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Taking Stock of Trade Protectionism Since 2008

Mohini Datt, Bernard Hoekman, and Mariem Malouche

Following the onset of the financial crisis in September 2008 and the subsequent “Great Trade Collapse” (Baldwin 2009), many countries actively used trade policy instruments as part of their response to the global recession. Governments pursued a mix of trade liberalization, trade promotion, and trade restrictions. The choice of trade policy has varied, with limited use of tariff hikes or antidumping and safeguard actions. Sector-specific support to industries dominated initial responses to the crisis, and there has been increasing resort to nontariff measures. Recent research suggests that vertical specialization—the growth in global supply chains—has played a significant role in limiting the use of traditional protectionist instruments. Pressures on governments to support domestic economic activity may increase, given current gloomy economic prospects and more binding macroeconomic policy constraints, and the number of protectionist measures has recently risen. Open trade cannot be taken for granted, thus the need for monitoring persists.

Active Use of Trade Policy Measures

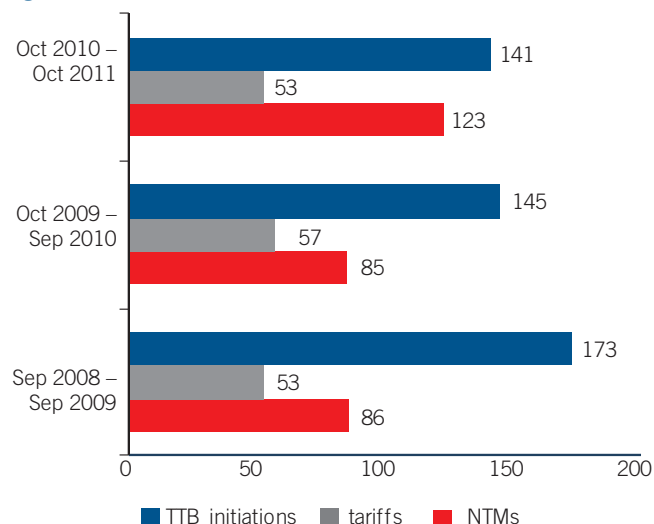
According to monitoring reports issued by the World Trade Organization (WTO), a total of 1,243 new trade measures have been implemented since the onset in late 2008 of the current financial crisis. Some 900 of these measures were trade restrictive (figure 1), while 327 reduced the level of import protection (figure 2). Each year since the crisis erupted has seen about 300 new trade restrictions imposed. Data up to July 2011 had indicated a drop in this annual tally, but data for Q3 2011 indicate the tally has risen again.¹

The Global Trade Alert (GTA), which covers a larger spectrum of actions that may affect trade, reports a total of 1,593 measures implemented between November 2008 and November 2011, of which 1,187 discriminated against foreign suppliers and 406 were liberalizing (figure 3).² The total number of new trade measures has consistently increased over the 10 summary monitoring reports the GTA has issued to date, reflecting the fact that many measures are not made public immediately

and are only “discovered” over time. The number of new protectionist actions peaked in the first quarter of 2009 and bottomed in the third quarter of 2010. GTA data suggest that new protectionist measures in 2011 are running at levels similar to what was observed in 2010, and protectionist actions in the third quarter of 2011 alone are as high as in the worst periods of 2009 (Evenett 2011c). G-20 countries account for the bulk of all measures according to both sources, and their share has increased from 60 percent of the total in 2009 to about 80 percent in 2011—implying that the largest countries are the most active users of trade policy instruments (figure 4).

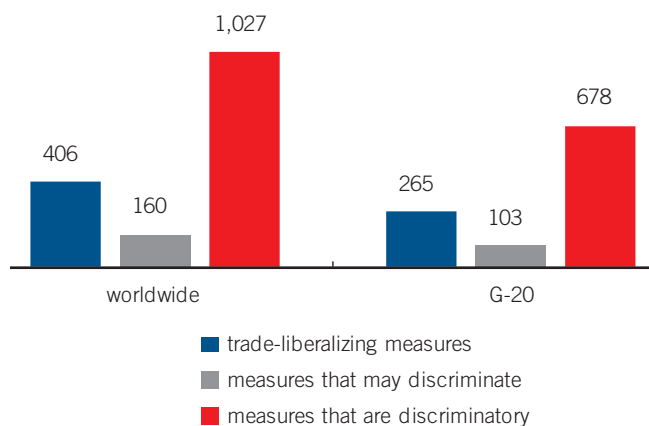
Many countries actively pursued liberalizing measures, particularly in the second and third years after the onset of the crisis (figure 2). In fact, tariffs were more frequently lowered/liberalized than they were hiked, reflecting efforts to lower prices (costs) of goods used by domestic industries and/or consumed by households (mostly food items). The number of all trade liberalizing measures increased by two-thirds between October

Figure 1. Trade Restrictive Measures



Source: Authors' calculations using WTO data from 2009, 2010b, 2011b.
 Note: Total = 916; TTB = temporary trade barriers (antidumping, countervailing duties, safeguards); NTMs = nontariff measures.

