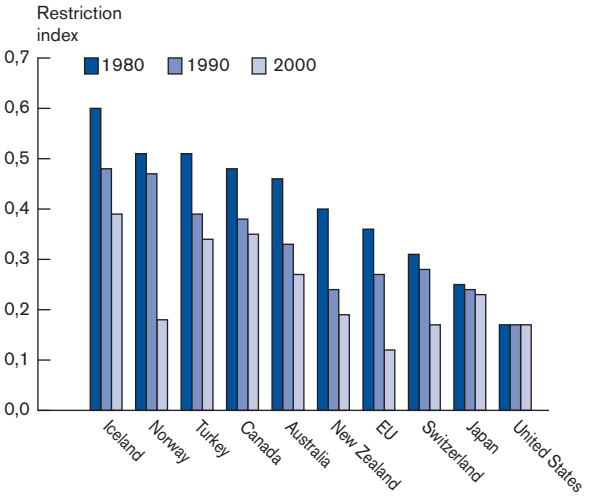
The following section describes the development of foreign direct investments in the countries with a share of at least 0.2 percent of the global foreign direct investment assets in 1995 or 2007.

Foreign direct investment assets increased in all the countries included in the study during the period examined. For the majority of the countries, the average increase was between 10 and 30 percent (see Figure 13).

The solid line in the figure represents an increase in inward foreign direct investment assets that is equivalent to the increase in the gross domestic product (GDP). In the majority of countries, the average increase in investment assets is greater than the increase in GDP, meaning that most countries fall above the solid line. No decline in the value of foreign direct investment assets was observed in any country.

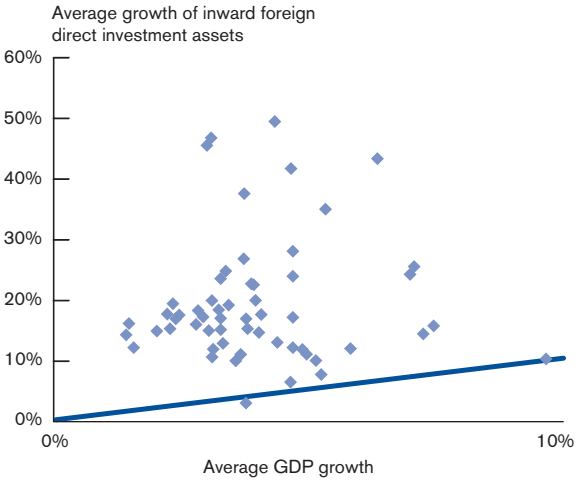
The chapters on trade in goods and services studied the size of import compared to the size of the gross domestic product. The same has been done for foreign direct investments in Figure 14. This figure shows the relationship between a country's openness in 1995 (measured as the pro-

Figure 12 Restriction index for foreign direct investments in 10 OECD countries, including an unweighted average of the EU15 for 1980-2000



Restricted from 9 sectors weighed together. 0 = completely open, 1 = completed closed.
Source: OECD

Figure 13 Average growth of investments compared to growth in GDP (%) 1995 – 2007



The horizontal axis indicates the average annual percentage increase in GDP from the year 1995 until 2007. The vertical axis indicates the average annual percentage increase of inward foreign direct investment assets for the same period.

portion of the GDP comprised by inward FDI assets) and the average increase in the value of the assets during the period from 1995 to 2007.

Two groups of countries are marked in the figure:

1. Countries in which FDI assets were low in relation to GDP in 1995, but with a large increase in investments. This group includes *Bulgaria, India, Croatia, Poland, Romania*, and *Russia*. All of these countries had major percentage increases in foreign investments during the period, which can be explained by the low level of investments in the beginning of the period and the subsequent opening that took place in these countries.
2. Countries with large investment assets in relation to GDP in 1995, but with a lesser increase in investments. This group includes *Australia, Chile, Malaysia, Nigeria, Tunisia* and *Singapore*.

International regulatory frameworks for investments

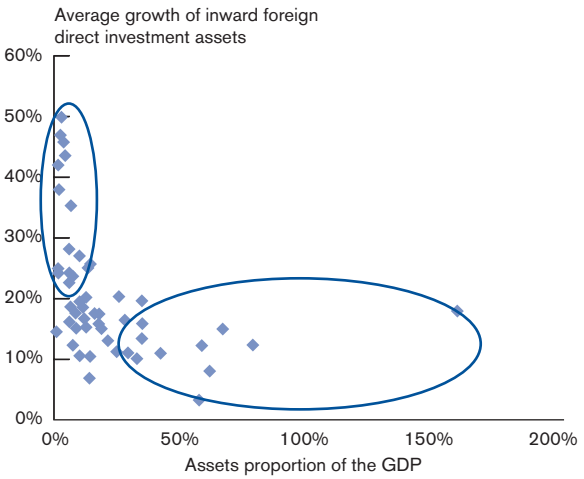
No multilateral agreements exist which regulate investments. During the period from 1995 to 1998, negotiations were underway with the purpose of creating an multilateral agreement on investments (MAI). These plans, however, were not able to be realized due to opposition to what many countries perceived as too far-reaching of an agreement. The possibility of negotiating an agreement on investments was raised again within the framework of the Doha Round, but this time as well, the process had to be terminated before any proper negotiations could begin.

In the absence of a multilateral regulatory framework, the number of bilateral investment agreements (BITs) has increased (see Figure 15). The purpose of these agreements is to promote investments by creating legal certainty for foreign investors and thereby contributing indirectly to the opening of markets for investors. During this period, the number of successfully negotiated BITs rose steadily. Since 2001, however, the pace has reduced significantly. This is likely due to investments now being increasingly regulated as parts of free trade agreements, which are more comprehensive and which cover market access as well. According to UNCTAD, the number of free trade agreements that include both trade and investments has increased from 150 in 2000 to 250 in 2007 (UNCTAD, 2008b). This is natural development, since an increasing number of countries are coming to see the advantages of regulating market access for both areas in the same agreement.

