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ON THE GLOBAL FINANCIAL CRISIS

8

THE EUROZONE DEBT CRISIS:

A SECOND WAVE OF THE GLOBAL CRISIS?

Statistical Economic and Social Research and Training Centre for Islamic Countries (SESRIC)

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SESRIC Reports on Global Financial Crisis : The financial crisis which started in July 2007, when investors lost their confidence in the mortgage- and asset-based securities in the United States, has deepened during 2008-2009 with a global reach and affecting a wide range of financial and economic activities and institutions in both developed and developing countries around the world. As the crisis deepened, the governments of major developed and developing countries as well as international financial regulators attempted to take some mitigation actions and coordinate efforts to contain the crisis.

Given this state of affairs, the SESRIC has been preparing short reports since May 2009 with the aim of monitoring the developments related to the current global financial crisis at the global, regional and national levels. In particular, these reports focus on the impact of the crisis on the economies of the developing countries, including the OIC Members, and highlight the actions taken by these countries to contain the negative impact of the crisis on their economies.

I. Introduction

The latest issue was prepared when expectations on the recovery of the world economy gain strength. During the last six months, new vulnerabilities have emerged. Japanese earthquake has left some detrimental impact on Japan but the increasing threat of Eurozone crisis became more visible. Due to its increasing threat to global recovery, this issue and the next issue will specifically deal with the Eurozone debt crisis.

In the previous issue, we discussed the role of financial openness in fostering growth and transmitting the negative impacts of the crisis. Moreover, we briefly reviewed the impact of the crisis on world's poorest. In this issue, we focus on the Eurozone crisis and discuss the causes and consequences of the crisis, policy responses and its impact on the OIC countries. The second topic in this issue is the trade policy response to the crisis. Fear of protectionism was a serious concern at the time when crisis erupted and we briefly summarize the developments in protectionist policies in world trade.

II. Eurozone Sovereign Debt Crisis

The global financial crisis coupled with Greece's public debt admission in late 2009 caused dismay throughout global markets as the Eurozone debt levels were unveiled, with the situation becoming tenser in early 2010. The International Monetary Fund (IMF) and the European Union (EU) have acted swiftly to tackle the crisis and restore the market confidence by rescuing some of the Eurozone's fiscally troubled economies, namely, Greece, Ireland and Portugal. In the first half of 2011, however, the on-going Eurozone sovereign debt crisis continued to shake financial markets both within and outside the monetary union. Perhaps some other wrecked countries will need to be rescued at a later date. Although the three aforementioned countries are economically small; the danger of financial contagion and possible spread of the crisis to other Eurozone countries such as Spain and Italy has already made the debt crisis far more serious and complicated. On the other hand, queries have arisen over the effectiveness of multi-lateral institutions like the EU. Some argue that the monetary union ceded national monetary and economic sovereignty but lacked a central fiscal authority. Without such an authority, the monetary union obviously prevents effective action by its constituents, while putting nothing in its place. As the uncertainty about the future of the EU remains, there is strong evidence that recovery from the debt crisis will be more muted than other upturns.

Anatomy of the crisis: causes and consequences

In 2007, the last year before the onset of the financial crisis, the public finances in the EU and Eurozone were in their strongest position for decades, mainly due to the favourable economic conditions. The global financial crisis of 2008-2009 had its lasting impact on the economic activity of the EU countries basically through three transmission channels. These are financial system contagion and connectivity, wealth and confidence effects on demand, and finally, global trade activities.

Although initially the losses from sub-prime lending mostly originated in the United States, the write-downs of financial institutions are estimated to be considerately larger in Europe, notably in the United Kingdom (UK) and the Eurozone, as the surviving financial institutions in these regions have lost significant value. Ernst & Young (2009) estimated that the 51 per cent and 70 per cent of the total market capitalization of largest 10 European banks and insurers, respectively, were swept away by the crisis and the succeeding deterioration in market confidence[1]. At the institutional level, as shown in Figure 1, the decrease in the market capitalization of top ten largest institutions ranged between 30 and 96 per cent.

The stiffened lending standards and declines in households wealth, in the wake of drops in asset prices, savings increased as demand for consumer durables and residential investment plummeted. This was amplified by a vicious inventory cycle, with involuntary stock building prompting further cuts in production. With real GDP contracted in 2009 by more than 4 per cent on average in both the Eurozone and EU, the recession was clearly deeper than any recession since World War II. Except for Germany, economic recovery in the Eurozone remained sluggish, as indicated by Figure 2(a), which shows year-on-year quarterly growth performance in the EU and Eurozone. While both the EU and Eurozone reached positive growth rates again in the first quarter of 2010, the moderate growth figures until the second

[1] Change in market capitalization between 1st Jan 2008 and 13th Mar 2009 for banks and between 1st June 2007 and 20th Nov 2008 for insurers.

quarter of this year has already shown that the pre-crisis performance is still far from reachable. In Greece, the contraction in the output based on the previous year still persists at levels above 7 per cent. In Italy and Spain the output growth over the previous year stands barely at positive range, whereas Italy's economy has already started contracting at 1 per cent.