Figure 3. Global Trade Alert, Nov. 2008 – Nov. 2011

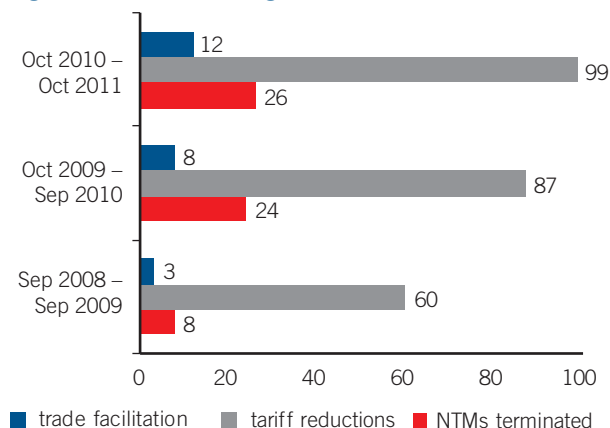


Source: Global Trade Alert.
 Note: Total = 1,593.

2009 and September 2010 compared with the previous year. One-fifth of the restrictive nontariff measures implemented since the crisis were subsequently removed.

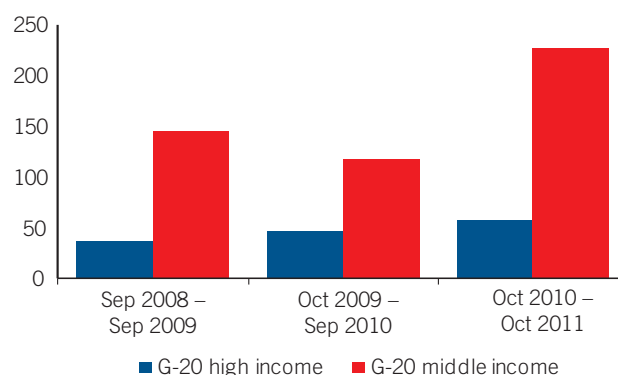
Countries can be grouped into trade policy activists—pursuing a mix of trade-restricting and trade-liberalizing actions—and trade policy passivists. The most active users of trade policy since 2008 include Brazil, China, India, and the Russian Federation—the BRICs.³ These countries—as did others such as Pakistan and Indonesia—imposed both new trade restrictive measures and took actions to reduce the prices of certain imports (figure 5). India initiated the greatest number of restrictive trade measures, followed by Argentina, the European Union, Brazil, Indonesia, the United States, China, and Russia. Among the non-G-20 middle-income economies, Vietnam, Pakistan, Ukraine, Belarus, Kazakhstan, and Ecuador were the most active (figure 5).

Figure 2. Trade Liberalizing Measures



Source: Authors' calculations using WTO data from 2009, 2010b, 2011b.
 Note: Total = 327; NTMs = nontariff measures.

Figure 4. Number of Total G-20-Imposed Restrictive Measures by Country Income Group



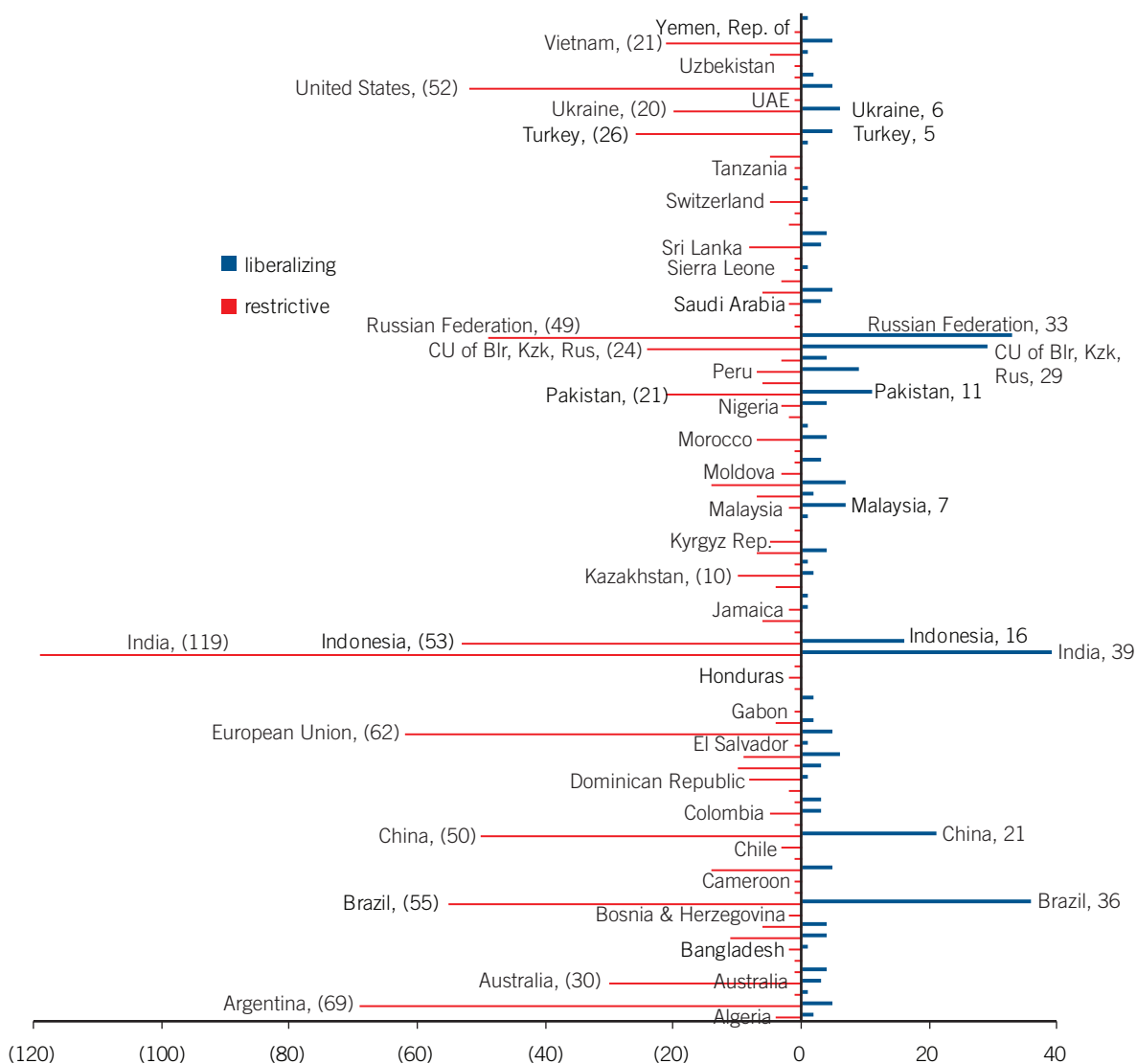
Source: Authors' calculations using WTO data from 2009, 2010b, 2011b.