More restritions in the 2000s?

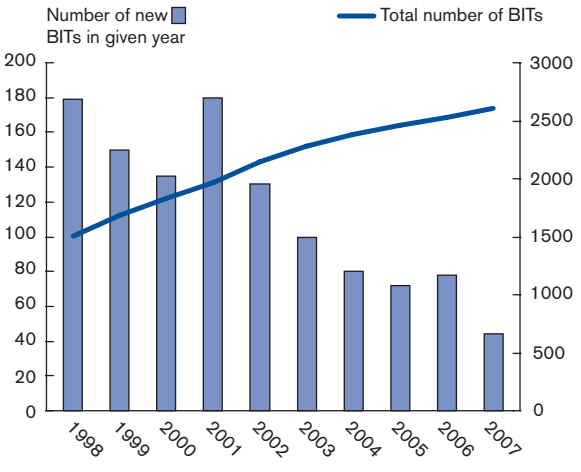
Another indirect, rough measure compiled by the UNCTAD concerns new regulations for foreign direct investments (UNCTAD 2008a). New regulations or modifications to existing regulations are divided up into those that promote and those that create obstacles to foreign investments. These figu-

Figure 14 Average growth of foreign direct ibward investment assets (%) 1995-2007 compared to the assets proportion of the GDP



This figure shows the findings for the world's largest trade nations. The horizontal axis indicates inward foreign direct investment assets as a proportion of the GDP in 1995, an indicator of the significance of investments in each country. The vertical axis indicates the average annual increase in foreign direct investment assets between 1995 and 2007.

Figure 15 The number of successfully negotiated BITs per year and the total number of BITs in effect



Source: World Investment Report 2008 (UNCTAD)

res should be interpreted with caution for a number of reasons. Simply counting the number of changes may be misleading. A major modification in a large economy is not comparable to a smaller modification in a small economy, although it may indicate a trend.

Since 1995, there has been a disproportionate number of measures which liberalize the regulatory framework for foreign investments (see Figure 16). It is important to note here that many of the measures listed by UNCTAD not only concern specific foreign direct investments, but include regulations that aim to create a positive overall climate for investments, including for domestic investors as well. Examples of measures taken are lower and more flat corporate taxes and deregulations in various sectors. Active investment promotion initiatives like Invest in Sweden, on the other hand, directly target foreign companies.

Very few restrictive measures could be observed during the first years, though there has been a considerable increase in such measures since 2000. The number of liberalization measures has increased, however, so that the proportion of restrictive measures has been kept a consistently low level for the entire period. Since the year 2000, the number of restrictive measures has increased from zero in principle to one-fourth.

During the 2000s, the trend has been towards more restrictive regulations for foreign direct investments in activities connected with national security. Just as is the case with trade procedures, issues concerning security policy have taken on greater importance within the regulatory framework for investments. More and more countries are requiring that investments in strategic industries such as nuclear power and the arms industry be inspected, restricted or altogether prohibited. In principle, this is not a case of protectionism, but these requirements may be misused if they are non-transparent or arbitrary. The application of these regulations varies greatly from country to country, likely because perception of the security policy situation varies by country as well. One troubling development, on the other hand, is the increase in the number of sectors perceived as "strategic." In China, a large number of operations, including the automotive, chemicals, construction, and steel industries among others, are considered strategic and therefore closed to investments from foreign firms (Marchik and Slaughter, 2008). The same applies in Russia.

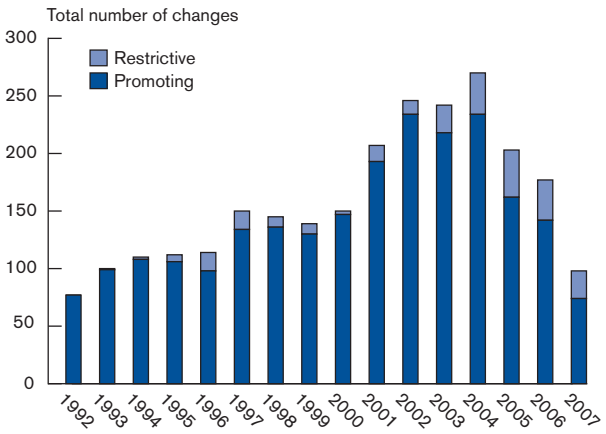
Several cases in the United States have received a great deal of media attention, particularly when Dubai Ports wished to take over operations of many major American ports. The investment was criticized by the Congress for security reasons, which then led to more comprehensive investigation of potential investments in sensitive sectors. A number of large countries have followed the footsteps of the United States in this regard. In Canada and Japan, the state has intervened for the first time and prevented foreign direct investments for reasons of national security (Marchik and Slaughter, 2008).

Sovereign Wealth Funds (SWF) are government-owned investment funds created by certain countries to invest assets from sources such as oil revenues. The funds have increased in number and significance in recent years thanks to rising prices for oil and an increase in exports from Asia. However, the funds comprise only 2 percent of the world's total investment flows. Transparency in these funds is greatly limited.

The *Economist* (2008) has noted that increased activity from these funds may lead countries introduce investment restrictions out of fear that these state funds will lead to the acquisition of domestic companies by other countries in order to gain political influence. A new screening procedure has been introduced in Germany, requiring that larger foreign direct investments be investigated before they may be carried out. France has adopted a new regulation extending its already existing screening procedure. Sovereign Wealth Funds, however, have been very passive players until this point, uninterested in buying out strategic sectors or taking political action (Marchik and Slaughter, 2008).

There is also a trend toward more restrictive regulations for investments in the mining industry and the energy sector, particularly in Latin Amer-

Figure 16 Number of investment-promoting versus investment-restricting measures taken per year by countries in the world



Source: World Investment Report 2008 (UNCTAD).

ica, but in Russia and other countries as well. Latin America is also the region with the most perceptible restrictive trend: 60 percent of all regulatory modifications in the region in 2007 were restrictive. This fact is consistent with the political climate in the region, which has partially developed in a skeptical direction towards markets, with nationalization on its agenda. Resistance to foreign direct investments may also be motivated by free-market arguments. A country may be blocked from entering a certain market in order to prevent the emergence of a monopoly or oligopoly.

