ShowCASE

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Editorial

The Covid-19 pandemic and the health and economic crises that emerged in its aftermath have once again reinvigorated the long-lasting debate on the effectiveness and appropriateness of protectionist measures. Therefore, in this edition of showCASE, we discuss the ever-rising trend of protectionism, its recent effects on the global economy, and its impact on the efficacy of the global emergency response.

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CASE Analysis

Does Protectionism Matter in the Time of Pandemic?

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The rise of nationalism in recent years globally as well as related arrival to power of nationalist politicians in many countries are some of the factors that have contributed to resurgence of trade protectionism all over the world. This is particularly the case in the United States, the United Kingdom, and several European countries. Indeed, Washington under the Trump administration has introduced import duties on aluminium and steel originating from many countries (including the EU member states). Besides, Euroscepticism and the Brexit have challenged the principles of free movement and economic integration in Europe in recent years. Indeed, protectionism and nationalism were already on a rise in the pre-COVID-19 period, and the ongoing health crisis has further exacerbated them. In a bid to protect domestic markets and healthcare systems against the adverse effects of the pandemic, many countries have introduced protectionist measures that range from export restrictions to bans on exports of personal protective equipment and other medical and food items. Recently, the EU extended its export authorisation scheme for COVID-19 vaccines until the end of June 2021.

This is not entirely surprising as, in general, periods of crisis like the one we are facing now tend to be conducive to a return of protectionism. While trade protectionism might be justified by arguments such as the need to protect local jobs and industries, ensure national security, and boost domestic consumption, its economic effectiveness and, in particular, its effectiveness in mitigating spill-overs from global crises are often questioned.

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Rising Protectionism and its Implications for the Global Economy

In general, trade protectionism includes all actions that aim at impeding or limiting a given country's exchange with the rest of the world. Common protectionist measures include trade tariffs, subsidies, import and export quotas, Sanitary and Phytosanitary Measures, and other trade restriction measures. Figure 1 displays the number of both protectionist and liberalising measures implemented across the world between 2009-2020. As it can be seen, while both have been on rise, the number of the protectionist measures is higher throughout the entire period.

The number of protectionist policies peaked in 2018 with 3,145 measures introduced across the world. That very year marked the

beginning of the process of imposition of import tariffs by the Trump administration on selected products from several countries, including China, Canada, Mexico, and the EU Member States. The trade war was triggered in June 2018 when the US imposed 25% tariffs on steel imports and 10% tariffs on aluminium imports from Canada, Mexico, and the EU Member States, a move that was followed by a series of retaliatory measures. Indeed, the EU countries decided to respond by levying a 25% tariff on a range of US products worth USD 3.2 billion, which went into effect that same month. During the same period, tensions between the US and China have been intensifying. In July 2018, the US administration initiated further trade measures, including 25% ad valorem duties on 1,300 types of products imported from China, which were followed by the introduction of new measures in September 2018 that targeted USD 200 billion worth of Chinese exports. In response, China levied tariffs on US exports worth USD 60 billion. After this escalation, a downward trend in terms of several new protectionist measures could be observed right until the end of 2019, when the pandemic started to unfold the world.