Differentiated Use of Import Tariffs

The scope that exists to raise tariffs is a function of the extent to which countries have bound their tariffs in the WTO. Many developed countries have bound their tariffs at the actual applied levels, whereas many developing countries have not bound tariffs in the WTO or have made so-called ceiling bindings that are much higher than their applied tariff rates. This implies that developing countries often have significant scope to raise tariffs in response to a recession, whereas high-income nations do not.

Excluding antidumping and other forms of contingent protection, tariffs were more frequently lowered than raised. Notable examples of tariff liberalization by G-20 members include a decision by Mexico to reduce tariffs on some 5,000 tariff lines (97 percent of all imports), with average tariffs fall-

Figure 5. Number of Newly Initiated Trade Measures, 89 Countries, September 2008 – July 2011

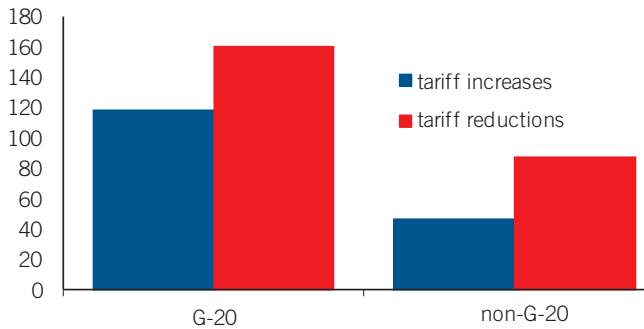


Source: Authors' calculations using WTO data from 2009, 2010b, 2011b.
 Note: CU of Blr, Kzk, Rus = Customs Union of Belarus, Kazakhstan, and the Russian Federation.

ing from over 10 percent to 4.6 percent; the U.S. Miscellaneous Tariff Bill, which temporarily suspended import tariffs on myriad intermediate goods through end-2012; and the phasing down of tariffs to 5–10 percent by 2015 on 23 HS 2-digit lines by Australia, affecting hundreds of products, including textiles, clothing, footwear, and a range of industrial goods. Canada eliminated tariffs on over 1,500 products—mostly machinery, equipment, and industrial inputs. Non-G-20 countries also implemented instances of tariff liberalization, although mostly modest in nature and limited to just a few products (figure 6). Of course, the number of tariff hikes or reductions does not say much about the political intent or the impact on trade volume. Determining the net impact of trade policy responses on trade flows and the effective levels of protection for affected industries requires detailed research.

Most tariff decreases seen after the 2008 crisis appear to have aimed at lowering prices of food staples, consumer goods, and industrial inputs such as machinery, parts, and components. Production of manufactured goods is increasingly organized through global value chains, with goods being processed (value being added) in multiple countries that are part of the chain. Plants in each country specialize in specific processing activities that make up a final product. As a result of this vertical specialization, a significant share of the value of any export reflects imported inputs. For the world as a whole, the import content of exports is about 30 percent (Daudin, Riffart, and Schweisguth 2011). Using the data compiled by Daudin, Riffart and Schweisguth, Gawande, Hoekman, and Cui (2011) show that the intensity of vertical specialization helps to explain the observed pattern of changes in tariffs postcrisis. There