Risks for the future

There is a trend towards a reduction in restrictions on foreign investments over time. One exception to this trend, however, is the tendency in certain countries towards an increase in the number of sectors which are considered nationally strategic and where investment opportunities are limited. This begs the question as to whether more countries will follow suit. According to an OECD report, the debate has become more protectionist, and pressure on authorities to restrict the influx of foreign investments has increased. This could lead to countries choosing a more strict application of their regulations on investments. According to OECD, however, the trend until this point has been towards a decline in restrictions on investments. No stricter application of the regulations has been observed by the OECD. (OECD, 2009a)

According to the OECD, earlier crises, from the depression of the 1930s and beyond, generally do not give rise to restrictive measures towards foreign investments. Instead, they are creating opportunities for liberalization, particularly within the bank sector. This does not mean that investment flows are not affected. Of course these crises have had a negative impact on investment flows, but as a result of stagnating growth rather than political measures. Economic crisis often simply diminish the flows and have seldom led to foreign companies' leaving the countries in which they invested altogether (OECD, 2009b).

8. Summary of developments since 1995 and threats and opportunities for the future

In this study, the Swedish National Board of Trade examined developments in trade policy from 1995 to 2007 with the goal of determining whether trade has become more open, or if countries have increased protection of their domestic economies.

The study also looks at developments in the way trade policy instruments have been used. We sought to maintain a nuanced approach towards measures and regulations that create barriers to trade. For this reason, we have distinguished between protectionist rules intended to protect domestic industry from foreign competition, and other rules with a restrictive effect on trade. As was to be expected, however, the various trade policy instruments were difficult to compartmentalize, and it should be noted that there is no simple way of defining a protectionist measure.

The overarching objective was to find long-term trends and to avoid focusing on short-term risks, something which often tends to happen in the trade policy debate.

8.1 Increasing openness in world trade since 1995

World trade has undergone a period of strong expansion since 1995. In all the largest trade nations, trade in goods has grown more rapidly than the economy as whole. The same development is true of trade in services. There has also been a substantial increase in foreign direct investments in all countries.

Since 1995 - the year the World Trade Organization (WTO) was created – the regulatory framework for international trade has gradually become more open.

Tariffs for industrial goods are low in the large industrialized trade nations. Most of these countries have bound up to 100 percent of their tariff lines at a level which can not be exceeded. For the most part, tariffs on industrial goods in developing countries are also relatively low, albeit considerably higher than those in industrialized countries. Many developing countries, with the notable exception of China, have the possibility to increase their tariffs without breaching international agreements since they have not bound their tariffs in the WTO at the levels applied today.

Quotas for industrial goods, which represent a serious barriers to trade, were ultimately abolished in the WTO member countries in the year 2005 as the system for textile and clothing quotas were phased out. The result of this was neutral trade conditions for a sector that is important to many developing countries.

The agricultural sector has traditionally been protected from foreign competition. The WTO's Agreement on Agriculture took effect in 1995, but its impact has been minor. The average tariff applied globally for agricultural products is 14.5 percent, which is considerably higher than the tariff for industrial goods. Developed countries' policies on agricultural trade present the greatest barriers to trade. The tariff structures in place for agricultural products in these countries are significantly more complex than those for industrial goods, due to the prevalence of measures such as tariff quotas and seasonal and composite tariffs. In the agricultural sector, some countries also have the option of using the special safeguard clause in the WTO's Agreement on Agriculture to protect sectors from increased imports by introducing additional duties. Despite all this, there are several indications that protectionism is falling, at least in the long perspective. Aggregate support levels are falling and farmers are gradually becoming more market oriented. Subsidies are also increasingly structured in a way that is not distorting trade.

When tariffs are lowered, many countries often wish to use trade defense instruments to protect certain sectors. The measures available for countries wishing to protect a specific sector/industry against what it perceives as unfair competetion fall into three categories of regulations: anti-dumping, countervailing and safeguarding measures. The National Board of Trade also finds that these measures are often used to protect weak industries and should be viewed as protectionist instruments. Of these three measures, anti-dumping is the most common. During the past few decades, an increasing number of countries have introduced legislation for anti-dumping, meaning that they now have the ability to introduce this type of tariff. India and China have had an increasingly heavier hand with these instruments in recent years. The total number of global investigations, the first step towards and anti-dumping tariff, has remained relatively constant during this period. The number of anti-dumping measures introduced tends to vary with the state of the economy. Beyond this tendency, however, we are not able to identify any clear trends pertaining to anti-dumping measures. Since world trade has increased by 170 percent during this period, however, this means that the *proportion* of trade affected anti-dumping rules has nevertheless decreased. It should also be noted that only approximately 1 percent of total world trade is affected by anti-dumping measures.

There is thus a trend towards the lowering of traditional barriers to trade such as tariffs and quotas. This is true of both industrial goods and agricultural goods. One consequence of this development, however, is an increase in importance for other regulations that affect a country's ability to trade, such as product regulations and licensing requirements for agricultural and industrial products, as well as information submission procedures and other requirements for import and export. These regulations may act as a barrier to trade, but they usually have as their objective other ends than protecting the economy from competition.

For the most part, import and export of goods has become easier. Trade procedures have been simplified. The time required for import and export has been reduced as many countries now require fewer documents and less complicated cross-border procedures than they did just a few years ago.

It is more difficult to ascertain whether the technical and sanitary rules governing trade with industrial and agricultural goods have become more or less restrictive to trade since 1995. More and more measures are coming under discussion in the WTO committees for Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS). However, this is likely to be a natural consequence of the increased internationalization of trade. As more countries and types of products become involved in international trade, new conflicts are arising between the various systems of regulation. This does not necessarily mean that the regulations have changed or become more restrictive. An increased number of notifications may a result of countries' having increased respect for the WTO's rules on openness and transparency and higher ambitions regarding health, the environment, and security.

