

# Global trade: Blocking moves

**Economists worry that a new wave of protectionism  
in the digital age is hurting global growth**

by: Shawn Donnan and Lucy Hornby

The attacks began in February 2010 when an email disguised as being from US Steel's chief executive landed in the inboxes of two dozen employees. Within weeks, "UglyGorilla", a Chinese hacker, had allegedly broken into at least 1,700 of the company's computers and mobile devices.

The real pay-off, according to US Steel, came a year later when Chinese hackers using similar methods targeted the computer of a researcher at the company. Within days, US Steel claims, they had stolen secret files containing details of how to produce types of ultra-high-strength steel used in the car industry. Less than two years later, the US company alleges, China's Baosteel was rolling out its own products, having overcome a technical barrier using techniques that US Steel took more than a decade to develop.

The attacks are detailed in documents prepared and filed for two separate cases. They read like a 21st-century cyber thriller. The ramifications could include an old-fashioned trade war between the world's two biggest economies, and the incident is an example of the new battlegrounds in the global economy.

In a complaint this spring, US Steel argued that the cyber attacks did not just benefit Baosteel but China's entire steel industry — allegedly an example of state-sponsored theft that justified a ban on all imports of Chinese steel to the US.

If the United States International Trade Commission finds in favour of US Steel, trade lawyers and other experts say it will be the first time an alleged state-backed hacking attack has resulted in one country imposing trade sanctions on another. The US Steel case was filed under a commonly used section of the Tariff Act of 1930, which allows the banning of imports linked to stolen intellectual property. But the link to alleged cyber theft illustrates how the rapid rise of digital technology is creating triggers for trade disputes — often because there is no established international law on hacking, encryption and other areas.

"It breaks new ground," says Chad Bown, a former economic adviser to US President Barack Obama now at the Washington-based Peterson Institute for International Economics. "This is going to be an interesting case."

## **Barriers up**

Since the 2008 financial crisis, the world has largely avoided a new cycle of protectionism that many people feared would cause a repeat of the tit-for-tat erection of trade barriers that economists believe extended the Great Depression in the 1930s.

Policymakers, though, are worrying about the new methods countries are using to protect their industries. Whether in the innovative use of old laws, as in the US Steel case, or new standards on encryption and labelling, world trade is experiencing a wave of protectionism that some economists say is affecting global growth.

According to data compiled by Global Trade Alert, governments took more than 400 discriminatory actions against foreign competitors between January and August. Such measures are also being put into effect faster. Compared with the same period in 2009, four times as many protectionist measures were introduced.

Perhaps most worryingly for economists and policymakers, the new wave of protectionism predates the emergence of antitrade populists such as Donald Trump, the Republican nominee for the US presidency, and the public backlash against globalisation.

“All the protectionism that has occurred has **happened pre-Trump and pre-Brexit** and you have to wonder what the rise of populism will do to add a further spice to this protectionist spiral,” says Simon Evenett, a professor at the University of Saint Gallen, Switzerland, who led the research for GTA.

Concern has been amplified by the decline in global trade, which this year is expected to grow more slowly than world economic output for the first time in 15 years. That slowdown has been largely attributed to a collapse in global demand, but economists are worrying more about the role of protectionism — or rather the risk posed if it accelerates and takes new forms.

Roberto Azevêdo, director-general of the World Trade Organisation, says countries are turning to the wrong medicine to cure the slow growth many are facing. As a result they are falling into a “cut and paste” pattern of protectionism in which governments emulate each other in introducing restrictions.

Among the best examples of that, he says, are domestic content rules such as the “Buy America” provisions in the US. These have exploded since the crisis and require governments to prefer domestic products, whether steel for a bridge or shoes for the military.

“You put it in and you think you are doing a great service to your own economy and companies, and then you lose on the other side because other [countries] will start buying their products and not yours,” he says. “It’s this contagious effect.”

Such measures have led to absurd situations. Officials in Morrison, Colorado, in 2014 almost lost federal funding for the \$144,000 repair of an ageing bridge because a contractor installed steel beams rolled in Canada before receiving a dispensation.

Domestic content rules such as the 'Buy America' provisions in the US are increasingly being used by governments

Many of the actions scrutinised by GTA are linked to anti-dumping cases. Also documented are moves such as Sri Lanka's decision in May to increase import levies on red onions and fennel seeds.

### Digital impact

Experts say protectionism is becoming increasingly difficult to measure. Douglas Irwin, an economic historian at Dartmouth College, New Hampshire, argues that the world is seeing far more "below-board protectionism" in the form of new rules for labelling which put foreign competitors at a disadvantage.