Figure 6. New Tariff Measures, G-20 /Non-G-20, September 2008 – October 2011

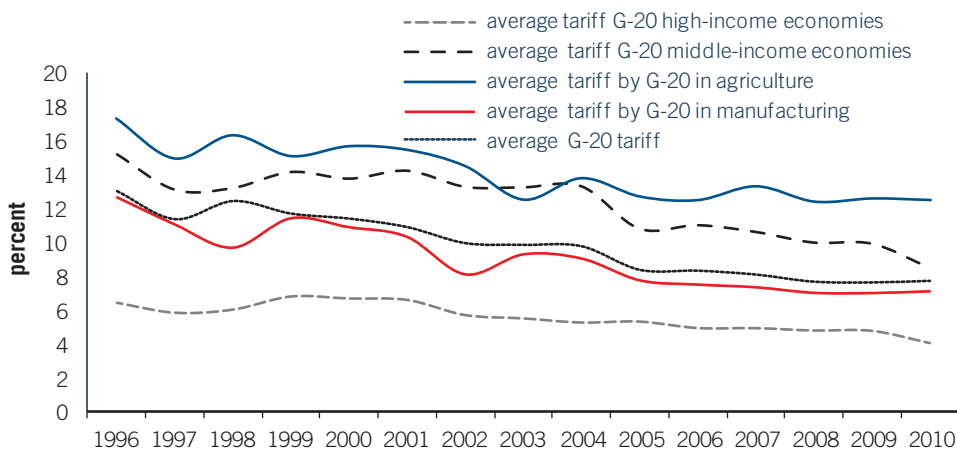


Source: Authors' calculations using WTO data from 2009, 2010b, 2011b.

are two channels: the first that higher tariffs are a tax on downstream processing parts of the chain, so importing governments have an incentive to keep tariffs low. The second is that these firms (chains) have an interest in the governments of the countries producing the inputs they use to keep trade costs low—including through low or zero tariffs. This benefits the exporting countries that are further down the chain, and those that produce the inputs through higher overall exports (sales of the final product). One or both of these vertical specialization effects are found to be statistically significant determinants of reductions in 2009 tariffs.

There are also incentives for lowering trade costs for industries that are not part of global value chains. Reducing input costs through either tariff reduction on imports or taxing exports of locally produced raw materials can increase the effective protection of domestic industries. Conversely, if there is a significant parts and components industry and a country is less integrated into global value chains, governments may have an incentive to raise tariffs on inputs and/or final products. Thus, incentives continue to exist to engage in traditional protectionism, with the balance of incentives a function of the structure

Figure 7. Average G-20 Tariffs, 1996–2010, Simple MFN Applied Average



Source: WITS data (TRAINS + WTO-IDB), OECD; tariff data missing for Russia 1998–2000, Saudi Arabia 1996–98, 2010, Indonesia 1997, India 2010, European Union 2010, and South Africa 1998.

of production. Brazil is an example of a country that is *both* lowering and hiking tariffs to support its domestic industry. For example, Brazil reduced tariffs to 2 percent on hundreds of capital goods and equipment in 2010 and again recently in August 2011,⁴ with the objective of supporting domestic downstream industries. At the same time, it also increased taxes by 30 percent on vehicles (including trucks) that have less than 65 percent local content and do not originate in Mercosur countries⁵ or Mexico. Brazil is also expected to implement a 3 percent tax rebate to exporters of manufactured products.⁶ Other economies have also intervened in trade to support domestic industry. For example, Indonesia eliminated tariffs earlier this year on 182 raw materials (including soybean oil, crude petroleum, and numerous inorganic chemicals) and capital goods; raised tariffs on imports of prepared food; and imposed export taxes on cocoa.

In a few instances, countries hiked tariffs substantially, mostly on food products. In 2009, Russia increased tariffs to 50–80 percent on certain meat products, some of which were subsequently removed. Turkey increased tariffs on certain grains to 130 percent in May 2009, and then eliminated them in February 2011. Since 2008, tariff reductions on food products have been pursued by governments seeking to contain food price increases in their domestic markets. The number of tariff reductions on food products (80+) since late 2008 greatly exceeds the number of tariff hikes on such products (20). Half of all such tariff reductions pertained to grains, sugar, and edible oils. For example, Morocco lowered tariffs on different types of wheat from highs of 135–170 percent to 80–90 percent in 2010; Kenya reduced tariffs on rice from 75 to 35 percent.

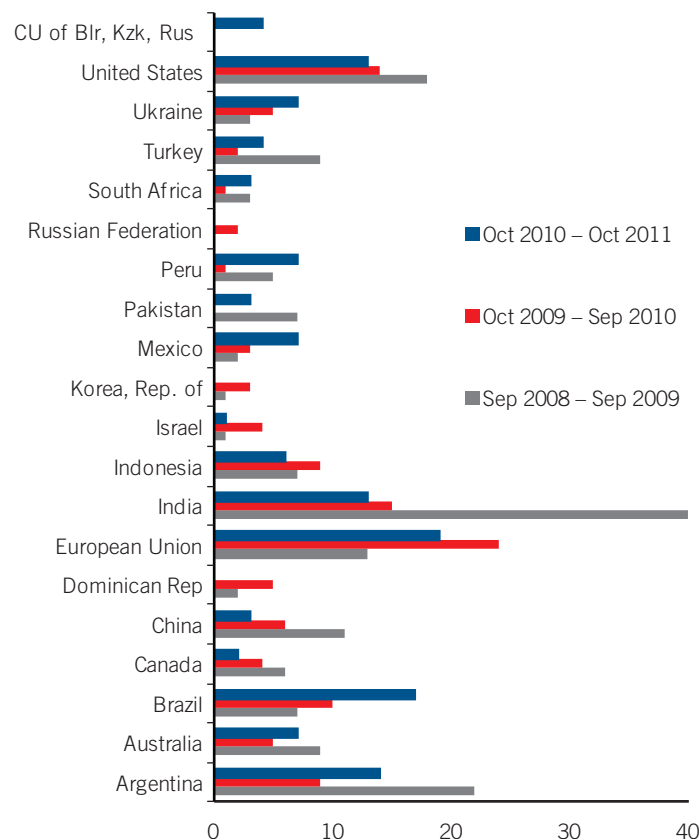
The tariff hikes that were imposed since the crisis have not reversed the trend of steadily declining average applied tariffs in the last 15 years (figure 7). The average most-favored-nation (MFN) tariff of developing country G-20 members fell from

14 percent in 1999 to about 10 percent in 2010. As a result of this liberalization, the tariff gap between emerging/developing and advanced G-20 members has narrowed from 10 to about 5 percentage points. Actually applied tariffs on trade are less than the average MFN rate as a result of preferential trade agreements and trade preference programs.