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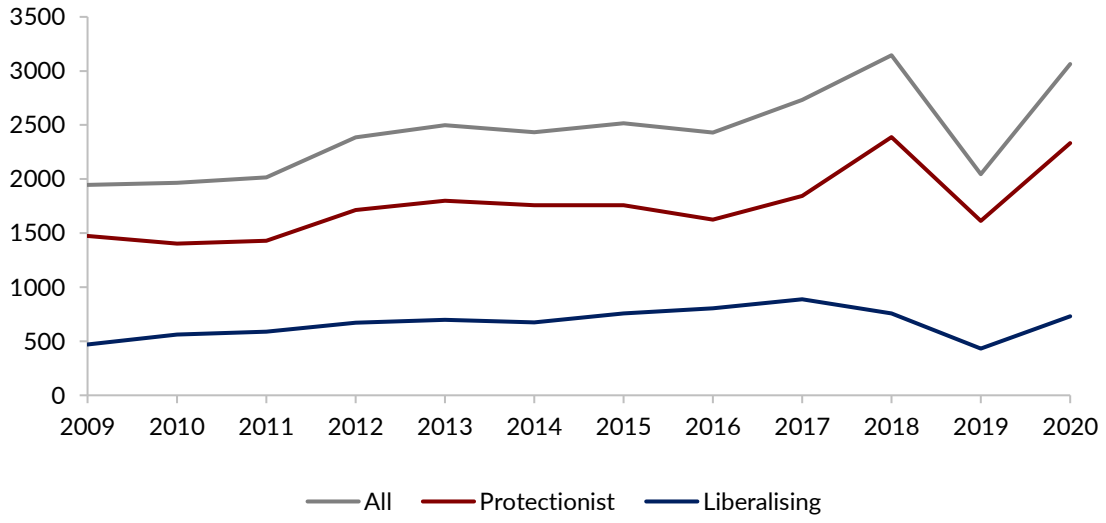
The above-described exchange of protectionist policies has negatively affected global economy. For instance, US tariffs on China cost 300,000 jobs in US as well as an estimated 0.3% drop in the real GDP in 2019 alone. In addition, in 2020 the trade war slowed down pace of growth of US' investment in China by 1.6 %. Moreover, the US tariffs on EU steel and aluminium are expected to reduce the EU basic metals exports by 1.20%.

Figure 1. Number of trade intervention measures in the world, 2009-2020



Source: Global Trade Alert database.

Despite these economic costs, with the outbreak of the COVID-19 pandemic, the world has witnessed a resurgence of new protectionist measures, introduced in a bid to limit its impact on the economy. The main policy so far has been introduction of limitations on and increased control of exports of personal protection equipment, pharmaceutical products, foodstuffs, and other essential goods. In fact, since the beginning of the pandemic, 98 countries have enacted export restrictions or export bans and 12 economies have introduced import restriction measures.

Is Trade Protectionism an Effective Response to the Covid-19 Pandemic?

History has shown that periods of crisis are generally conducive to the return of protectionist policies. This was the case with the 1929 great depression or the financial crisis of 2008. Indeed, since the beginning of the health crisis, the world has witnessed an increase in trade restriction measures, including 179 non-tariff and 4 tariff measures. While the these measures aim to ensure the availability of essential medical products on domestic markets and maintain price stability throughout the crisis, many trade experts believe that what they in fact do is leading to an inefficient distribution of essential goods and increase in their prices.

Right before the global pandemic emerged, some economists warned that the rise of trade protectionism throughout the last years could play out as an additional obstacle to policy coordination in the event of a global slowdown. De Bolle, for instance, argued that when countries react to global problems by adopting individual rather than coordinated actions, they make the problem worse, as was the case with protectionist policies adopted during the 1929 great depression. Besides, during the financial crisis of 2008, trade restricting policies proved to be ineffective and negatively affected the economies. According to e.g., Baldwin and Event, in the long term, protectionism protects nothing and erodes competitiveness, growth, employment, and real income.

In this regard, trade restricting measures introduced following the Covid-19 outbreak could be a significant obstacle to an effective and efficient response to the pandemic. For instance, it has been proven that export controls and high tariffs in numerous countries had hampered trade in medical supplies, and thus reduced resilience to major shocks such as Covid-19. In Latin America and the Caribbean countries, which produced only 4% of the medical products they need, could not satisfy local demand because of export restriction that obstructed the supply of these products. Besides, the variety and quality of medical supply is bound to suffer as well, since protectionism leads to loss of specialisation benefits that international trade generates. For instance, only seven countries account for 70% of ventilators exports globally, hence a sales ban from even one of them could lead to up to 10% short-term increase in prices and expose billions of lives across importing countries.

Moreover, only a small group of countries – including Argentina, Australia, Brazil, Canada, China, the European Union, India, Japan, Korea, the Russian Federation, Switzerland, the United Kingdom, United States – is engaged in Covid-19 vaccine production. Thus, vaccines export restrictions may have many negative consequences for non-producing states, in particular in the developing world. While export bans may positively affect the domestic supply of medical products in the producer countries, by virtue of exposing populations of other states to the virus and thus prolonging the pandemic in some parts of the world, they

negatively affect the global efforts to contain the virus – and so the countries that introduced the bans as well.

