Has EU import protection gone up during the crisis?

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Has there been a protectionist backlash by the European Union ever since the outbreak of the global crisis? Particularly in recessions, the use of trade policy is tempting for governments as a way to foster the interests of domestic producers at the expense of foreign importers. This article presents a summary of the evidence at hand, and finds that thus far this is not the case. We do not find any major policy change during the crisis compared to the pre-crisis path. A more detailed discussion is available in Vandenbussche and Viegelahn (2011).

On 3 October 2008, the European Union (EU) extended antidumping (AD) duties on the imports of leather shoes from China and Vietnam. This decision was a very controversial one since it overruled the negative advice to continue protection that had been formulated by the EU AD Advisory Committee and was taken despite heavy protests from consumers, importers and outsourcing firms. The fact that the decision to prolong protection was taken just a few days after the collapse of Lehman Brothers, generally regarded as the start of the Great Recession, fuelled the fear that the EU might engage in a ‘protectionist spiral’. This article evaluates whether this was the beginning of a more protectionist attitude of the EU in the face of the global recession. Indeed, trade protection can be a less painful remedy than other measures to combat the crisis such as fiscal austerity and budget cuts, since tariffs raise revenue for the protecting country and occur at the expense of foreigners.

A first way to raise protection would be to raise tariff overhang i.e. the difference between the applied MFN rates and the bound rates. However, Vandenbussche and Viegelahn (2011), fail to find evidence of that. Instead they find that the average applied MFN rates have remained roughly constant during the crisis.

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1 Our work, Vandenbussche and Viegelahn (2011), constitutes a chapter in a CEPR/World Bank volume, edited by Chad P. Bown. This volume analyses the use of temporary trade barriers before and during the crisis by different countries.

A second way to raise protection is through the imposition of technical trade barriers such as an increase in administrative obligations related to a shipment or the technical clearance time at the border. Vandenbussche and Viegelahn (2011), do not find any evidence of that. The ‘Doing Business’ indicators from the World Bank, which measure business regulations and include information on procedural requirements related to importing such as the number of days needed to import a standardized cargo of goods, have remained unchanged for the EU in the years 2008-9. This suggests that there has not been an increase of technical trade barriers during the crisis.

Third, countries can raise protection through an increased use temporary trade barriers (TTBs) involving safeguard (SG), countervailing (CV) and antidumping (AD) measures. But the use of TTBs mainly coincides with the use of AD measures with almost 90% of TTB cases consisting of AD cases on which we will focus. The current AD rules cannot discriminate well between ‘unfair’ imports or an ‘uncompetitive’ domestic industry suffering from tough but fair foreign competition. Therefore a rise in AD measures need not necessarily reflect an increase in ‘unfair’ behavior but could simply stem from an increasing use of AD policy to shelter domestic firms from tough import competition, in which case AD policy would be nothing more than a ‘beggar-thy-neighbor policy’

To evaluate the use of TTBs, Vandenbussche and Viegelahn (2011) consider the period 1995-2009 where they match AD cases from the World Bank’s Temporary Trade Barrier Database (Bown, 2010) with UN COMTRADE data, which detail product-level trade at the HS 6-digit (HS-06) level by country of origin.

One interesting finding is that product coverage of antidumping measures has steadily increased in the period 2004-9. While the number of antidumping measures imposed shows a downward trend in recent years, adding the product dimension gives a different picture. When counting AD measures by target country and product, we clearly find an increase in the product coverage, which results from an increase in the number of products that are involved in antidumping cases. This is illustrated in Figure 1 where it can be observed that this trend started before the crisis without clear evidence of a policy change in the crisis years 2008-9.

Figure 1: Number of EU AD measures in force

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4 The extent to which this is legal is determined by the WTO Agreement on Technical Barriers to Trade.
5 The only EU member state for which we observe an increase in any of these indicators in 2008 or 2009 is Czech Republic, where it took 17 days in 2008 instead of 16 days in 2007 to import a standardised cargo of goods.
Notes: Cases against EU-27 member states before their EU accession are excluded. HS-06 stands for HS at 6-digit level.

Source: Figure 3.3b, Vandenbussche and Viegelahn (2011).

Another finding documented in Vandenbussche and Viegelahn (2011) on the EU AD policy relates to country coverage. In recent years there has been a small decrease in the number of trading partners that are subject to EU antidumping measures. Again this is a pattern that prevailed already in pre-crisis years. Also, results show that the antidumping coverage of the import value during the crisis, did not change much, thus rejecting a major protectionist backlash by the EU thus far.

Vandenbussche and Viegelahn (2011) also find that EU antidumping policy in recent years has increasingly targeted the developing world with China taking a very prominent position as main target country. The share of products imported by the EU from China and falling under EU antidumping protection has roughly tripled in 2004-9, reaching a level of more than 2% in 2009. This share has been rising even before the crisis and continues on a similar path during the crisis. Also, our findings show that countries with a large overlap in their product-mix compared to the EU’s, are more likely to be targeted under EU antidumping policy.\(^7\) Put differently, countries that are more similar in their export product-mix to the EU are relatively more often targeted with EU antidumping measures. But again, this phenomenon does not appear to be related to the crisis, but characterized EU antidumping policy in recent years.

\(^6\)Miyagiwa, Song and Vandenbussche (2010) theoretically show that market size is a critical determinant in the decision to target a country with antidumping measures and to start a potential trade war.

\(^7\) For this purpose Vandenbussche & Viegelahn (2011) calculate an index of product-mix similarity, based on the seminal work of Finger and Kreinin (1979).
Also, the number of industries protected by EU antidumping policy has increased over time. While before, EU AD policy tended to be heavily concentrated in chemicals and steel products, currently other industries also feature prominently in AD cases such as footwear and animal products, to give just a few examples. Indeed, the range of industries affected by AD policy has been widening over time, which is a pattern observed before as well as during the crisis.

Another pattern emerging is that EU antidumping policy has increasingly involving consumer goods. Using the BEC classification, Vandenbussche and Viegelahn (2011) show that the share of consumer goods subject to antidumping measures, relative to industrial and capital goods has jumped up rapidly after 2004, illustrated in Figure 2. A focus of the EU’s antidumping policy on consumer rather than industrial goods could be related to the international fragmentation of production. Indeed, EU firms, offshoring parts of their production into foreign countries, could be adversely affected by antidumping duties on intermediates that are shipped back to the EU as shown by Konings and Vandenbussche (2009), which could explain their lower share in AD cases.

Figure 2: Share of import value covered by EU antidumping measures, by product category

![Figure 2: Share of import value covered by EU antidumping measures, by product category](image)

*Source: Figure 3.10c, Vandenbussche and Viegelahn (2011).*

The application of the Rauch (1998) classification, reveals that the share of differentiated goods subject to antidumping measures relative to homogeneous goods seems to be on the rise.
Conclusion

In this article we summarize the findings of Vandebussche and Viegelahn (2011), who fail to find a major change in the European Union’s trade policy during the financial crisis thus far. If anything, European trade policy pretty much follows its pre-crisis path. However, given the fragile situation in the Eurozone, antidumping policy still constitutes a tempting option in the years to come. To rule out the use of trade policy as a “beggar-thy-neighbor” policy, we believe that a continued effort in the careful monitoring of policy trends therefore remains essential, also in the future.

References


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8 For more detailed results, also on the extent to which individual EU member states’ imports are affected by EU antidumping policy and the relation between “traditional” import protection and antidumping policy, please see Vandebussche and Viegelahn (2011).

9 This is currently done by institutions like the World Bank, the WTO and the Global Trade Alert.

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