He adds: "What is clear is that the **type of protectionism we are seeing now is much more insidious than what we saw in the 1980s,**" when the US raised tariffs on imports of TVs, semiconductors and other electrical products from Japan in the name of sheltering domestic industries.

**In the digital realm the measurement problem is acute because in many cases governments are struggling to catch up with commercial realities.** That has led to clashes between governments and the tech industry over issues like privacy and where companies are allowed to store resources like client data, or encryption standards.

"There are still a lot of grey areas in terms of what is acceptable and what is not," says Mr Bown.

**Unemployed workers protest in New York in 1930: Reciprocal erection of trade barriers worsened the Great Depression in the 1930s**

Just how much of an effect a new wave of protectionism is having on the global economy remains a subject of debate. In an analysis for last week's annual meetings of the International Monetary Fund and World Bank, IMF economists attributed only a small portion of the slowdown in trade to protectionism.

But Maurice Obstfeld, the IMF's chief economist, argues that efforts by governments to protect industries from outside competition driven by the 2008 crisis have become significant for the global economy.

Moreover, he says, it is being fed by slow global growth. “[The trend] is very symptomatic of the low-growth environment that we are in,” he says. “The pie is smaller and so countries chip away at certain sectors.”

Much of the protectionism since the crisis has focused on a few sectors, with metals a notable target. G20 countries alone had introduced almost 820 trade-distorting measures affecting the trade in metals such as steel, copper and aluminium since 2008, GTA found in its latest report.

Many countries blame China for the glut of metals such as steel that has caused prices to collapse. In the US that has led to anti-dumping cases that have seen tariffs of as much as 500 per cent imposed on some types of Chinese steel. In Europe, the steel industry’s woes have fuelled opposition to EU plans to designate China a market economy, as Beijing claims it should do later this year under the terms of its 2001 entry to the WTO.

The Chinese insist they are reining in production and say cases such as that of US Steel are American protectionism, pure and simple. Li Xinchuang, vice secretary-general of the China Iron & Steel Association, says the case is “without merit” and a sign of US decline.

“They are lagging us and yet they hope to limit us through protectionism,” he says. “They are ahead in technology industries. So why use protectionism to help a sunset industry?”

In a statement issued in April at the time the US Steel case was announced, Baosteel denied any wrongdoing, calling the allegation “unverified conjecture”.

### Outside the firewall

Traditional heavy industries are far from the only ones seeing new forms of protectionism. Whether the concerns relate to China or other states, officials in Washington worry about the advance of what they call digital protectionism.

Roberto Azevedo, director general of the World Trade Organization, says countries are turning to the wrong medicine © Bloomberg

In July the Obama administration created a “rapid response” unit to combat barriers to digital trade. In a recent report the US Chamber of Commerce warned that the global IT industry was at risk of a **dangerous Balkanisation because of protectionist domestic technology standards**, pointing to regulations in China, Russia, India, Brazil and even the EU and US. “These trends raise serious economic risks to the global economy,” the report’s authors wrote.

US technology companies view the “Great Firewall of China”, the system Beijing uses to control its citizens’ access to the internet, as the world’s biggest trade barrier.

The firewall is ostensibly to protect China’s population against pornography and anything the ruling Communist party deems sensitive. But the blocking of brands like Facebook, Twitter or Reuters prevents western internet groups and media conglomerates from competing in China while allowing domestic counterparts, including internet search engine Baidu or state-owned news agency Xinhua, to thrive.

Foreign and Chinese businesses and investors are also concerned about new cyber security regulations requiring companies to use Chinese IT suppliers.

In August a coalition of some of the biggest business groups, including industry lobbies from Japan and Europe, sent a letter to Li Keqiang, China’s premier, calling on Beijing to revise a new cyber security law and insurance regulations.

The consensus among economists is still that the sort of protectionism seen since the 2008 crisis is a far cry from what was seen in the 1930s.

A concerted effort over the past 70 years to reduce tariffs, and the changes to rules that came with the creation of the WTO in the 1990s, has helped avoid another disastrous brush with protectionism, says Bernard Hoekman, director of global economics at the European University Institute. And, for all the documented protectionism in recent years, “we are still in a much more liberal place than we were in the past”.

But Mr Evenett argues that too many people have failed to recognise the advent of a new era of protectionism. The consequences, he claims, will be with us for years as governments are always unwilling to be the first to unwind protections. “What you end up with, quite frankly,” he says, “is an elaborate game of chicken, waiting for each government to blink.”