Time for A Global Mercantilist Index

By Michelle Wein

The United States must move quickly.

For even the casual observer of globalization, not to mention trade experts, it is clear that we are a long way from the "Washington Consensus" ideal of free and open trade practiced by the majority of nations. But just how far away are we? And which nations are farthest away? To date, there is no way to know, other than to rely on anecdotal evidence that points to some likely suspects like China. Global trade and development organizations, such as the World Bank and the World Trade Organization, do little to shine light on this question, other than to put together broad lists that count the number of technical barriers to trade (according to the WTO these reached a record high of 1,560 in 2012).

Within the U.S. government, the United States Trade Representative publishes two reports on aspects of the problem—the Special 301 Report, which ranks nations on the adequacy of IP protection, and the National Trade Estimates Report on Foreign Trade Barriers, which details all foreign trade barriers the United States faces by country. However, neither report provides a full picture of the mercantilist practices of nations, nor ranks nations by which are the worst mercantilist offenders. To remedy this, it's time for USTR

Michelle Wein is a Trade Policy Analyst with the Information Technology and Innovation Foundation.

THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
220 I Street, N.E., Suite 200
Washington, D.C. 20002
Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com

to create a "Mercantilist 301 Report"; that is, a ranking of nations on a broad range of mercantilist practices beyond just intellectual property protection.

Toward that end, the Information Technology and Innovation Foundation developed the Global Mercantilist Index, which ranks fifty-five countries on sixteen different mercantilist factors in order to understand their impact on U.S. businesses and workers. These indicators are grouped into eight categories: forced localization, intellectual property protection, market access, benefits for domestically owned enterprises, currency manipulation, preferences for domestic production, tariffs and import discrimination, and a rating based on NTE factors.

While a simple ranking of these variables is useful, it's perhaps more useful to assess these nations on the extent that their practices negatively impact the U.S. economy in particular. As a result, the ITIF developed an economy-weighted score based on a country's relative trade and investment importance to the United States. In addition, because "potato chips" are not as important as computer chips—in other words, advanced technology industries play a more important role in the U.S. economy than commodity-based, lower-value-added industries—the ITIF developed an advanced technology score based on how egregiously the mercantilist policies affect U.S. high-technology sectors. Combining these two scores, the ITIF divided nations into four quartiles: "High," "Moderate-High," "Moderate-Low" and "Low."

Global Mercantilist Index

Country	Final Rank	Final Score
China	High	57.5
India	High	44.7
Argentina	Mod-High	39.6
Brazil	Mod-High	38.8
Russia	Mod-High	31.2
Malaysia	Mod-Low	29.7
Thailand	Mod-Low	29.5
Turkey	Mod-Low	29.4
Indonesia	Mod-Low	28.6
Philippines	Mod-Low	26.9

Perhaps not surprisingly, China ranks as the worst mercantilist nation. Indeed, China's use of mercantilism is becoming more sophisticated, widespread, and harmful to U.S. companies and workers. For example,

The United States invests just 0.007 percent as much on defending its economy globally as it does on defending the nation militarily.

Chinese requirements for technology transfer as a condition of market access are very difficult to prosecute because they are not "on the books," but instead occur by informal "administrative guidance." The same appears to apply to China's discriminatory, anti-monopoly laws and dictates to state-owned enterprises to buy domestic. China continues to maintain regulatory barriers that are not supported by science or international standards. For example, China's regulatory approval of innovative U.S. seed and other farm products is slow and unpredictable, resulting in intentional delays for the deployment of state-of-the-art technologies and serving as a barrier to U.S. exports.

While India's score is not as high as China's, it is the only other country in the "High" category. Reasons for its placement include its granting of a compulsory license to Natco, an Indian pharmaceutical company, enabling it to produce a patented cancer drug (Nexavar) made by Bayer in March of 2012; imposing significant local content requirements on foreign enterprises that wish to sell solar panels and information and communications technology equipment in the country; limiting, and in some cases, banning foreign retailers from selling directly to Indian consumers using e-commerce; and establishing a defense offset policy to include civil aviation.