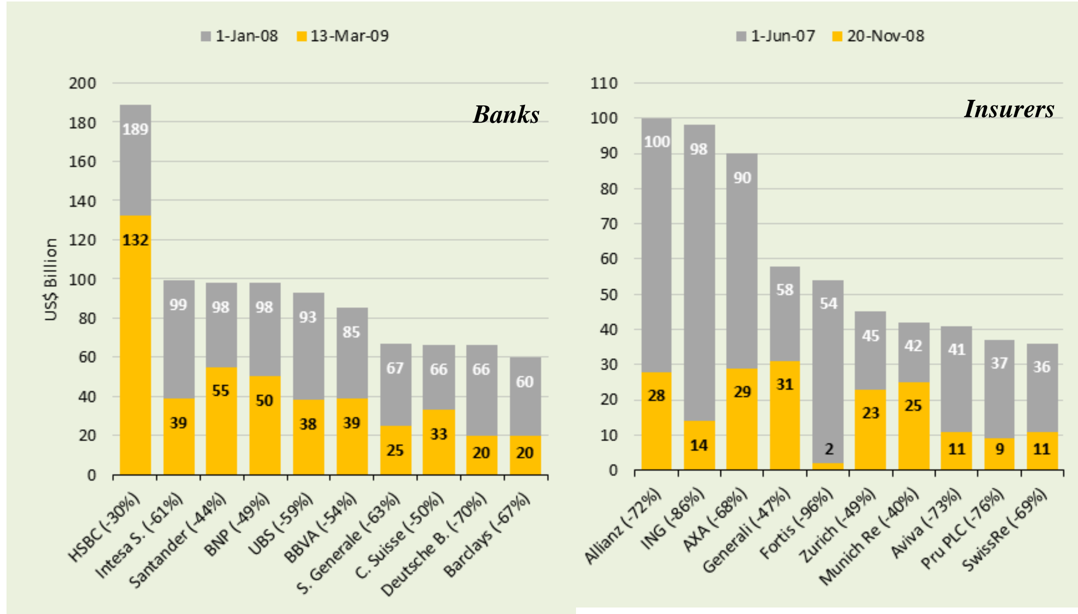


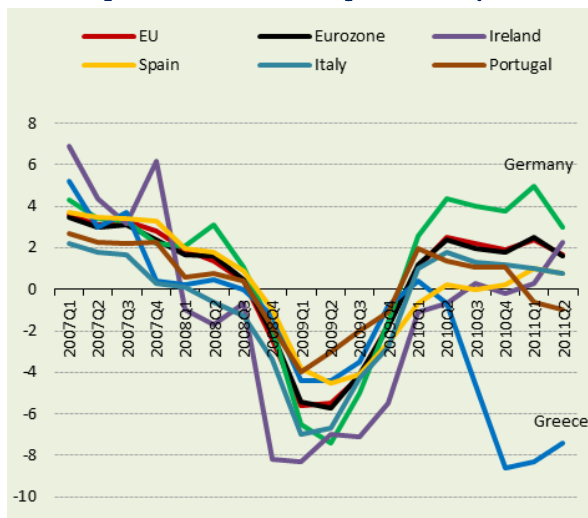
Figure 1: Market capitalization of top 10 financial institutions

Capitalization in billion US$, percentage change in parentheses

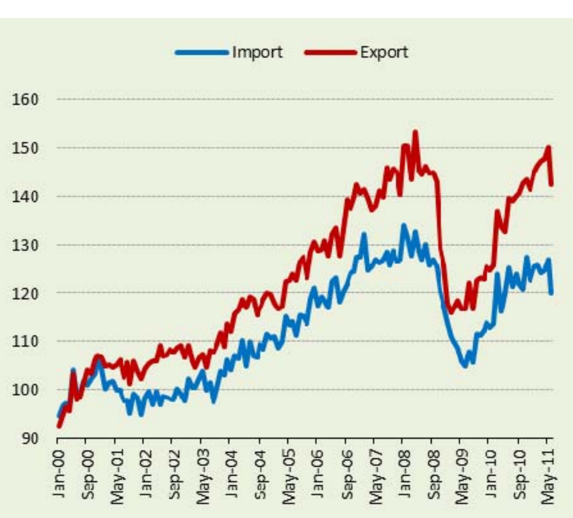
Source: Ernst & Young World Takaful Report 2009.

The volume of Eurozone trade also collapsed in the final quarter of 2009 as business investment and demand for consumer durables – both strongly credit dependent and trade intensive – had plummeted (Figure 2(b)). The trade squeeze was deeper than might be expected on the basis of historical relationships, possible due to the composition of the demand shock (mostly affecting trade intensive capital goods and consumer durables), the unavailability of trade finance and a faster impact of activity on trade as a result of globalisation and the prevalence of global supply chains.

Figure 2 (a) - GDP Change (Year-on-year)



(b) - Eurozone Trade Volume (2000=100)

