

PROTECTIONISM

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TRADE WARS RELOADED

Protectionism May Not be Surging Overall, But New Barriers are Rising

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EXECUTIVE SUMMARY



Stephane Colliac, Senior Economist for France and Africa
+33 0 8411 3677
Stephane.COLLIAC@eulerhermes.com



Julien Ayme-Dolla, Economist
+33 1 84 11 69 11

- **467 new protectionist measures** were implemented worldwide in 2017. While the pace is slower compared to 2016, the total pool of active measures keeps on rising.
- 2017 marked the year of a **resurgence in US protectionism** with 90 new measures. Among the main contributors to new barriers, the US was the only one to enact more measures than in 2016. Retaliation was a motive: import tariffs and anti-dumping measures were increasingly used.
- In Western Europe, **the UK utilizes attractiveness policies** such as trade finance and local sourcing- types of protectionism - to attract foreign direct investment.
- New data suggests that **Germany and Switzerland rank among the top 10 protectionist countries** at 4th and 6th, respectively. Both countries use trade finance policies to protect developed industries such as machinery and equipment.
- In emerging markets, **the BRICS countries were responsible for a quarter of all new measures** over the last four years. Support to the agrifood and metals sectors in these economies as well as measures aimed at competitors aggravated oversupply and pushed prices down.



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Of new protectionist measures
in 2017 were enacted by the US

20%

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TRADE WARS RELOADED

- **467 new protectionist measures were implemented worldwide in 2017**
- **20% of new measures introduced in 2017 came from the US**

The force strikes back: The US and trade retaliation

There is little question that the [US](#) has increased protectionist measures since President Trump entered the White House, though this development goes against current trends elsewhere around the globe, where 467 new protectionist measures were implemented in 2017, compared to 827 one year ago. The US alone was responsible for implementing 90 new measures last year, a whopping one-fifth of total global activity, up from 84 in 2016. So, while the protectionism movement overall has kept alive over the past year, its pace has hit the brakes. This decreasing trend is not so surprising, however, as growth is returning to the world economy (+3.2% in 2017, +0.6pp from 2016).

Digging down a little deeper, our data indicated that the US decided to bolster measures to counteract perceived protectionism from key competitors. The number of import tariff measures increased to 30 in 2017 from 6 in 2015, while anti-dumping measures rose to 20 from 13. The expected clash was particularly visible as China was widely in the US's scope, targeted in 2017 by 17 new measures from 8 in 2016. The example of a recently implemented 30% import tariff on Chinese solar panels suggests that this momentum will be sustained in 2018.

China did not increase its protectionist stance recently, as the story is not new. Subsidized overproduction of steel or solar panels is a well-known feature of the Chinese industrial policy. As a result, [China](#) has been the brunt of full-on retaliation by not only the US, but also from 343 direct new measures from across the world in the last four years.

The current US administration also voiced its concerns about an imbalance in its trade relationship with Mexico. In this regard, the data is contrarian: the US did increase its trade barriers especially against Canada (18 new measures in 2017) while Mexico was barely hit (only 2). More protectionism against Mexico would be self-defeating for US corporates' business models, since they use the low labor cost in Mexico to stay competitive. The most targeted sector in Canada was energy, in a frontal competition on shale oil & gas with the US.

The Trade Federation: Export promotion in Asia and Europe

When other key trade powerhouses implement some degree of protectionism, this is about export promotion rather than import diversion. Japan export's engine has lost some ground in the world ranking during the last few years, but the country still has its own model to protect its remaining market share. Japan

adopted 137 protectionist measures during the last four years, targeting primarily Machinery & Equipment, its main export sector. A total of 57% of these measures involve financing for Japanese corporates in foreign markets, through the Japan Bank for International Cooperation.

Moreover, such impetus by Japan in its promotion of exports also helps to debunk one myth about the UK. Yes, the UK was among the most protectionist countries even before Brexit, and increased its stance in the run-up to the recent poll, with 48 new measures in 2016, but this is not something new. Measures implemented in the UK arose from local sourcing and trade finance instruments many years before the vote, since the country has been an entry point in Europe for Japanese corporates for years.

In Europe, one may be quite surprised to find Germany and Switzerland in the 4th and 6th positions in the worldwide ranking. In the same vein as Japan, protectionist measures were promoting the main export sectors, particularly Machinery & Equipment (including aeronautics). Regarding these aspects, one could view the situation as the glass being half-empty rather than full and surmise that it may create trade distortion in an area supposed to be ruled by a common EU trade policy.