The Uruguay Round, completed in 1995, helped strengthen the regulatory framework as it pertains to subsidies. The WTO's notification process has brought increased transparency to countries' subsidies. This increased openness has enabled countries who find that another country's subsidies are distorting trade to take up the issue with the WTO's dispute settlement body, or to introduce countervailing measures. Subsidies are an instrument used primarily by developed nations. Although the amount of information on the use of subsidies by WTO countries has increased, it is still not sufficient to identify any clear trends in this development during the period from 1995 to 2007. However, it is likely that the regulatory framework has contributed to a certain level of restraint in these countries' subsidy policies. This is confirmed by data indicating that the levels of subsidies in the EU, Canada, Norway and Japan decreased during the 1990s and the beginning of the 2000s in comparison to the level during the 1970s and 80s. In the United States, the level was generally lower and remained stable.

Data on public procurement reveals a similar situation. Public procurement of goods and services from state and local government and other public bodies comprises a significant part of the world economy. In the EU, public procurement makes up 16 percent of the union's GDP, while the corresponding proportion in developing countries is likely to be even higher. Very few studies have examined the extent to which public procurement is protected from foreign competition, or the emergence of trends in this area over time. We simply do not know whether the opportunities for foreign firms to take part in public procurement in other countries have improved or deteriorated. Within the EU, however, the rules for public procurement have been strengthened. Public procurement is also included in an increasing number of free trade agreements, such as those between the EU and Chile and between the United States and Australia.

For most of the larger trade nations, the trend since 1995 has been that the import of services has exceeded the increase in GDP. Partly, this can be explained by new technology creating new opportunities to trade services which were previously untradable, but probablt also a more liberal trade policy has contributed. Unfortunately, little can be said with any certainty as there is lack of data on barriers to services trade. Market access for trade is services is often regulated by national regulations, e.g. rules governing the establishment of foreign subsidiaries, migration regulations, etc. It is difficult to say conclusively whether these regulations have developed to become more or less restrictive to trade.

In both developing countries and more mature economies, the value of foreign direct investments has increased more than the GDP. Regulations for foreign direct investments have become significantly liberalized over the past few decades, particularly in Europe. The number of investment agreements, which protect foreign direct investments, has increased, and the vast majority of new state measures that pertain to investment are in a liberal direction. However, in some areas, we can see a trend towards a more restrictive approach since the year 2000, especially in sectors believed to be of importance for national security, such as the energy sector.

8.2 Public opinion increasingly split on free trade and globalization

Numerous opinion surveys show that the majority of citizens in the world's larger economies consider international trade to be beneficial for their country. When citizens are asked to give their opinion on import specifically, they express less support.

Public opinion on free trade in the developed countries is believed to have developed in a negative direction from 1995 to 2007, particularly in the United States. Support for globalization has also lessened. Differences within the EU circuit are great, with East and Central Europe being the most skeptical. Among the developing countries, support for globalization appears to have remained constant during this period. A split picture emerges from the developing world, where there is strong support for globalization in some areas, and strong opposition in others. Opinion surveys also reveal a less positive view of the impact foreign companies have on a given country. For the most part, support for both international trade and foreign business appears to be greater in developing countries than in the industrialized world.

8.3 The trade policy framework has been strenghtened and includes more countries

Trade rules limit the ability of the world's countries to set off on a more protectionist path. Since 1995, the WTO has grown by 25 members, including China; today, almost all trade takes place among WTO members. The WTO's regulatory framework legally binds the countries to a certain minimum level of openness. Beyond the WTO, many countries have entered into various regional and bilateral agreements in which they commit themselves to engage in open trade policy. In some areas and for some countries, however, there remains a relatively high degree of discretionary room to introduce protectionist trade measures.

The WTO's Doha Round has been ongoing since 2001, but the member countries have been unable to reach a consensus. Major trade negotiations involving many countries are complex and take a long time to complete. The lack of progress in the Doha Round does not, however, mean that the goals that have already been attained in previous rounds - lowered tariffs, increased market access for services, and other lowered trade barriers – will disappear.

Even modest success in trade negotiations, such as binding tariffs to the current level and strengthening the international regulatory framework for subsidies, etc., would be of great value. These outcomes would not lower the current barriers to trade, but they would ensure that no new barriers will arise in the future. Thus, a conclusion of the Doha Round would provide valuable insurance against protectionism.

The lack of consensus at the Doha Round has helped increase interest in free trade agreements. The period from 1995 to 2007 saw the number of free trade agreements increase more than twofold, from around 100 to just over 200. Trade among countries under a free trade agreements is tariff-free as long as the rules of origin are met. Today, approximately one-third of all trade is covered by some free trade agreement of some variety. Countries are signing free trade agreements because they are seeking more open terms with important trade partners. These free trade agreements may have a redistributing effect on trade, putting countries not covered by such agreements at a disadvantage. There are indications that rules of origin, which are included in all free trade agreements, have become more restrictive during this period. It cannot be said, however, that free trade agreements contribute towards protectionism.

8.4 But there remains considerable discretion to engage in protectionism

Countries wishing to protect their domestic economies from competition from other countries engage in protectionist trade policy. Historically, the most common form has been tariffs at the border and quantitative ceilings, or quotas, on the amount of a certain good that the country is willing to import. In this report, the National Board of Trade, in addition to identifying trends that have emerged since 1995, has also examined how various trade policy instruments and regulations can be used for protectionist purposes. The severe economic crisis has made these questions even more relevant.