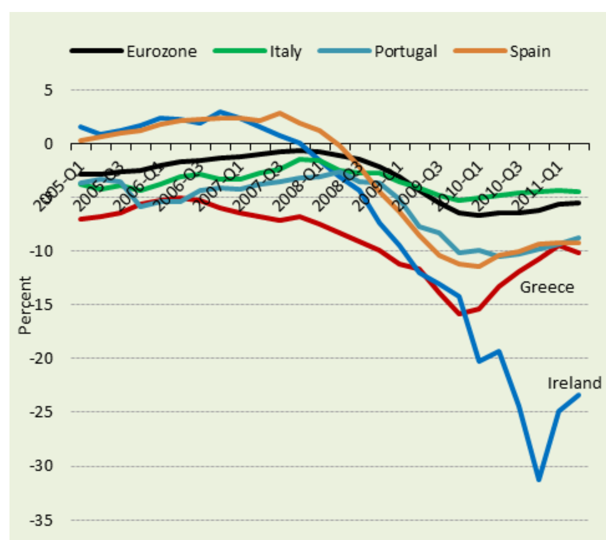


Source: Eurostat **Year-on-year change*

Source: ECB

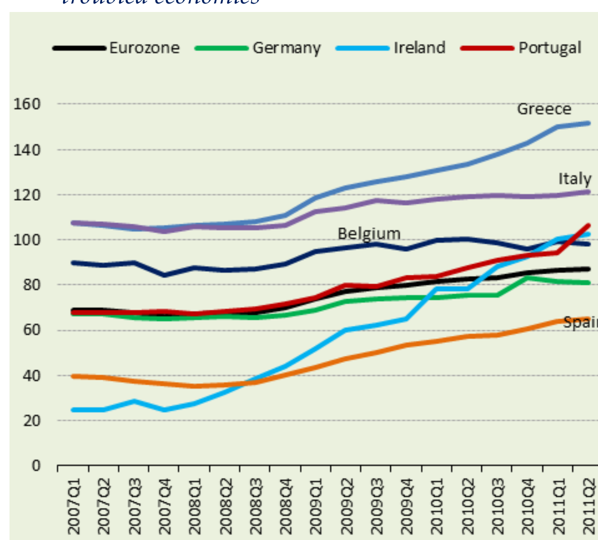
As the governments acted swiftly to support both aggregate demand and the financial sector, the immediate impact of the above mentioned factors, coupled with the automatic stabilizers[2], on the Eurozone fiscal stance has been a sharp deterioration in the public finances and general government balances, which increased from only 0.7 percentage points of GDP at the end of 2007 to a larger deficit of 6.2 per cent of GDP at the end of 2010 (Figure 3(a)). During the first half of 2011, the Eurozone deficit has improved only slightly and decreased in the second quarter to 5.5 per cent. Despite exhibiting significant improvements in the same period, Eurozone countries such as Ireland, Greece, Spain and Portugal continue to run huge budget deficits. Particularly in Greece, although the strict austerity measures have helped decrease the deficit to around 10 per cent, its current level is still higher than the pre-crisis levels. The government in Ireland still suffers an unbearably high budgetary gap, which moderated to 23.4 per cent in the second quarter of 2011 after hitting 31.3 per cent at the end of 2010. All in all, although the size of the fiscal stimulus in the Eurozone was comparatively smaller than that of the U.S., its impact on the government budgets was apparently more persistent.

Figure 3(a) -** General government deficit/surplus (% of GDP) – Fiscally troubled **economies



Source: Eurostat

***(b) -** Government debt* (% of GDP) – Fiscally troubled economies*



Source: Eurostat *Government consolidated gross debt.

As regards the debt levels, the gross general government debt in the Eurozone reached from 69 per cent of the total GDP in the first quarter of 2007 to 85.5 per cent in the final quarter of 2010 and continued to increase further in the first half of 2011 (Figure 3(b)). At the end of the second quarter of 2011, the average government debt of in the Eurozone reached to 87.3 per cent of the total Eurozone GDP. In Greece, the government debt as percentage of GDP has recently increased to 152 per cent. The sharpest rise in the government debt level has taken place in Ireland where it reached from only 24.8 per cent of the GDP in the first quarter of 2007 to 102.4 per cent of the GDP by the second quarter of 2011. Italy, which has so far

[2] Indeed, the European Commission report "Public finances in EMU - 2010" argues that the European Economic Recovery Plan, the response of the European governments to the financial crisis, allowed the automatic stabilizers to operate freely and introduced a sizeable discretionary fiscal stimulus.

largely avoided the debt crisis that has engulfed Greece and Ireland despite having the region's weakest growth record and a huge public debt, is becoming embroiled in the region's spreading debt crisis, with possibly unmanageable consequences in the near future. The percentage of government debt as of GDP in Italy has recently surpassed 120 per cent level and is likely to sustain its upward trend.

Especially in countries where government budget deficits and sovereign debts have increased sharply, a crisis of confidence has emerged with the widening of secondary market government bond yields. A yield of 6 per cent or more indicates that financial markets have serious doubts about credit-worthiness of the respective country, making it hard for the government to access long-term finance. The evidence has so far shown that Greece, Portugal and Ireland all found that 7 per cent is the cut-off point, forcing each country to seek a bailout. On the other hand, although the yield on long-term Italy and Spain bonds has so far remained below the 6 per cent threshold, they are currently inching upwards and likely to exceed that level (Figure 4).

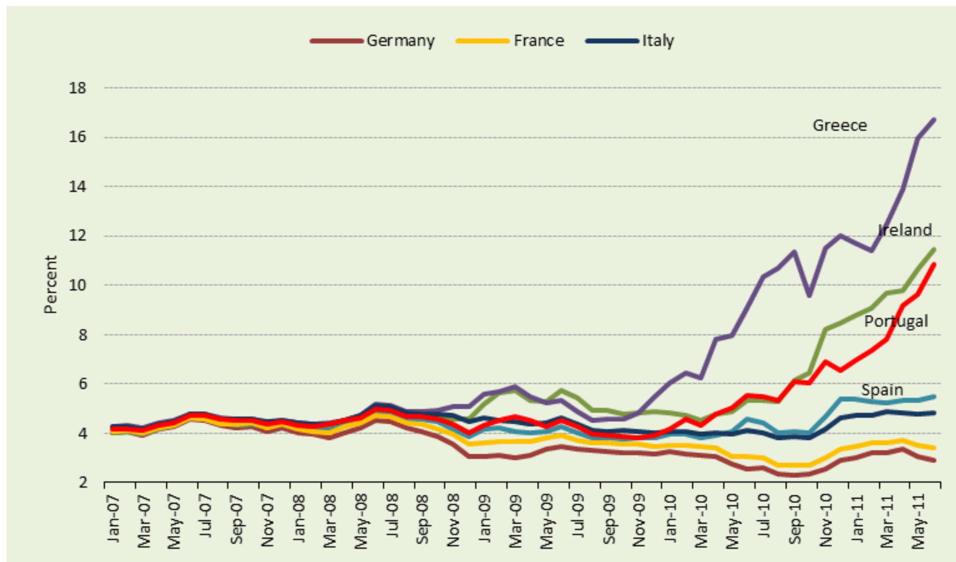


Figure 4: Secondary market yields of government bonds with maturities of close to ten years