Limited Use of Anti-dumping and Safeguard Actions

Countries may use temporary trade barriers (TTBs) such as antidump-

Figure 8. Newly Initiated TTBs, Selected Most Active Users Among G-20, Non-G-20 Countries

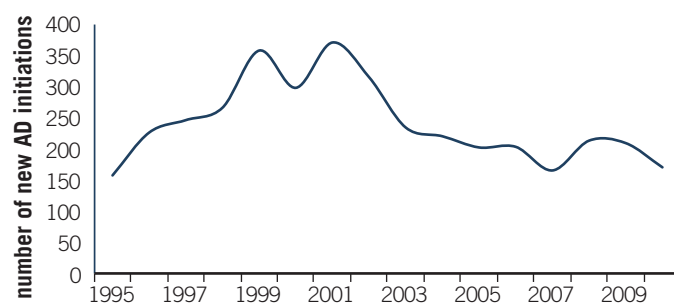


Source: Authors' calculations using WTO data from 2009, 2010b, 2011b.
 Note: CU of Blr, Kzk, Rus = Customs Union of Belarus, Kazakhstan, and Russian Federation.

ing (AD), countervailing duty (CVD), and safeguard (SFG) measures instead of tariffs; the use of such instruments generally peaks during recessions when domestic industries invoke them to reduce foreign competition and keep more of the market for themselves (Leidy 1997). Most countries have legislation allowing for TTBs to be used when imports put too much pressure on domestic industries. Such instruments of contingent protection are permitted under WTO rules and many preferential trade agreements. A key feature of these TTBs is that they require an investigation to determine whether the preconditions for taking action have been satisfied.

TTBs were a frequently used policy instrument in the post-2008 period, with the WTO reporting a total of some 370 new investigations (282 AD, 45 CVD, and 43 SFG) into alleged foreign dumping, subsidization, or requests for temporary protection by G-20 members.⁷ Frequent users of TTBs include India (68); the European Union (56); Argentina (45); the United States (45); Brazil (34); Indonesia (22); Australia (21); and China (20) (figure 8). One-fifth of postcrisis TTB investigations were subsequently dropped, many within a year of initiation, as a result of failing to sat-

Figure 9. A Steady Reduction in Protectionism, 1995–2010

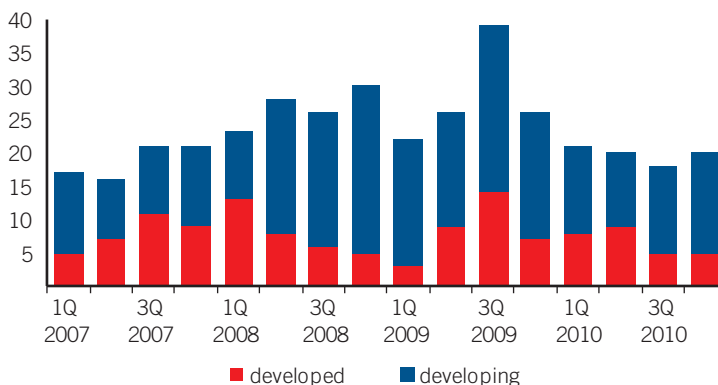


Source: Data from WTO Web site, http://www.wto.org/english/tratop_e/adp_e/adp_e.htm.
 Note: AD= antidumping

isfy required criteria (for example, pertaining to injury caused by imports, dumping, or subsidization). Just under half of all new TTB investigations led to duties, whether provisional or definitive. There is considerable heterogeneity in the average level of AD duties imposed, varying by imposing country and affected trade partner. AD duties imposed on Chinese products tend to be substantially higher than those imposed on products from other exporters (Bown 2010a). For example, the average ad valorem duty imposed by the United States on Chinese exports in the postcrisis period was 149 percent, compared to 45 percent on the products of other exporters.⁸

However, taking a longer-term perspective, the use of AD has been falling steadily since the late 1990s, with the crisis leading to only a small increase. Overall, the number of AD actions is still far below the average levels observed a decade ago (figure 9). To date, fewer TTBs have been put in place than what would have been expected judging by previous recessions. The stock of products covered by TTBs imposed by developing G-20 members has increased, rising from 1.71 percent in 2007 to 2.55 percent in 2009 (Bown 2010b),⁹ but in the aggregate, TTBs have not had a significant impact on trade volumes. One reason for the low coverage is that three-quarters of all TTBs are AD, which is product and firm specific, as opposed to safeguards, which tend to affect broader industries

Figure 10. TTB Database—Antidumping Initiations by Developed/Developing Countries, 2007–10



Source: Bown 2011.

and all sources of imports. The product coverage of AD actions has remained similar to precrisis coverage—chemicals, plastics, metals, paper, and machinery—suggesting AD was not seen by firms as an effective instrument to help them deal with crisis-induced market pressures.