It is clear that some countries are at liberty to engage protectionist measures without breaching the agreements they signed in the WTO. This especially applies to developing countries. As long as the regulations of the WTO exist and are respected, quotas will not be able to constitute part of a new protectionist policy, except in the few countries who are not yet members of the WTO. Many developing countries, however, are at their own discretion to increase tariffs on specific goods, sometimes without limit, because they have not bound any tariff lines in the WTO. For the countries outside the WTO, such as Russia, there are of course no formal restrictions at all against measures such as these. In more developed countries, the ability to increase tariffs is greatly restricted.

In the agricultural sector, there are more opportunities to use trade policy instruments in a protectionist manner than in the industrial sector. For example,

export subsidies can be used with certain limitations in the agricultural sector, although they are entirely prohibited for other products. There are greater opportunities for using safeguarding measures.

The three WTO agreements that govern anti-dumping, countervailing and safeguarding measures all provide considerable opportunities for countries to interpret what motivates various trade policy operations. For this reason, there is ample opportunity for protectionism in this area. The use of these trade defense instruments may increase, and there may be a risk of escalation in cases where countries respond with actions of their own when their export is affected. Even if anti-dumping actions affect only a small part of trade, e.g. 1–1.5 percent of the EU's import of goods, they have a larger impact, since the threat of anti-dumping actions has a repressive effect on affected industries/companies. Today's fragmented production chains mean that anti-dumping has a greater impact on domestic companies than previously was the case. Two instruments which have not up to now been used to a large extent are *safeguarding measures* and the *special safeguard clause* in the WTO's Agreement on Agriculture, by which countries can raise tariffs to protect themselves against large increases in imports. In addition to this, China's accession agreement with the WTO includes a special safeguard mechanism which countries may use against Chinese imports up until the end of 2013. There is a risk that countries wishing to protect their economy may begin to use these instruments.

It is not easy to analyze regulatory frameworks for products and procedures in terms of protectionism. Often, these rules are motivated by other considerations, such as requirements for health, the environment, and security. Improperly devised trade rules can have a major impact, and represent barriers to trade which are difficult to overcome in practice. Nor can it be excluded that trade procedures or technical and SPS rules may be used for protectionist purposes.

Public procurement and subsidies are two areas in which the international regulatory framework remains weak. Countries so desiring can therefore strongly favor domestic companies in public procurements, or support them with state subsidies. There may be serious consequences in the latter case, as these subsidies may risk destroying competition on the international market as some companies operate under conditions that are not strictly market-based. As long as there are no international rules for competition, the WTO's dispute settlement mechanism and countervailing actions are the options available for countries who believe a certain subsidy to have a distorting effect on trade.

There is a larger scope for countries to change their rules on trade in services, than on trade in goods. In general, the member countries of the WTO have made few commitments under the General Agreement to Trade in Services (GATS), just 15 percent of the sectors on average. Furthermore, many countries are more open to import of services than is shown by their GATS commitments. This means that countries are at a relatively high degree of liberty to introduce more restrictive terms on trade in services without breaching their international commitments. Therefore there are plenty of opportunities for engaging in protectionist policies in the service sector. Still, there are few indications today of increased protectionism regarding trade in services.

Investment opportunities in foreign markets have been steadily improving. In the 2000s, however, we have seen a certain backlash effect against this trend, with numerous changes to the regulatory framework for investments going in a more restrictive direction. Security considerations, such as the protection of sectors of strategic importance, often motivate countries to make such modifications. Which industries are considered to be of strategic importance vary by country: both China and Russia include many sectors in this category, including the industries of automobile manufacturing, chemical products, construction and steel. Opinion surveys reveal a certain skepticism about foreign investments. It remains to be seen whether negative economic developments will reinforce these trends. Experience from previous crises shows that in general, negative economic developments do not necessarily give rise to more restrictive measures against foreign investments.

In this study, we have looked back and described the development over a longer period of time. In many respects, we have a better international regulatory framework today, which makes for greater predictability in trade. At least in some areas, the regulatory framework for trade policy places limitations on the measures which countries may introduce. However, there remains a relatively high degree of discretionary room to introduce protectionist measures, which creates the risk for some countries and industries to be negatively affected.

The risk of increased protectionism should be seen in a historical context, with fewer barriers to trade in place today than in 1995, when the WTO was created. World trade has undergone a long period of increasing openness in trade rules, and is therefore better equipped today to meet any potential backlash in the form of greater barriers to trade. Many companies are now more dependent on imported input goods, for instance, due to the internationalization of their production chains. As a result, protectionist measures have an ever increasing impact. At the same time, however, the increasing degree of integration in these production chains is making it more difficult to introduce protectionist measures that will not damage a country's own economy. Maybe an increased realization of this will contribute to holding protectionism back?

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EOS Gallup Europe för DG Press European Commission. *Globalisation*, Flash Eurobarometer 151b.
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Abbreviations

ECIPE
Centre for International Political Economy
http://www.ecipe.org/

IFPRI
International Food Policy Research Institute
http://www.ifpri.org/

IMF
International Monetary Fund
http://www.imf.org/

NBER
National Bureau of Economic Research
http://www.nber.org/

OECD
Organisation for Economic Co-operation and Development
http://oecd.org/

Pew
Research Center for the People & the Press
http://pewresearch.org/

PIPA
Program on International Policy Attitudes
http://www.pipa.org/

UNCTAD
United Nations Conference on Trade and Development
http://www.unctad.org

WTO
World Trade Organization
http://www.wto.org/

Notes

1 According to a compilation by the Public Citizen's Global Trade Watch, a United States consumer group http://cts.vresp.com/c/?ICTSD/bd530f88f8/4401f1e00f/aa-0138cab9

2 US-CAFTA-DR (Dominican Republic – Central America FTA)

3 NAFTA- North American Free Trade Agreement

4 CAFTA – Central America Free Trade Agreement

5 However, a WTO country may raise tariffs for certain goods over the bound levels. If a WTO member country wishes to raise the bound tariff, it must notify the WTO and be prepared to negotiate compensation with the affected countries.