Argentina, Brazil, and Russia are the three nations in the "Moderate-High" category. Examples of these nations' practices include Russia's 2010 "Localization Initiative" that established parameters for all telecommunications equipment sold in Russia to be manufactured in Russia; Brazil introducing more local content requirements than any other country since 2008; and Argentina's

China Scorecard

China ranks as the worst mercantilist nation. Indeed, China's use of mercantilism is becoming more sophisticated, widespread, and harmful to U.S. companies and workers. For example, Chinese requirements for technology transfer as a condition of market access are very difficult to prosecute because they are not "on the books," but instead occur by informal "administrative guidance." The same appears to apply to China's discriminatory, anti-monopoly laws and dictates to state owned enterprises to buy domestic. China continues to maintain regulatory barriers that are not supported by science or international standards. For example, China's regulatory approval of innovative U.S. seed and other farm products is slow and unpredictable, resulting in intentional delays for the deployment of state-of-the-art technologies and serving as a barrier to U.S. exports.

—M. Wein

habit of intervening in currency markets (thus making its exports more, and its imports less, expensive). And for nations in the "Moderate-Low" category; including Malaysia, Thailand, Turkey, Indonesia, the Philippines, Vietnam, Mexico, South Korea, Canada, South Africa, Japan, Australia, Peru, and Chile, many are expanding their embrace of mercantilist practices and need to be monitored more closely.

While this report is just a start, it points to the need for the USTR to produce such an index on an annual basis that would include more nations (and ideally the United States) as well as more and better data sets. Doing so would give the U.S. government additional tools to "name and shame" nations that are international trade scofflaws. In addition, it would help U.S. officials better target our scarce trade enforcement resources on the nations that are doing the most damage to the U.S. economy.

This, however, points to the other real problem: overcoming scarce resources for trade enforcement. The United States invests just 0.007 percent as much on defending its economy globally as it does on defending the nation militarily. The U.S. government can bring more balance to this by significantly increasing resources for trade enforcement. This includes Congress requiring that USTR create a chief trade enforcement officer and a trade enforcement working group to institutionalize within the agency the function of trade enforcement and significantly increase budget resources for the activity. Moreover, this includes increased funding for additional U.S. trade agencies, including the International Trade Administration, the International Trade Enforcement Center, U.S. Immigration and Customs Enforcement, and the functions in the State Department focused on protecting U.S. economic interests.

But we need more than funding for enforcement. It's time for the United States to conduct a major review of the trade policy tools available and to formulate an understanding of the new tools that are needed going forward. We see this need particularly when trying to address systemic challenges from a nation such as China, which is extremely sophisticated in ensuring that its mercantilist policies and practices escape the scrutiny of the WTO. Indeed, this monopsonistic power of China—an ability to institute mercantilist practices while coercing multinationals to not object—points to another key change that is needed. The United States cannot roll back spreading mercantilism and save the soul of the global trading system without building better alliances with like-minded partners, particularly the European Union and Commonwealth nations. We need to do this through trade agreements such as the TransAtlantic Trade and Investment Partnership, but also through more joint enforcement actions and combined diplomatic pressure. Toward that end, the Obama administration needs to lead this effort while Europe needs to step up to the plate and stops letting America always be the "bad cop," while it reaps the short-term benefits of being the "good cop."

Furthermore, over the longer term, the United States and its allies should pursue a restructuring of the WTO. The WTO is largely a market opening organization, not a trade enforcement agency. All too often it blames the victims of mercantilism, seeing trade enforcement as protectionism. Indeed, when he headed the WTO, Director-General Pascal Lamy criticized enforcement rather than the mercantilist policies that required the enforcement: "Given that current account deficits and surpluses originate in differences in savings propensities and investment opportunities across countries, trade restrictions will not permanently reduce deficits since they do not alter the underlying conditions driving the imbalances."

Countries that pursue mercantilist, trade-distorting approaches instead of implementing productivity and innovation-enhancing policies designed to promote economic growth are holding the global economy back from achieving its full potential. An annual Global Mercantilist Index can be an important tool in combating these mercantilist practices. The United States has a unique opportunity to step in and set the standard for not only how we analyze and synthesize data on mercantilism, but also how we choose to enforce and punish it. We cannot waste this opportunity. ◆