While the aggregate impact of TTBs on global trade volumes has been limited to date, it is important to recognize that AD action is long lasting (generally more than five years) and can give rise to retaliatory measures that generate further protectionism. Developing countries have been taking over from high-income economies (the traditional users of AD), reflecting both increased institutional capacity and the rise of China as an export powerhouse (figure 10). AD is increasingly a south–south phenomenon, with China the main target (Bown 2011).

Increased Use of Less Transparent Forms of Industry Support

While the post-2008 use of tariffs and TTBs has been contained, nontariff measures (NTMs) are being used more frequently. The number of new trade-restricting NTMs averaged 85 per year in the first two years after the onset of the crisis, and increased considerably in 2011 to over 120 (figure 1). Developing G-20 countries have been the main users of NTMs, including India (38), China (25), Indonesia (25), Argentina (23), and Russia (15). NTMs are generally less transparent than tariffs and often generate greater distortions because they limit trade volumes. A little less than half of all NTMs

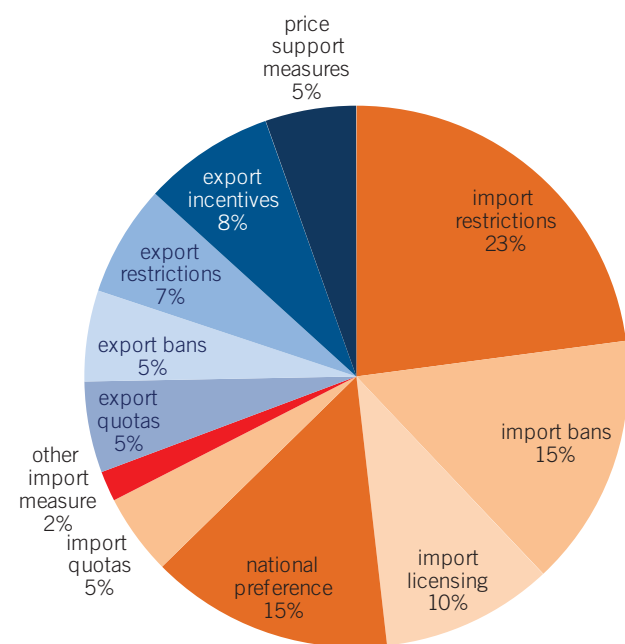
were quantitative import restrictions, quotas, and bans.¹⁰ Import licensing and discriminatory government procurement accounted for another 25 percent (figure 11). The number of “buy national” measures (including local content/national preference incentives) increased significantly in 2011, especially in emerging market G-20 members, affecting sectors such as energy, telecom, and motor vehicles. As is the case with tariffs, the direction of policy has not been uniform. Since January 2009, some 44 NTMs that predated the crisis were removed, half by India, followed by China (figure 12; WTO 2011a). One-fifth of NTMs imposed since 2008 have been removed or are explicitly time bound.

The rise in the relative importance and use of NTMs by developing countries does not reflect WTO constraints limiting their ability to use tariffs, given the substantial room for maneuver that exists between bound tariff rates and actual applied rates. More important may be the constraints imposed by membership in regional trade agreements. For example, Argentina has increased the use of nonautomatic import licensing, a process under which import approvals are discretionary (WTO rules require a decision within 60 days), and that applies to all sources of imports, including from Mercosur.¹¹ The Argentine government has also introduced technical requirements for myriad imported products that act as trade barriers. Brazil has also introduced nonautomatic import licensing for over 40 product groups at the HS 4-digit level, including vehicles, car parts and consumer goods (confectionary), and is giving tax credits to manufacturers of cars and trucks that use locally produced inputs.

Almost one-third of all NTMs are imposed on exports, especially of agricultural goods, with a clear upward trend in the use of export restrictions (WTO 2011b), underscoring the need for stronger WTO disciplines (Martin and Anderson 2011). NTMs on exports also take different forms. Half of all export restrictions were quantitative in nature rather than price based (taxes or duties). Countries imposing restrictions include Argentina, India, China, Ukraine, Indonesia, Bolivia and Pakistan, with many of the measures affecting grains and raw materials. India has been a frequent user of export restrictions for grains and food products as well as for exports of textiles and leather. China has restricted the export of certain minerals and raw materials and increased rebates on a gamut of industrial goods. China also recently lost the panel stage of a WTO dispute brought by several countries against export taxes on a variety of natural resources. Overall, export taxes mostly affected raw materials such as ores, metal scrap, minerals, cotton, yarn, and raw cocoa. A number of countries also increased export incentives for specific products (for example, dairy products). Examples include the United States, European Union and Switzerland, as well as India, Brazil, and China.

