

The cost of protectionism: Are consumers willing to pay it?

Coinciding with the slowdown in global trade, the world has seen unprecedented rise in protectionist measures around the globe since the financial crisis kicked in 2008. The WTO warned recently about this worrying trend observed persistently in G20 countries. One of the key findings of a recent WTO report shows that discriminatory trade barriers have been put in place by G20 economies at the fastest pace since the outbreak of the global crisis (WTO 2016). In fact, the report reveals that 145 new trade restrictive measures have been implemented in the period mid-October 2015 to mid-May 2016 corresponding to an average of 21 barriers per month or nearly five new protectionist measures in each week of that period.

Similarly, the most recent Global Trade Alert (GTA) report from 2016 reveals that on a global level the rise in discriminatory trade measures has been the highest since the creation of the global trade alert database in 2009. Moreover, the number of trade barriers imposed in 2015 is 50% higher than in 2014 (GTA 2016). The GTA report also shows that G20 countries account for the lion's share of global trade protectionism; alone in 2015 out of the 736 new discriminatory measures 599 or 81% were introduced by G20 countries with the USA and Russia on the top of the list.

Against this background the purpose of this paper is to showcase the benefits of trade liberalisation in a multilateral context. This is one of the few attempts to measure explicitly the cost of protectionism in the economic literature. In fact, there is a widely-spread theoretical and empirical literature on the benefits from international trade highlighted already by Adam Smith and David Ricardo to the relatively recent theories accentuating on the importance of dynamic trade gains for economic growth and employment. The economic theory is also consistent and insightful in terms of formalising the impact of trade discrimination on equilibrium prices and quantities in a general and/or partial equilibrium setting. However, an explicit assessment of the cost of protectionism in international trade is scarce and often carried out only at a bilateral and/or sectoral level. A part from that, there is a lack of research using CGE models to quantify the impact of introducing protectionist measures in a macro-economic context. One of the few papers looking into this is a recent paper by Kutlina-Dimitrova and Lakatos (2013) on the EU-Singapore FTA. The authors go beyond the standard assessment of the impact of free trade agreements by introducing an alternative scenario which simulates the economic impact of Singapore raising its tariffs to levels bound in the WTO. In doing so, Kutlina-Dimitrova and Lakatos (2013) exemplify that there is an additional benefit from a free trade agreement namely the prevention of future tariff hikes in line with WTO commitments. The simulations results show that considering the cost of protectionism is an important aspect of the likely gains from trade liberalisation.

The objective of this paper can be accurately summarised by a statement made by Mr. Peter Sutherland, the Director General of the General Agreement on Tariffs and Trade, who stated already in 1994: *"It is high time that governments made clear to consumers just how much they pay - in the shops and as taxpayers - for decisions to protect domestic industries from import competition. Virtually all protection means higher prices. And someone has to pay; either the consumer or, in the case of intermediate goods, another producer. The result is a drop in real income and an inability to buy other products and services"* (cited in Manzella, J., 1994).

In other words, in the current context of unprecedented rise in trade protectionism it is of great importance to stress the cost of protectionism and the undeniable fact that protectionism is costly and this cost is ultimately borne by the consumer. For this purpose the paper uses the dynamic GTAP model (GDyn) based on the most recent GTAP database. For modelling the cost of protectionism the scenario design includes an increase in tariffs on total merchandise trade to their levels before the Uruguay round was negotiated and implemented. In that way, the results of the modelling can be interpreted as an estimate of the cost of not having engaged in multilateral trade liberalisation.

For the calculations of the size of the tariffs hikes the GTAP database version 3 provides useful starting point as it reflects pre-Uruguay round tariffs. Starting from there additional calculations will be made so as to calculate the sectoral country-level tariff for the sectors and countries missing from the GTAP database 3. Furthermore, the sectoral and regional aggregation will pay particular attention to agriculture and manufacturing goods and will include all countries. Nonetheless, as the reality shows that G20 countries are responsible for the lion share of trade protectionism these should be separately included in the simulations.

The paper also aims at providing estimates of job losses linked to global protectionism. For that reason, the trade effects from the CGE simulations will be translated in job figures based on recent insights from Input-Output tables databases as WIOD which enable a direct link between employment effects and changes in exports and imports (see Arto et al. 2015).