Source: ECB

As the sovereign debt crisis continue to take its toll on the real economy, many European countries have seen their unemployment numbers surge in most cases as a result of severe austerity measures including cuts in government spending and increase in layoffs. The unemployment rate has been rising significantly in the three countries that have needed bail-outs, namely, Greece, Ireland and Portugal, where the unemployment hit 17.1 per cent, 14.4 per cent and 12.5 per cent, respectively, as of June 2011 (Figure 5). Since the second quarter of 2008, Spain has been facing the highest unemployment rate, which was recorded at 21.3 per cent as of the second quarter of 2011. The country is still struggling to shift away from its heavy dependence on the construction sector, which has supported growth for years until the onset of global financial crisis and kept national debt at acceptable levels. Furthermore, the recent unemployment figures in the EU suggest that particularly the Eurozone and the countries with currencies pegged to euro suffer higher unemployment rates as compared to the countries with floating national currencies.

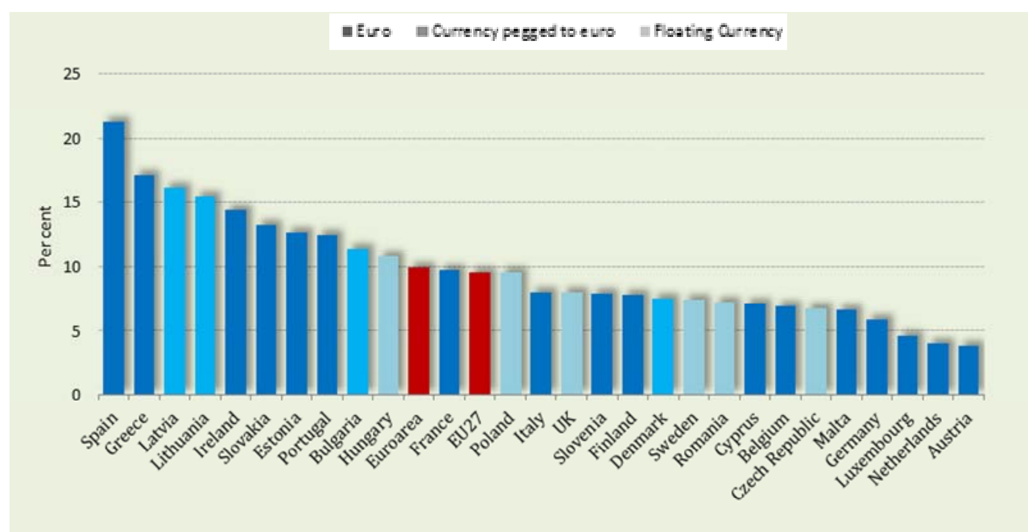


Figure 5: Unemployment as of June 2011

Seasonally adjusted monthly average

Source: Eurostat

Policy responses

The Eurozone sovereign debt crisis is unique primarily due to the diversity of countries, policies, culture, and financial systems involved. Therefore, a harmonized approach has not been easy to prescribe like in the U.S. On the other hand, while the crisis in the U.S. was triggered by too-big-to-fail financial institutions, the Eurozone crisis was characterized by the emergence of too-big-to-fail countries.

As the financial crisis intensified in early 2010, countries within Europe disengaged themselves from each other's problems and focused on their own economic difficulties. However, as the crisis worsened, it was clear that the effects of the economic meltdown would create a contagion and spill over into the rest of Europe. Therefore, the EU reached a consensus on the necessity of a swift and collaborative response to the sovereign debt crisis in the Eurozone as well as its potential spill-overs to the member countries outside the monetary union. In May 2010, the EU finance ministers agreed to enact a €110 billion rescue package to avoid an otherwise likely Greece default and the spread of the crisis into other peripheral economies. The bailout brought about strict austerity measures and violent communal criticism in Greece. On the other hand, while the establishment of European Financial Stability Facility (EFSF) in June 2010 to safeguard against a wider crisis returned a prompt positive feedback from the financial markets, the impact on the real economic indicators has remained to large extent limited. Particularly the issue of increasing its operational efficiency is expected to be among the key agenda items during the forthcoming EU Summit in October 2011. Originally, the EFSF was envisioned to sell bonds and use the money it raises to make loans up to a maximum of €440 billion (€750 billion including those backed by IMF and the European Commission (EC) through European Financial Stabilization Mechanism (EFSM)) to distressed Eurozone countries. It is also envisioned that both the EFSF and EFSM will convert into a single permanent rescue funding programme in 2013, the European Stability Mechanism (ESM), which clearly

indicates that the response to the Eurozone sovereign debt crisis will be targeting long-term stability. The ESM will be equipped with stronger sanctions and serve as a financial firewall in the sense that it will fight financial contagion among the EU member states in the case of default by a single country.