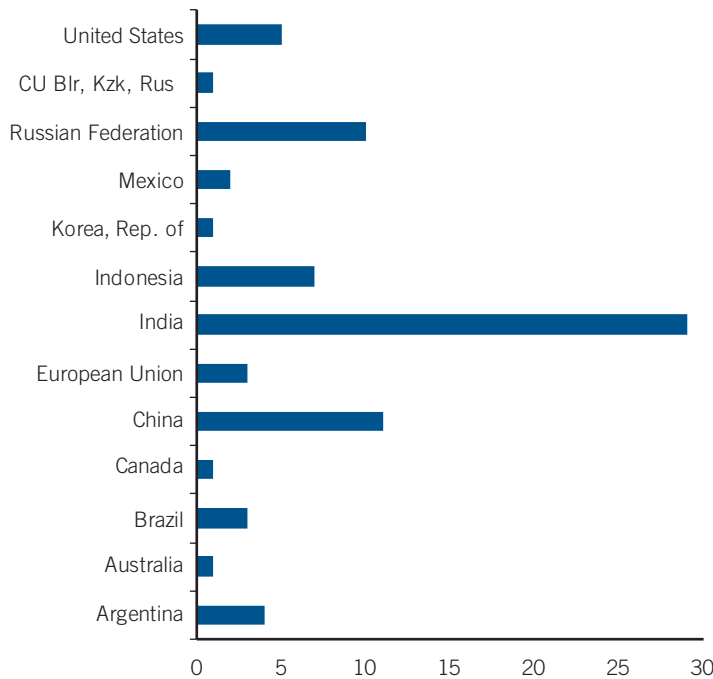
NTMs have become more prevalent partially as a response to public demand for traceability of goods and protection

Figure 11. G-20 NTMs, September 2008 – October 2011



Source: Authors' calculations using WTO data from 2009, 2010b, 2011b.
Note: Total=166

Figure 12. Rollbacks of NTMs by the G-20



Source: Authors' calculations using WTO data from 2009, 2010b, 2011b.
Note: Total=78 (44 originally imposed precrisis); CU of Blr, Kzk, Rus = Customs Union of Belarus, Kazakhstan, and the Russian Federation.

against health and environmental hazards. While technical regulations and product standards are appropriate policy instruments to ensure public safety and achieve other policy objectives, they can also be a disguised form of protection. While analysis of the trade restrictiveness of NTMs has long been constrained by a lack of data, a recent multiagency effort (involving the African Development Bank, the International Trade Centre, the United Nations Conference on Trade and Development, and the World Bank)—the Transparency in Trade Initiative—is improving the cross-country availability of information on NTM use. Moreover, a toolkit has recently been developed by the World Bank's Trade Department that recognizes the complexity of NTMs and can be used by governments and stakeholders to minimize restrictive impacts on trade (Cadot, Malouche and Saez 2012).

Greater transparency and monitoring of both NTMs and industry-specific support measures is a priority. Many governments responded to the crisis by complementing fiscal and monetary stimulus measures with industry-specific support, such as loans and guarantees for classes of firms (such as SMEs) or specific firms (bailouts, equity infusions) and financial support for certain activities such as the development of green technologies. These measures can distort competition and discriminate against foreign firms because they often explicitly target national firms. The GTA reported over 100 state aids and bailout measures with a discriminatory trade effect as of December 2009, a year after the onset of the crisis. Over the

three-year period since late 2008, the GTA reported a total of 273 actions supporting national industries (Evenett 2011c). The sectors most frequently targeted by ongoing support programs are agriculture and motor vehicles.

Impacts on Trade: Limited Overall, But Significant for Some Countries and Products

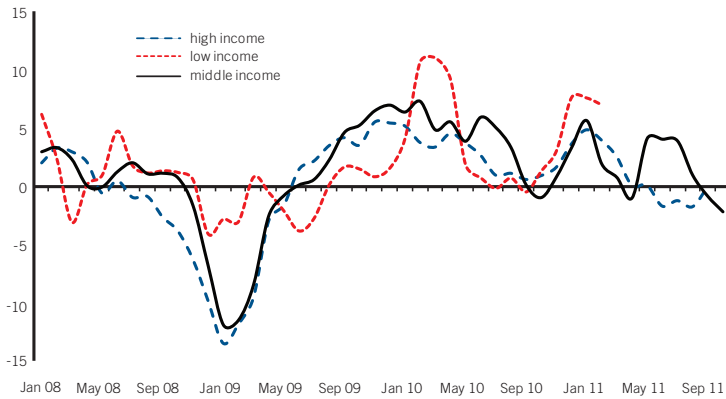
There is considerable debate regarding the impact of the post-2008 trade policy actions. Trade flows collapsed spectacularly in 2009, but recovered almost as rapidly when economic activity picked up (figure 13). The magnitude and rapidity of the bounce back reflects the limited impact of protectionist measures. The WTO estimates that G-20-initiated trade measures currently affect a little over 2 percent of world trade (WTO 2011b), up from about 1 percent in 2009. Evenett and Fritz (2010) estimate that a subset of 15 "jumbo" discriminatory measures affected more than 10 percent of world merchandise imports in 2008. Such calculations do not tell us anything about the ad valorem tariff equivalent of the measures concerned or their incidence, a matter that requires further research.

Clearly the impact of trade restrictions on specific products can be significant. Henn and McDonald (2011) match "red" measures from the GTA database (that is, trade restrictive, discriminatory measures), for which the GTA could identify affected trade partners and product categories, with monthly HS 4-digit level bilateral trade data from the Global Trade Information Services. Henn and McDonald conclude that trade flows that were affected by trade restrictions saw between a 5 and 8 percent decrease relative to trade flows of the same product among partners that were not affected by protectionist measures. Exports of poorer developing economies were hit harder, with an 8 percent drop, compared to a 5 percent reduction in upper-middle-income countries.¹² Against these negative impacts, one must consider the effects of the liberalizing measures taken by many countries, as well as the general fiscal and monetary stimulus measures taken by many countries that generated demand for imports. Henn and McDonald argue that bailout and stimulus programs put in place by high-income countries adversely affected developing-country exports by less than the border measures imposed by developing countries themselves.

