

Creeping Protectionism

By Noboru HATAKEYAMA

Although there is a risk of a double-dip recession, the persistent worldwide recession seems to be at a final stage. Each country has worked hard not to implement protectionist measures to fight against the recession and succeeded thus far in containing them. However, there are concerns of creeping protectionism.

First, suspicions over the free market mechanism have been born because government controls over economic activities have increased even in the United States and Europe. The US government now possesses 60% of the stock in General Motors, a most respected company in capitalist society. The Obama administration is proposing to strengthen regulations on financial institutions because they abused freedom to the extent that they caused damage to customers without informing them of the risks involved in each transaction. In Germany, Japan and many other countries in the world, there are subsidies given to car producers or its customers under the name of environmental protection, although due dates for these subsidies are coming soon in many cases.

In Russia, which seemed to have changed its command economy to a market economy completely under the presidency of Boris Yeltsin, his successor Vladimir Putin – first as president and then as prime minister – has been strengthening state control over the Russian economy, which has been successful in encouraging at least economic nationalism among many Russian people. Certain roles of state-owned companies may have become clear as has been the case with Kepco – the South Korean state-owned company – which has won a bid for a big project to build and operate nuclear power plants in the UAE.

The flourishing Chinese economy has also contributed to suspicions of a completely free market mechanism. The Chinese government is very efficient in decision making for acquiring concessions to explore or excavate precious metals overseas, thanks to its one party-ruling system. It also has governmental organizations to lend money with very low interest rates, a practice prohibited for OECD members.

Therefore, we have to prove the superiority of market economy theoretically, not just abstractly but by analyzing each case mentioned above and come to a conclusion as to the extent the government is allowed to intervene in economic activities. Among right opportunities for such discussions are G-20 summit meetings, to be held in South Korea on November 11-22 following the one in Canada on June 26-27.

A second concern is that we don't have a banner carrier for free trade. Since the IMF was established in 1946, it was the United States who had been carrying the banner for free trade. Now we

don't have such a carrier. Therefore, without a leader in promoting free trade, negotiations at the Doha Development Round of the WTO have been drifting for more than eight years, which is the longest round of negotiations in GATT/WTO history.

In a New York Times column in March this year, Professor Paul Krugman, a Nobel Prize laureate, recommended the US Treasury determine that China manipulated the rate of exchange between the renminbi and the US dollar. Furthermore, he proposed imposing a 25% surcharge on imports from China, if reasoning with China does not work.

Certainly, it is not good for China to fix its currency's rate with the dollar. To maintain the exchange rate, China had to purchase foreign currencies in the exchange market, pouring a lot of renminbi into the market, which is said to have invited a housing market bubble in China.

However, the proposed surcharge against imports from China would be an outright violation of WTO rules. It was also reported that 130 House of Representatives members wrote a letter to the secretaries of the Treasury and Commerce, urging them to take action on the renminbi as soon as possible. In the same vein, a senator even claimed that the United States should impose punitive tariffs. If any punitive action were taken, a trade war would start between China and the United States.

The US Congress has become increasingly protectionist. FTAs with South Korea, Colombia and Panama signed by then President George W. Bush were submitted to Congress for ratification, but they are still pending, being requested to amend parts of the agreements.

Likewise, an FTA already initialed between the South Korean government and the EU Commission has not been submitted yet to the European Parliament because of the fear of it being suspended there.

The EU Commission in Brussels used to be a banner carrier for free trade. Not any longer. As a matter of fact, the EU imposes a 14% import tariff on flat-screen TVs and 10% on cars. Those are typical tradable manufactured goods. Japan imposes no import tariffs on either of them. Those in the United States are 2.5% for cars – much lower than in the EU – and no tariff for flat-screen TVs.

Which leader from which country will volunteer to lead a challenge to stave off the above-mentioned creeping protectionism? **JS**

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