Apart from bans on vaccinations, since the beginning of the pandemic 22 countries have announced or imposed export restrictions on food in response to the Covid-19 crisis as well. These export restrictions along with the disruptions of food supply chains caused by health-related restrictions have already led to an increase in global food prices and higher risk of food shortages across poor and remote communities.

> Maintaining trade openness amid the pandemic might, it the short term, seem to be harmful to some of internal interests of individual countries, but at the end of the day we do indeed live in a global village whose collective wellbeing hinges upon welfare of each and single one of its inhabitants.

Fortunately, until now no country has formally completely banned exports of the Covid-19 vaccines. However, on 30 January 2021, the EU authorised the first-ever three-months-long formal export control on vaccines, which was later revised to six months in total. The reluctance of governments to formally implement export restriction measures for vaccines may be explained by the development of cross-border global value chains (GVCs) that are proved to improve countries' resilience to shocks. For example, there is evidence that the EU imports most of the vaccine ingredients from countries to which it exports the majority of its ready vaccines. This creates a disincentive to restrict vaccine exports in fear of retaliation from the partners. Moreover, countries which do not produce final vaccine but provide vaccines components may retaliate export restrictions on vaccines by impeding exports of essential vaccine ingredients, which would disrupt supply chains of raw materials and limit the production. Therefore, on one hand, the presence of GVCs may be a deterrent from introduction of protectionist measures. On the other hand, however, GVCs may amplify the effects of trade restrictions since they do have a proven effect of intensifying the negative impact of protectionist policies.

Looking Ahead

The resurgence of protectionism during the Covid-19 pandemic has translated into limitations and prohibitions of export of medical products and certain food produce. While these measures admittedly helped to ensure availability of essential medical products on domestic markets in the countries that applied them, this has been at the expense of many other states that do not produce these items. It is therefore necessary to rethink a global solution to respond effectively to the pandemic. As the World Health Organization has been advocating from the very beginning of the pandemic, the goal of stopping the pandemic is only achievable "*when everyone, everywhere can access the health technologies they need for COVID-19 detection, prevention, treatment and response. Now more than ever, international cooperation and solidarity are vital to restoring global health security, now and for the future*".

Maintaining trade openness amid the pandemic might, it the short term, seem to be harmful to some of internal interests of individual countries, but at the end of the day we do indeed live in a global village whose collective wellbeing hinges upon welfare of each and single one of its inhabitants.

Highlights

Trade, Innovation, and Productivity

Both business climate[1] and consumer sentiments[2] in Poland have improved slightly this month. As the recent data from Statistics Poland suggests, current consumer sentiments have increased by 0.5 pp m/m (58.9 pp y/y) in April, which is primarily due to a slight improvement in the evaluation of economic situation in Poland and financial situation of the households (by 1.8 pp and 1.5 pp m/m, respectively). A similar positive trend could be noticed in seasonally adjusted business climate indicator for manufacturing sector which reached -7.0 in April – a 0.8 pp improvement compared to last month and 40.2 pp y/y. Wholesale trade that has already reached positive values in the previous months further improved to 3.4 in April (1.5 pp m/m and 42.2 pp y/y increase). At the same time, extension of lockdown restrictions throughout the country seems to have negatively affected business climate in retail trade and accommodation and food service activities with both deteriorating by 1.4 pp m/m and 10.6 pp m/m, respectively. As the survey data confirms, companies in accommodation and food service activities are particularly affected by the lockdown measures as 89% of them report that the negative effects of the pandemic have "*serious*" impact on the business activity in April or are "*a threat to company's stability*" (compared to 36% on average for other sectors). Further, only 12.4% of businesses in accommodation and food service activities think they could survive more than 6 months if the current restrictions are maintained (compared to about 54% on average for companies in other sectors).

Despite a significant rebound since 2020, both indicators remain well below the pre-pandemic levels of 4.8 and 6.8 seasonally adjusted business climate indicator for manufacturing sector and wholesale, respectively, and 7.2 consumer confidence indicator reported in April 2019.