Concluding Remarks

While there has been a marked increase in the use of trade policy since 2008, with developing countries particularly active, measures to restrict trade have been complemented by actions to reduce barriers for specific products. Average levels of import tariffs remain much lower than they were 10–15 years ago. TTBs such as AD were used less intensively than in past slowdowns, especially by OECD nations. There has been a long-term shift toward greater use of AD by developing countries, but here again, the global number of cases remains much lower

**Figure 13. Trade Collapse and Recovery, Jan. 2008 - Oct. 2011
(Goods Export Volume, % Change 3m/3m, seasonally adjusted)**



Source: Authors' calculations using data from Datastream.

than it was 15 years ago. Many trade policy measures were often aimed at lowering prices of consumer goods (for example, food) and inputs used by domestic industries. The more limited use of traditional protection measures—tariffs and TTBs—reflects the reality of a more intricately linked global trading environment, where countries are increasingly part of global value chains (Baldwin and Evenett 2009; Dadush, Ali, and Odell 2011). This has changed the traditional political economy dynamics of trade policy, where domestic industries and workers lobby for import protection. The changing nature of global production and trade—increasingly, intermediate inputs and re-exports—seems to have supported open trade. How robust this new constellation of trade interests will be is something that only time will tell.

Disentangling the multitude of trade policy measures and their determinants (the underlying government objectives) will be a rich area for research in the years to come, helping stakeholders to better understand the political economy of trade policy in a world that is increasingly characterized by vertical specialization. The same applies to assessing the net impact of the policy responses on global trade. The fact that bailouts and stimulus packages—even if they were designed to be discriminatory—were significant in size and number, and most likely had beneficial effects on global trade, is a factor that must be considered in any assessment of the trade effects of 2008–9 policies.

Less heartening is that the apparent slowdown in post-2008 protectionist measures observed in the first half of 2011 was reversed in the summer of 2011 as a result of renewed economic uncertainty and a decline in already weak growth. There are increasing signs of pressure to support domestic industries. Global growth prospects are likely to remain subdued for some time to come and will impact trade volumes. The WTO recently revised its forecast for 2011 trade growth downward from 6.5 percent to 5.8 percent. The scope for new stimulus measures is now much more limited than it was in 2008. A sluggish

world economy, high unemployment rates across the globe, and inflation and currency appreciation in a number of emerging economies will continue to pressure governments to support domestic economic activity. Open trade cannot be taken for granted, thus continued monitoring of trade policy measures is necessary.

Notes

1. WTO data references reflect authors' calculations, which are based on a compilation of measures reported in WTO (2009, 2010b, 2011b).
2. The GTA is an initiative that brings together a network of think tanks and institutes from around the globe that collect information on trade-related policy measures taken by governments in regions they are covering (see <http://www.GlobalTradeAlert.org>).
3. The utility of grouping this set of countries together is frequently criticized because there are so many differences between them, but it appears that they are similar when it comes to the use of trade policy.
4. CAMEX (Chamber of Commerce, Brazil) December 2009 and 2010; tariff reductions on Mercosur Common Nomenclature (NCM) chapters 39, 40, 68, 73, 76, 82, 84, 85, 86, 87, 89, 90, and 94. In August 2011, tariff eliminations took place on 3,779 capital goods and 111 integrated systems (NCM chapters 73, 81, 84, 85, 87, 90, and 94).
5. Argentina, Brazil, Paraguay, and Uruguay.
6. *The Wall Street Journal*, "Brazil Files Currency-Dumping Proposal in WTO to Protect against Cheap Imports," November 15, 2011 (<http://online.wsj.com/article/BT-CO-20111114-718925.html>). The Brazilian government blames the sharp appreciation of its currency, the real, against the U.S. dollar since the end of 2008 for undermining the competitiveness of its industry in export markets and leading to a flood of cheaper imports, a situation that is argued to be exacerbated by interventions of other countries to undervalue their currencies to give their firms an export advantage.
7. What follows focuses only on new initiations of TTBs; duties imposed as a result of investigations launched before the crisis are excluded. WTO numbers are comparable with those in the World Bank's TTB Database, which provides more detail than the WTO on the specifics of each case, including product codes, countries affected, and the level of duties imposed (see <http://data.worldbank.org/data-catalog/temporary-trade-barriers-database>).
8. Where data are available, dumping margins and ad valorem duties imposed by other countries on China show the same discriminatory pattern.
9. Number of products measured at the 6-digit level of the Harmonized System (HS) of product classification.
10. Import bans were applied mainly for food products, especially meat and livestock, in response to natural disasters or animal diseases (for example, the H1N1 virus).

11. *The Economist*, “Keep Out,” September 24, 2011, (<http://www.economist.com/node/21530136?fsrc=scn/fb/wl/ar/keepout>).

12. Henn and McDonald (2011) note that having data at just the HS 4-digit level (as reported by the GTA) rather than HS 6-digit level means that their estimates likely underestimate product-level effects.

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