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The Planet of the Clones: Commodity oversupply and protectionism

Countries sometimes use protectionism to replicate the same old sectors that have traditionally supported their economies, though this may open the doors to oversupply. This evidence is particularly striking for

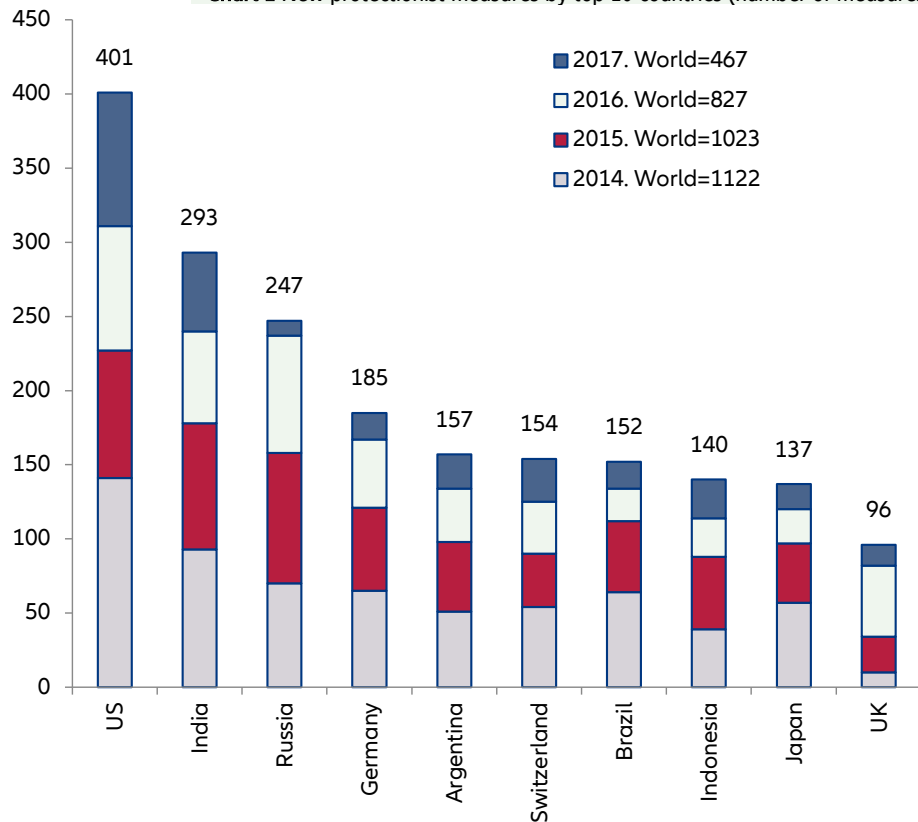
commodities, since agrifood is ranked 1st, and metals ranked 2nd in the most targeted sectors list. Oil is not far down the list, with chemicals and energy ranking 4th and 5th.

Obviously, it is normal to see stronger protectionism in sectors excluded from past liberalization rounds and

still frequently state-owned.

Such a level of protectionism is a key driver behind the oversupply that pushed commodity prices well below observed past peaks. Compared to 2008, industrial metal prices are still at -61% and agricultural prices -62%.

Chart 1 New protectionist measures by top 10 countries (number of measures)



Sources: GTA, Euler Hermes

Cocoa prices slumped by 50% during the last two years, as Ghana and Côte d'Ivoire (jointly supplying 62% of the world cocoa output) each increased their national output, despite agreements to coordinate limits to their production when prices are low.

More generally, agrifood was primarily targeted by emerging economies. These countries bred 87% out of the 697 new measures implemented worldwide. All the regions were particularly active, with the widest arsenal seen in sizeable countries, such as Russia and India.

In Russia, trade retaliation against sanctions put in place by Western Europe after the conflict in Ukraine

was a key rationale, but some measures were also enacted to reduce exports in order to fuel local supply and limit food price inflation. An interesting feature was also that Argentina still added 23 measures against agrifood in 2016 and 2017.

Despite an alleged shift in terms of trade policy after Mauricio Macri's election, the protectionist trend was unbroken.

Industrial metals have also been particularly targeted. Strategies designed to provide China with all the raw materials needed pushed supply very high.