Labour Market and Environment

According to the Diagnosis Plus (D+) survey, the unemployment rate of around 7.6% (8.4% if people not looking for work are considered) was recorded in January 2021 in Poland, compared to, respectively, 6.9% and 7.7% in October 2020. The increase in unemployment in 2021 is related to the further intensification of the Covid-related economic restrictions in the country. The D+ survey showed that those out of work during the pandemic period are much more committed to looking for work compared to those out of work in normal times. Among those without a job, about 75% would like to work (normally about 16%). Moreover, 40% of people without a job are actively looking for one (normally about 9%). The largest increases in the number of unemployed persons occurred in large urban centres – by more than 30% on average.

[1] Measured as a difference in the percentage of entrepreneurs that expect improvement of their entities' economic situation in the next three months and the percentage of entrepreneurs expecting its deterioration.

[2] Measured as a difference in the percentage of consumers that expect improvement in the household's financial condition, changes in general economic situation of the country, and currently made major purchases and the percentage of consumers who expect deterioration in these areas.

Macro and Fiscal

On April 14, the European Central Bank published "Report on the public consultation on a digital euro". The objective of the consultation, which ran from October 12, 2020 until January 12, 2021, was to follow on the previously published by the Eurosystem "Report on a digital euro" and to collect the views of the public opinion in eurozone. The main finding from the consultation is that most citizens consider privacy and security of transactions as the most important feature of a digital euro. With over 8,200 respondents the survey provides useful inputs for the ongoing legislative work on the digital euro. The decision from ECB on the possible launch of a digital euro project is expected in mid-2021 but, regardless of the announcement date, digital currency in the eurozone will shake the foundations of the financial system.

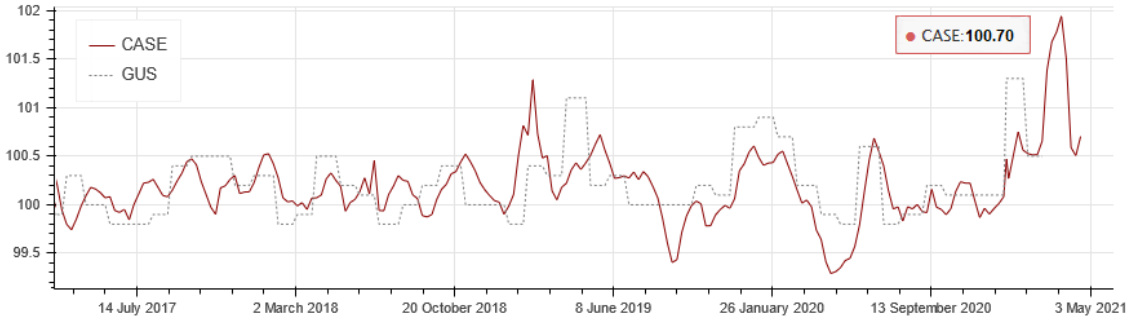
Other CASE Products

The Weekly Online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly. For more information on our weekly online CASE CPI, please visit: http://case-research.eu/en/online-case-cpi.

The April read-out of Online CASE CPI shows that even when increase in prices of electricity is excluded from the monthly index, average prices in Poland are still on the rise. Categories in which highest increases of prices has been recorded are "Transportation" (by 2.6%) and "Food and beverages" (by 1.1%). As usual short-term volatility in "Transportation" sub-index is caused by prices of petrol – compared to previous month they went up by almost 4%. In case of "Food and beverages" group, most notable sub-categories were "raw meat", "vegetables", and "bread and cereal products" which, respectively, went up by 3%, 1.6%, and 1.5% compared to March. While increased prices of food products in spring is rather a seasonal phenomenon, it appears that this year changes are not limited to seasonal products.

Our Weekly Online CASE CPI



Monthly CASE Forecast for the Polish Economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, investments, industrial production, growth of nominal wages, and the CPI.

CASE economic forecasts for the Polish economy
(average % change on previous calendar year, unless otherwise indicated)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2021	4.1	4.5	3.3	7.5	2.3
2022	4.0	4.5	6.5	5.9	2.7

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