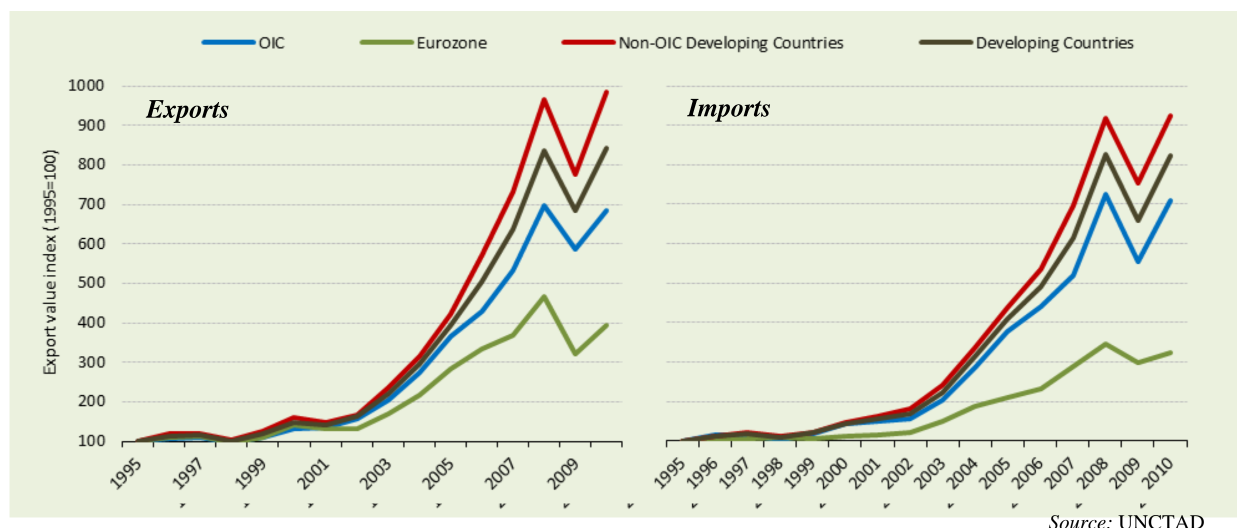
On the monetary side, the European Central Bank (ECB) has also taken a series of measures aimed at reducing volatility in the financial markets and at improving liquidity, which has so far included vast open market transactions, allotments of Long Term Refinancing Operations (LTRO's), and reactivation of dollar swap lines in collaboration with the Federal Reserve (Fed).

Yet, in many aspects, the crisis in the Eurozone is characterized by the breach of EU treaties, most prominently through the transgression of the no bail-out clause, purchase of distressed country bonds by the ECB, insufficient taxpayer protection, as well as the violation of the convergence criteria, which prescribes that the annual government budget deficit should not exceed 3 per cent of the GDP and that the gross government debt to GDP should not exceed 60% of the GDP. For Eurozone members there is the Stability and Growth Pact (SGP) which contains the same requirements for budget deficit and debt limitation but with a much stricter regime. After several calls during 2010 from the EU authorities for deficit reductions in the heavily indebted countries, notably Spain and Portugal, in March 2011, the EU agreed on the new Euro Plus Pact (EPP), a more stringent successor to the SGP, which is designed to make the rules more enforceable by adopting an automatic procedure for imposition of penalties in case of breaches of either the deficit or the debt rules prescribed in the EU Treaties.

Impact on OIC Countries

The level of exposure of the public and private institutions in the OIC member states to the Eurozone sovereign debt has been far from creating serious financial contagion effects. Indeed, the OIC member countries have so far remained to a large extent insulated from the Eurozone debt crisis shocks. This report identifies two conduits through which side-effects of the Eurozone sovereign debt crisis are transmitted to the member countries, namely, merchandise trade and development assistance inflow.

Figure 6 - OIC Merchandise Trade



Source: UNCTAD

Figure 6 depicts the growth trend in OIC merchandise trade to various country groups, including the Eurozone. It is clear from the Figure that while the total value of exports and imports to both OIC countries and other developing countries almost fully recovered in 2010, the same is not valid in the case of Eurozone countries mainly as a result of the persisting impact of the global financial crisis and its evolvement into the sovereign debt crisis. The total value of both OIC exports and imports to Eurozone economies exhibited only a halfway recovery after their sharp decline in 2009.

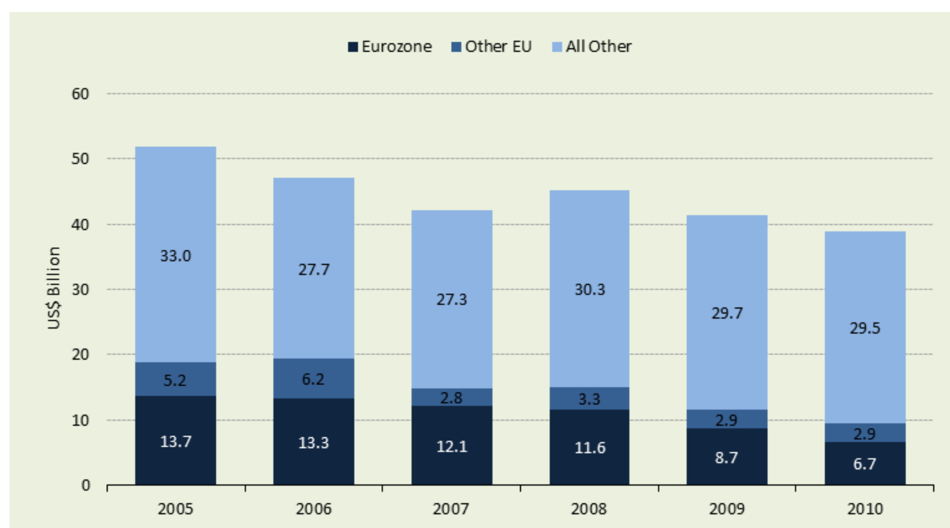


Figure 7

ODA flows to OIC countries

Source: OECD

Another area where the impact of the Eurozone sovereign debt crisis has been felt, particularly by the less-developed OIC member countries, was the development aid inflows. The declining trend in the aid flows from all donor countries over the past five years has been driven predominantly by the substantial decline in aid flows from EU donor countries and particularly from the Eurozone countries. While the total aid flows from donors excluding the Eurozone countries has remained around same levels since the onset of the global financial crisis, that from the Eurozone countries a a group exhibited a sharp decline from US$ 11.6 billion in 2008 to US$ 6.7 billion in 2010, registering a total decrease of more than half since 2005 (Figure 7).