6 In the agricultural arena, tariffs often consist of two components: a percentage rate of duty and a rate expressed in euro per kilo/liter or other unit.

7 The special safeguard clause can be invoked for specifically designated products to impose additional tariffs in the event of low import prices or dramatic increase in the volume of imports. Use of the special safeguard clause is reserved for countries who transformed quantitative restrictions to tariffs during the Uruguay round. Many developed countries, including the EU, the United States, Japan and Norway, have the option of invoking the special safeguard clause, while few developing countries have access to this safeguard mechanism.

8 Trade-weighted average.

9 Trade-weighted average.

10 Caution is encouraged when interpreting the estimated magnitude of tariff-scaling due to the complicated methodology required for extracting reliable data on the extent to which the tariff structure safeguards processing.

11 The number of countries included in the average varies by the number of member countries.

12 The percentage PSE is impacted by changes in exchange rates. World market prices also play a role, since market price support is less when world market price are higher.

13 The "most trade-disruptive support" refers to the support classified by the OECD as market price support (indirect support via higher domestic prices) and support based on production quantity.

14 The number of countries included in the average varies with the actual number of member countries.

15 "Box shifting" refers to the practice among WTO member countries of reducing trade distorting support in the amber box and instead increasing use of less trade distorting support in the blue box, or the least trade distorting support in the green box. The support therefore shifts from one box to the other without an actual reduction in the amount of money in play (though the effect on trade is reduced).

16 Safeguard measures in this discussion refer exclusively to those taken towards indus-trial goods, and not the special safeguard mechanism, which certain countries may apply towards the import of certain agricultural goods.

17 For this type of analysis, it would have also been of relevance to study the size of the anti-dumping measures and the duration of their validity once in effect. A lack of available information, however, prevents us from this type of further analysis.

18 Agreement on Antidumping, Agreement on Subsidies and Countervailing Measures (ASCM) and Agreement on Safeguards, all from 1995, from the Uruguay Round.

19 Transitional Product Specific Safeguard Mechanism may be applied against China until the end of the year 2013 in the form of a tariff or quota.

20 Economic Implications of the Doha Round (2006) is a study by the Swedish National Board of Trade which analyzed the potential effects of the Doha Round on national revenues and trade. The study examined four subjects of negotiation: liberalization of agriculture; market access for industrial goods, liberalization of services and trade facilitation. The study shows that of these four subjects, negotiations on trade facilitation have the greatest potential to benefit developing countries.

21 Special regulations for agricultural subsidies are contained in the WTO Agreement on Agriculture; subsidies for the service sector are addressed in the GATS. Since the expiry of the peace clause January 1, 2004, agricultural subsidies may also be actionable to a certain extent via the agreement on subsidies . In practice, this possibility has been utilized only once, in the US-Brazil cotton dispute in which Brazil reported the US for its cotton subsidies and subsequently won the dispute.

22 Both in national sources and in OECD's "National Accounts Statistics", the UN's "National Accounts Statistics Volume" and the IMF's "Government Finance Statistics Yearbook".

23 EU Commission's Web site: http://ec.europa.eu/internal_market/publicprocurement/index_en.htm

24 Calculations by the National Board of Trade based on world trade data from the WTO shows that the GPA countries' proportion of world import has declined from 76% in 1995 to 69% in 2007. However, since public sectors vary in size among different countries, this data does not necessary reflect a commensurate development in the proportion of global public procurements covered by the GPA.

25 Data retrieved from the WTO Secretariat's compilation in the document G/SPS/GEN/204/Rev.9. *Specific Trade Concerns.*

26 Data retrieved from the WTO Secretariat's compilation in the document G/SPS/GEN/204/Rev.9. *Specific Trade Concerns.*

27 Many of the specific trade concerns raised in the SPS Committee have pertained to complaints issued by the EU to countries that later joined the EU and vice versa.

28 BSE, Bovine Spongiform Encefalopati (mad cow disease)

29 This may mean that the problem remains unresolved, though this is not necessarily the case. The problem may have been resolved without notification of the resolution.

30 Chicken treated with antimicrobial chemicals. Other names for this chicken given this treatment are decontaminated chicken, chlorinated chicken, and AMT chicken.

31 Conformity assessment refers to assessing whether a product is in compliance with product requirements.

32 There are few statistics on mode of supply 4 and those that exist for mode of supply 2 are very rough, so that the study primarily examines mode of supply 1.

33 Based on our own calculations, using data from World Trade Report 2006 (UNCTAD),

Appendix 1

Developments in trade in goods and services and GDP development 1995-2007

Year	Goods	Services	Total	BNP	Proportion
1995	5 284	1 183	6 467	29 610	21,80%
1996	5 546	1 248	6 794	30 312	22,40%
1997	5 739	1 283	7 022	31 167	22,50%
1998	5 683	1 315	6 998	29 939	23,40%
1999	5 921	1 362	7 283	31 063	23,40%
2000	6 727	1 451	8 178	31 916	25,60%
2001	6 485	1 470	7 955	31 677	25,10%
2002	6 744	1 557	8 301	32 954	25,20%
2003	7 863	1 777	9 640	37 048	26,00%
2004	9 569	2 117	11 686	41 677	28,00%
2005	10 857	2 351	13 208	45 022	29,30%
2006	12 428	2 620	15 048	48 665	30,90%
2007	14 244	3 086	17 330	54 585	31,70%

Global import of goods, commercial services, total imports, and GDP given in billions USD, and proportion of GDP comprised by imports. Figures not adjusted for inflation. Trade data from WTO, GDP data from IMF. Commercial services refers to cross-border supply (mode 1 according to the GATS agreement), consumption abroad (mode of supply 2) and some modes within presence of natural persons (mode 4).