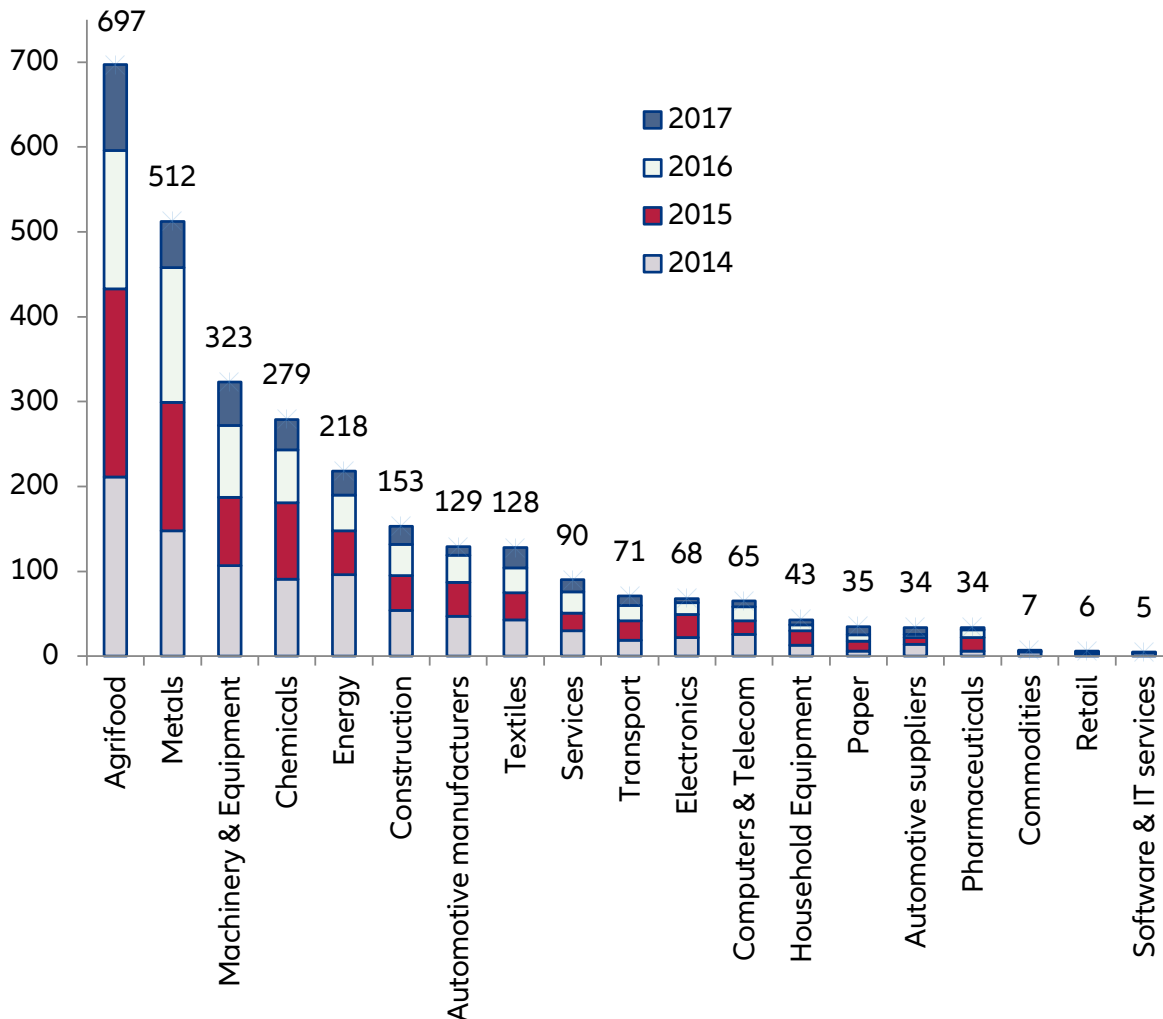
Moreover, each country tried to mop up the value chain by performing

the first transformation of a commodity instead of just exporting it.

This triggered protectionism from resource-rich countries, like Brazil or Australia. In response, advanced economies have also implemented many new measures, as the transformations of metals are at the core of many manufacturing sectors.

Again, the US added the most measures during the last four years (164), triggered by the TIGER (Transportation Investment Generating Economic Recovery) plan implemented by the Obama administration, designed to protect US suppliers in public procurement issues.

Chart 2 Most targeted sectors (number of measures)



Sources: GTA, Euler Hermes



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Director of Publications: Ludovic Subran, Chief Economist
Euler Hermes Allianz Economic Research
1, place des Saisons | 92048 Paris-La-Défense Cedex | France
Phone +33 1 84 11 35 64 |
A company of Allianz

<http://www.eulerhermes.com/economic-research>
research@eulerhermes.com



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