Final Remarks

Going forward, long term stability in the Eurozone and the rest of the Europe is closely tied to the creation of an effective fiscal union – in addition to the existing monetary union – with strict and enforceable fiscal rules and automatic penalties embedded in the EU treaties.

Furthermore, regardless of the corrective measures taken to solve the current predicament, current account imbalances remain as an important challenge. The continuation of unregulated cross border capital flows and non-availability of conventional monetary measures that would help raise level of savings in the Eurozone countries with current account deficits exacerbates the problem further by leaving a structural change in consumption and saving habits in the Eurozone as the only option.

As the Eurozone sovereign debt crisis continue to expand beyond Greece, some economists still advocate, albeit more forcefully, the gradual break-up of the monetary union. In this scenario, the debtor nations would unilaterally leave the Eurozone, default on their debts, regain their fiscal sovereignty, and re-adopt

national currencies. However, unless properly managed, a nation's hard exit from the Eurozone would bear catastrophic results.[3] Alternative scenarios include most notably the withdrawal of Germany from the Eurozone in order to save the currency through its depreciation, and creation of another currency bloc with current account surplus countries which would turn them into the world's largest creditor bloc.

III. Trade Policy Responses

World trade experienced the sharpest collapse in recorded history and deepest since the Great Depression. Global trade fell for at least three quarters during three of the worldwide recessions that have occurred since 1965 – the oil-shock recession of 1974-75 and the recessions of 1982-83 and 2001-02. But the recent collapse was much severe and sudden; for two quarters in a row, world trade flows have been 15% below their previous year levels. It was also synchronised. All 104 nations on which the WTO reports data experienced a drop in both imports and exports during the second half of 2008 and the first half of 2009. World trade in almost every product category was positive in 2008Q2, almost all were negative in 2008Q4 and all were negative in 2009Q1 (Baldwin, 2009).

Economies today are more closely interconnected than at any time in the past and the supply chains for many goods and services stretch across a number of countries. The world trading system seems to have weathered the worst of the current crisis, but serious challenges are still ahead. In order to strengthen the recovery, adjustment to the new macroeconomic reality will be required but that is likely to create economic and political tensions both within and among nations, with direct consequences of protectionist measures.

The ultimate cause of the current crisis was the global macroeconomic imbalances that accumulated over the course of more than a decade. The solution requires both deficit and surplus countries to adjust, but these efforts will not be easy. Once accustomed to easy credit and booming consumption, economic agents in the deficit countries face now stagnation and austerity. Adjustment to new realities requires them to look for more eagerly at export markets. Easy exports and little trade competition will be more stressful for producers in surplus countries as markets that had previously absorbed all that they could produce are now much more constrained. In this context, there will be substantial domestic and international tensions over trade policy. In deficit countries, there will be protectionist pressures attempting to reduce imports, and pressures to open foreign markets to increase exports. In surplus countries, there will be pressures from previously economically and politically dominant exporters to maintain government support for them in the face of external hostility. In all instances, the potential costs of adjusting to new economic conditions will create demands for government support, a factor fuelling protectionism fears (Frieden 2009).

[3] Aware of this fact, an eminent UK businessman is currently sponsoring a £250,000 prize (Wolfson Economics Prize) for the best plan for winding up the euro in an orderly way, which will be the second-largest cash prize for an academic economics after the Nobel Prize.

But, why do we care much about protectionism? If protectionism intensifies, the consequences over the longer term will be grim: exporters will invest less, and real incomes will grow more slowly. The efforts at policy reform in poor countries will be more difficult than in a more prosperous international economy (Kruger, 2009). The experience of great depression has already showed that the period of crisis will extend with serious macroeconomic consequences when restrictive trade policies are implemented.

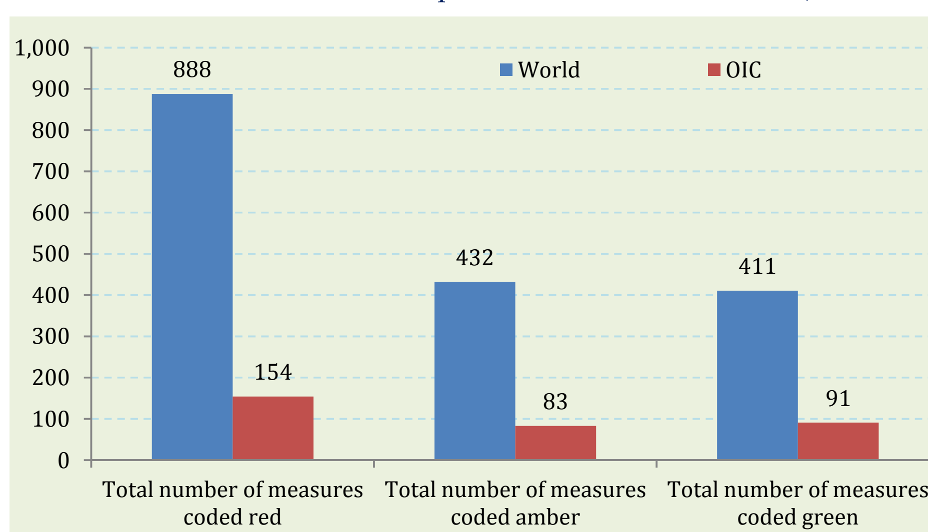
Below, the protectionist policies that are decided or implemented during the post-crisis period are provided. The data are taken from Global Trade Alert website. Global Trade Alert (GTA) is an independent monitoring initiative to investigate state measures that might affect foreign commercial interests. GTA consequently collects and report data on state measures that are announced and implemented since November 2008, the first crisis-related G20 meeting in Washington, DC.