Appendix 2

GDP growth and import of goods 1995 – 2007

Country	Average increase in GDP 1995-2007	Average increase in import of goods 1995-2007	Import of goods as proportion of GDP 1995
Argentina	4%	12%	8%
Australia	4%	9%	17%
Belgium	2%	9%	54%
Brazil	3%	8%	7%
Bulgaria	3%	16%	43%
Canada	3%	7%	29%
Chile	4%	11%	22%
Colombia	3%	9%	15%
Denmark	2%	7%	25%
Egypt	5%	11%	20%
Philippines	5%	7%	38%
Finland	4%	9%	23%
France	2%	7%	18%
Greece	4%	10%	20%
Hong Kong	4%	6%	136%
India	7%	17%	10%
Indonesia	3%	9%	20%
Iran	5%	11%	15%
Ireland	7%	8%	48%
Israel	4%	6%	31%
Italy	1%	8%	18%
Japan	1%	6%	6%
Kazakhstan	7%	21%	19%
China	10%	19%	18%
Malaysia	5%	6%	87%
Morocco	5%	11%	30%
Mexico	4%	12%	26%
Netherlands	3%	9%	44%
Nigeria	5%	15%	29%
Norway	3%	8%	22%
New Zealand	3%	7%	22%
Pakistan	4%	10%	19%
Poland	5%	16%	21%
Portugal	2%	8%	29%
Romania	3%	18%	29%
Russia	5%	14%	15%
Saudi Arabia	3%	11%	20%
Switzerland	2%	6%	25%
Singapore	6%	7%	148%
Slovakia	5%	18%	45%
Slovenia	4%	11%	46%
Spain	4%	11%	19%
Great Britain	3%	7%	23%
Sweden	3%	8%	26%
South Africa	4%	10%	20%
South Korea	5%	10%	26%
Thailand	3%	7%	42%
Czech Republic	3%	14%	45%
Turkey	5%	16%	15%
Germany	2%	7%	18%
Ukraine	4%	13%	32%
Hungary	4%	17%	35%
United States	3%	9%	10%
Venezuela	3%	16%	17%
Vietnam	7%	19%	39%
Belarus	7%	16%	40%
Austria	2%	8%	28%

The countries included in the table accounted for at least 0.2 percent of world imports in 1995 or 2007. GDP data come from the World Bank, and data on import of goods come from WTO.

Appendix 3

The table presents data for 35 countries which made up at least 0.2 percent of world trade between 1995 and 2007. For the countries without data from 1995 and 2007, data from the following or preceding year was used. The tariff levels shown do not refer to specific tariffs. Switzerland, which only has specific tariffs, is therefore not shown. Of the countries shown in the table, those where the proportion of specific tariffs exceeds two percent are India, Israel, New Zealand, Norway, Thailand and the United States. In these countries, the tariffs indicated in the table are likely to be somewhat near the bottom. Other countries not included in the table are Iran, for which no data exists prior to 2004, and Taiwan.

Countries that joined the EU since 1995 are included in the 2007 value for the EU, but not in the 1995 value. In the last four columns, specific tariffs were included where TRAINS reported tariff equivalents. These countries are marked with an asterisk in the "matched tariffs" column.

Calculations

The data used to analyze tariff levels was retrieved from UNCTAD TRAINS in the WITS database. The first two columns show the countries' average unweighted applied MFN tariffs in 1995 and 2007. The third column shows the tariff reduction in percentage. The remaining columns show what proportion of tariffs were raised, lowered or left unchanged during the period. The last column shows what proportion of tariff lines in 2007 match the tariff lines in place in 1995. Where tariffs are presented in varying levels of detail between the two time periods, the more detailed tariff level has been aggregated.

The proportion of tariffs in 2007 that matched tariffs from 1995 varies among the countries from 28 to 93 percent. All tariff changes, therefore, are indicative only as a guideline. The high level of variation is due to certain countries' implementing a comprehensive revision of their tariff nomenclature during the relevant period. The Philippines, Malaysia, Indonesia, Singapore and Vietnam have the least conformity, between 28 and 36 percent, so that results from these countries should be interpreted with even greater caution.

The last four columns provide supplementary information on the change in unweighted applied MFN tariffs. A greater average unweighted tariff reduction may be the result of a drastic decline of a small handful of tariff lines where little trade takes place. Similarly, a lower average unweighted tariff reduction may be associated with a small but broad reduction over many tariff lines.

Description of data and calculations

Country	1995	2007	Tariff reduction (percentage)	Raised tariffs	Lowered tariffs	Unchanged tariffs	Matched tariffs**
Developed countries							
Australia	6,2	3,8	2,4	0%	20%	80%	77%*
EU	6,1	3,8	2,3	0%	78%	22%	60%*
Japan	3,5	2,5	1,0	6%	51%	42%	71%*
Canada	8,7	3,7	5,0	1%	62%	36%	49%*
Norway	5,8	0,6	5,2	0%	72%	28%	78%*
New Zealand	5,8	3,2	2,6	0%	47%	52%	80%*
United States	5,1	3,1	2,0	2%	60%	38%	57%*
Average	5,9	2,9	2,9	1%	56%	43%	67%
Developing countries							
Argentina	12,4	11,4	1,0	4%	18%	78%	85%
Brazil	13,5	12,5	1,0	1%	19%	80%	77%
Chile	11,0	6,0	5,0	0%	100%	0%	56%
Colombia	13,5	11,8	1,7	2%	0%	98%	85%
Egypt	27,7	12,5	15,2	7%	81%	12%	75%
Philippines	19,3	5,8	13,5	1%	96%	3%	28%
Hongkong	0,0	0,0	0,0	0%	0%	100%	84%
India	30,1	13,2	16,9	4%	94%	2%	89%*
Indonesia	15,4	6,7	8,7	3%	59%	38%	35%
Israel	8,1	4,2	3,9	1%	28%	71%	72%
Kazakhstan	9,6	2,7	6,9	8%	51%	41%	72%
China	21,9	9,0	12,9	0%	94%	6%	68%
Malaysia	8,8	7,9	0,9	8%	18%	75%	34%
Morocco	18,4	20,0	-1,6	47%	43%	10%	85%
Mexico	13,1	13,3	-0,2	8%	12%	79%	76%
Nigeria	26,8	11,4	15,4	7%	81%	12%	93%
Pakistan	51,7	13,8	37,9	3%	96%	1%	56%
Russia	11,4	9,0	2,4	16%	30%	54%	62%*
Saudi Arabia	12,2	4,7	7,5	1%	85%	14%	84%*
Singapore	0,0	0,0	0,0	0%	0%	100%	31%
South Africa	14,8	7,6	7,2	8%	26%	66%	52%*
South Korea	7,6	6,6	1,0	9%	34%	57%	75%*
Thailand	20,8	10,0	10,8	4%	78%	18%	73%*
Turkey	8,2	4,8	3,4	5%	71%	24%	65%*
Ukraine	6,4	4,4	2,0	13%	42%	45%	71%
Venezuela	13,5	12,7	0,8	6%	1%	93%	87%
Vietnam	15,5	15,7	-0,2	9%	5%	86%	36%
Belarus	12,6	11,0	1,6	9%	32%	59%	59%
Average	15,1	8,9	6,3	7%	46%	47%	67%

* Tariffs include specific tariffs
** "Matched tariffs" refers to the percentage of tariffs lines in 2007 that match those in place in 1995

Average applied MFN tariff 1995 and 2007, tariff reduction in percentage, and proportion of tariffs raised, lowered or unchanged between 1995 and 2007.

Appendix 4

GDP growth and import of services 1995 – 2007

Country	Average change in GDP 1995-2007	Average increase in import of services 1995-2007	Import of services as proportion of GDP 1995
Argentina	4%	5%	3%
Australia	4%	8%	5%
Belgium	2%	10%	8%
Brazil	3%	10%	2%
Canada	3%	8%	6%
Chile	4%	9%	5%
Colombia	3%	7%	3%
Denmark	2%	12%	8%
Egypt	5%	10%	7%
Finland	4%	8%	7%
France	2%	6%	4%
Greece	4%	16%	3%
Hong Kong	4%	6%	14%
India	7%	19%	3%
Ireland	7%	21%	17%
Israel	4%	7%	8%
Italy	1%	7%	5%
Japan	1%	3%	2%
Kazakhstan	7%	27%	4%
China	10%	15%	3%
Malaysia	5%	6%	17%
Mexico	5%	8%	4%
Netherlands	3%	6%	15%
Nigeria	5%	12%	16%
Norway	3%	10%	9%
New Zealand	3%	6%	7%
Pakistan	4%	13%	4%
Poland	5%	11%	5%
Portugal	2%	7%	6%
Romania	3%	15%	5%
Russia	5%	10%	5%
Saudi Arabia	3%	15%	6%
Switzerland	2%	7%	5%
Singapore	6%	11%	25%
Slovakia	5%	12%	9%
Spain	4%	13%	4%
Great Britain	3%	10%	5%
Sweden	3%	9%	7%
South Africa	4%	10%	4%
South Korea	5%	11%	5%
Thailand	3%	7%	11%
Czech Republic	3%	10%	9%
Turkey	5%	12%	2%
Germany	2%	6%	5%
Ukraine	4%	20%	3%
Hungary	4%	13%	8%
United States	3%	9%	2%
Venezuela	3%	5%	6%
Vietnam	7%	12%	10%
Belarus	7%	19%	2%
Austria	2%	7%	8%

The countries included in the table accounted for at least 0.2 perfect of world imports in 1995 or 2007. GDP data come from the World Bank, and data on import of goods come from WTO.

Appendix 5

GDP growth and inward FDI assets 1995 – 2007

Country	Average change in GDP 1995-2007	Average increase in inward FDI assets 1995-2007	Investments as a proportion of GDP 1995
Argentina	4%	11%	10%
Australia	4%	11%	29%
Belgium	2%	20%	34%
Brail	3%	19%	6%
Bulgaria	3%	46%	3%
Canada	3%	13%	21%
Chile	4%	13%	34%
Colombia	3%	24%	7%
Denmark	2%	18%	13%
Egypt	5%	11%	24%
Philippines	5%	7%	14%
Finland	4%	23%	6%
France	2%	16%	12%
United Arab Emirates	6%	44%	4%
Greece	4%	15%	8%
Hong Kong	4%	18%	158%
India	7%	25%	2%
Indonesia	3%	19%	10%
Ireland	7%	15%	66%
Israel	4%	23%	6%
Italy	1%	16%	6%
Japan	1%	15%	1%
Kazakhstan	7%	26%	14%
China	10%	10%	14%
Croatia	4%	50%	3%
Malaysia	5%	10%	32%
Morocco	4%	17%	14%
Mexico	5%	17%	16%
Netherlands	3%	16%	28%
Nigeria	5%	12%	58%
Norway	3%	15%	13%
New Zealand	3%	11%	41%
Poland	5%	28%	6%
Portugal	2%	17%	17%
Romania	3%	47%	2%
Russia	5%	42%	1%
Saudi Arabia	3%	15%	12%
Switzerland	2%	15%	18%
Singapore	6%	12%	78%
Slovakia	5%	35%	7%
Spain	4%	16%	18%
Great Britain	3%	18%	18%
Sweden	3%	20%	12%
South Africa	4%	27%	10%
South Korea	5%	24%	2%
Syria	4%	3%	57%
Thailand	3%	17%	11%
Czech Republic	3%	25%	13%
Tunisia	5%	8%	61%
Turkey	5%	24%	6%
Germany	2%	13%	7%
Ukraine	4%	38%	2%
Hungary	4%	20%	25%
United States	3%	12%	7%
Venezuela	3%	19%	11%
Vietnam	7%	16%	34%
Austria	2%	18%	8%

The countries listed in the table above are those who constituted at least 0.2 percent of total foreign direct investments worldwide in 1995 or 2007. GDP data from World Bank; direct investment data from UNCTAD.

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