Trade Policy Measures since November 2008

The temptation to adopt protectionist measures is strong in many countries. Protection is much harder to remove than it is to impose. Protectionism definitely serves interest of some, but harms even more. With protectionist responses, incomes would fall in the affected countries whose exports were confronting increased protection, but in addition, their retaliation would reduce export demand in the systemically important country or countries. This process would lower income and employment in the world economy, as it did in the l930s.

Since November 2008, 1734 measures have been identified by GTA team worldwide. OIC member countries have taken part in 328 of these measures. These measures are classified under three categories. Discriminatory state measures are taken to be those implemented measures classified as red or amber in the GTA database. Measures neutral or favourable to foreign commercial interests are those recorded as implemented and green in that database (see Table 1 for detailed criteria for the colour codes). Figure 8 presents the totals for all types of measure since Nov. 2008 until end of first half of 2011 for the world and OIC countries.

Figure 8: Total Number of State Measures Reported in the GTA Database (until 30.06.2011)



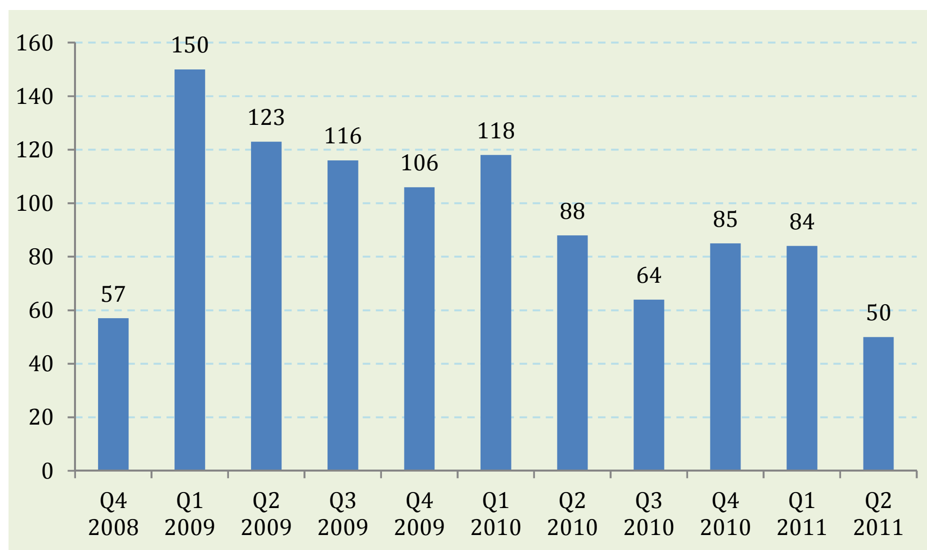
Source: The GTA Database.

On the basis of the information provided by GTA, the governments of the world have together implemented 888 beggar-thy-neighbour policy measures (red). Another 432 implemented measures that are likely to have harmed some foreign commercial interests add up the total number to 1320 (red and amber). In OIC countries, 154 measures are classified as 'red' and 83 as 'amber', giving rise to a total of 237 state measures that involve discrimination against foreign commercial interests. In this regard, the share of OIC countries in total protectionist measures is almost 18 per cent. On the other hand, the number of benign or liberalizing measures reported by the world and OIC countries is 411 and 91, respectively. The share of OIC countries in measures listed under 'green' category is over 22 per cent. While the ratio of 'green' measures to the sum of 'red' and 'amber' is 29.6 per cent in the rest of the world, it is 38.4 per cent in the OIC countries. Overall, OIC countries were less protectionist in trade policies compared to other parts of the world.

Table 1: What do the GTA colour codes mean?

Colour code	Criteria
Red	The measure has been implemented and almost certainly discriminates against foreign commercial interests.
Amber	(i) The measure has been implemented and may involve discrimination against foreign commercial interests; or
	(ii) The measure has been announced or is under consideration and would (if implemented) almost certainly involve discrimination against foreign commercial interests
Green	(i) The measure has been announced and involves liberalization on a non-discriminatory (i.e., most favoured nation) basis; or
	(ii) The measure has been implemented and is found (upon investigation) not to be discriminatory: or
	(iii) The measure has been implemented, involves no further discrimination, and improves the transparency of a country's trade-related policies.

Figure 9: Number of Harmful Measures (by Quarter)



Source: The 9th GTA Report, July 2011.

In order to observe the protectionist trend since end of 2008, the total harmful measures in the world for each quarter are depicted in Figure 9. Overall the number of harmful measures has a seemingly declining trend. However, the reported levels of protectionism in Q4 2010 and Q1 2011 have already reached the levels seen Q2 2010. With future revisions, these levels are likely reach to the levels seen during 2009, as the GTA team continuously update their database. It is clear that the fear of protectionism will be there until fear of crisis fades away, for which there are no strong prospects in the near future as discussed in the previous section.

Protectionist measures can have different forms and affect various products, sectors and trading partners. Table 2 reports the countries that have the most discriminatory measures (col. 2), with most tariff lines affected (col. 3), with most sectors affected (col. 4) and with most trading partners affected (col. 5). Taking the 27 EU member countries together, EU27 is the worst offender with 227 discriminatory measures. In other metrics, EU27 remain in the top-5 offenders. Argentina, China, Germany, India, Indonesia and Russia are in the top-10 worst offending nations on three of the four metrics. Viet Nam is the top country in discriminating against foreign commercial interests in the most product categories (927 tariff lines). Algeria leads the list for measures that harm foreign commercial interests in the largest number of economic sectors (62 sectors); the EU27 for harming the most trading partners (180 countries). Among the OIC countries, Kazakhstan, Nigeria, Algeria and Indonesia are in the top-10 list of the countries that harm foreign commercial interests in the largest number of tariff lines and economic sectors. By harming 151 trading partners, Indonesia is the only OIC member country in the list of the top-10 worst offending nations that harm trading partners.

Table 2: Which countries have imposed the most harm?

Rank	Ranked by number of (almost certainly) discriminatory measures imposed	Ranked by the number of tariff lines (product categories) affected by (almost certainly) discriminatory measures	Ranked by the number of sectors affected by (almost certainly) discriminatory measures	Ranked by the number of trading partners affected by(almost certainly) discriminatory measures
1	EU27 (227)	Vietnam (927)	Algeria (62)	EU27 (180)
2	Russian Federation (105)	Venezuela (785)	EU27 (58)	Argentina (175)
3	Argentina (88)	Kazakhstan (729)	Nigeria (45)	China (172)
4	UK (53)	Nigeria (599)	Kazakhstan (43)	Germany (161)
5	Germany (52)	EU27 (549)	Germany (42)	UK (154)
6	India (50)	Algeria (476)	USA (42)	Belgium (153)
7	Brazil (44)	Russian Federation (438)	China (41)	Finland (153)
8	France (44)	Argentina (413)	Indonesia (40)	India (153)
9	China (42)	Indonesia (387)	Russian Federation (39)	Indonesia (151)
10	Italy (42)	India (369)	Venezuela (38)	France (149)

Source: The 9th GTA Report, July 2011.

There are also various types of measures used in this period. Table 3 shows the ten most used state measures to discriminate against foreign commercial interests (col. 1 and 2) as well as the number of jurisdictions imposed or harmed by these measures (col. 3 and 4). Since November 2008, bailouts and

state aids are the most frequent source of discrimination imposed as part of rescue packages designed mostly for financial sector. This measure is followed by the implementation of discriminatory trade defence instruments (205) and tariff measure (126). With respect to the number of measures implemented in all categories, tariff measure with 384 implemented measures take the lead (col. 2).

Tariff measure is again the discriminatory measure imposed by the largest number of jurisdiction, followed by trade defence measure and export taxes or restriction (col. 3). Export taxes or restrictions, bailouts, export subsidies, and tariff increases imposed since November 2008 are each conservatively estimated to have harmed over 150 countries' commercial interests (col. 4). Although the number of export subsidies is only 27, the number of jurisdictions harmed by this measure is as high as 175, third harmful measure after export taxes or restriction and bailout/state aid measures.

Table 3: Ten most used state measures to discriminate against foreign commercial interests since Nov. 2008

State measure	Number of discriminatory (red) measures imposed	Number of measures implemented (red, amber, or green)	Number of jurisdictions that imposed these discriminatory measures	Number of jurisdictions harmed by these discriminatory measures
Bailout / state aid measure	264	287	49	186
Trade defence measure (AD, CVD, safeguard)	205	252	58	74
Tariff measure	126	384	63	157
Export taxes or restriction	65	108	52	188
Non-tariff barrier (not otherwise specified)	65	86	22	134
Migration measure	39	61	21	96
Public procurement	35	45	19	135
Investment measure	28	79	21	73
Export subsidy	27	44	41	175
Import ban	24	35	16	92

Source: The 9th GTA Report, July 2011.

With regards to the sectors that are most affected by discriminatory measures (Table 4), financial sector takes the lead. Being harmed by the crisis most dramatically, financial sector needed the most protection. However, the financial sector no longer stands out as an unusual recipient of state favours. Firms in the basic agricultural products, basic chemicals, basic metals, and transport equipment have seen 85 or more discriminatory measures imposed since November 2008. Most of the pending measures are also identified in chemical and metal industries.

Table 4: Top 20 sectors most affected by discriminatory measures			
Affected Sector	Number of discriminatory measures (red) affecting commercial interests	Number of implemented measures	Number of pending measures
Financial intermediation services and auxiliary services therefor	95	102	5
Products of agriculture, horticulture and market gardening	91	157	15
Basic chemicals	86	145	75
Basic metals	85	146	45
Transport equipment	85	166	25
Special purpose machinery	76	149	12
Meat, fish, fruit, vegetables, oils and fats	73	117	17
Grain mill products, starches and starch products; other food products	66	117	16
Fabricated metal products, except machinery and equipment	63	105	40
General purpose machinery	55	114	20
Live animals and animal products	54	83	9
Yarn and thread; woven and tufted textile fabrics	53	93	13
Rubber and plastics products	53	89	21
Dairy products	50	73	12
Source: The 9th GTA Report, July 2011.			

Currency Wars

Many of the protectionist measures adopted during the Great Depression of the 1930s were responding to developments in currency markets (Eichengreen and Irwin 2009). National producers who found themselves under substantial pressure due to "competitive devaluations" in countries demanded countervailing support in the form of protectionist trade barriers. This type of devaluations was another widespread measure aimed at protecting domestic economies. China and United States are at the heart of debate, with China being accused of manipulating its currency at artificially low levels. This issue naturally deserves a special treatment as it has important implications in many fronts. Therefore, instead of brief observations on the so-called "currency wars", a more comprehensive treatment of the subject matter is left to the coming issues of the report.

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