

Using Mirror Strategy to Fight with Trade Protectionism

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1. What is a Mirror Strategy?

If a foreign country imposes trade restriction policies on a particular industry or a particular firm of a country, then the latter country will impose trade restriction policies on industries or firms of the former country, which have important stakes in the latter country. This is called a Mirror Strategy of the latter country. Mirror Strategy should be legislated in accordance with civil law. Note that equivalent retaliation should be guaranteed when a country implements a Mirror strategy, i.e., it will make rival countries incur equivalent loss as that their trade restriction policies bring to the country.

2. Trade protectionism is driven by special interest groups

Policy implications of trade theory, irrespective of whether it is the new classical trade theory, or the new trade theory, or theories of heterogeneous firms and trade, are that a country should not adopt trade protection policies. However, we can hardly observe that a country set nonintervention policies. This is because special interest groups lobby governments for setting their favorable trade and investment policies via political contributions and/or engaging in informational lobby behavior. It is a normal practice that in a country a particular lobby group is led and/or financed by giant multinational firms in the country.

3. Using Mirror Strategy to fight with trade protectionism by inducing political competition among special interest groups

In order to fight with trade protectionism, we need to find ways to reduce the extent to which governments' policy making is influenced by special interest lobbying as little as possible. The best candidate strategy achieving this goal is a Mirror Strategy, which induces political competition among different lobby groups, and makes their lobby behavior offset each other.

4. Mirror Strategy and photovoltaic industry

In May 2013, the European Union announced its trade sanctions decisions on Chinese photovoltaic industry and the decisions were supported by the French government. On June 5, 2013, China launched anti-dumping probe into EU wine imports. French wine exports account for 71% of the European wines imported by China, a trade worth \$788 million to France. This may make French wine makers together with wine makers in other European Union countries lobby the European Union for stopping trade sanctions on Chinese photovoltaic firms. In fact, at their annual EU-China Joint Committee that was held in Beijing on June 21, 2013, EU Trade Commissioner Karel De Gucht negotiated a solution in solar panels case with

Chinese Commerce Minister Gao Hucheng. He emphasized that “both sides are now engaged in a sincere way to work towards an amicable solution” and confirmed that the EU wishes to “find a negotiated settlement as quickly as possible.”

5. Mirror Strategy, reciprocity and tit-for-tat

In fact, the idea of a Mirror Strategy is in line with the Rule of Reciprocity, and tit-for-tat strategy. If one party’s deviation behavior in the current period will be credibly punished in future periods, then, all parties will choose cooperative behavior in the current period and in future periods. Therefore, a Mirror Strategy can be effectively used to fight with trade protectionism by inducing political competition among lobby groups. A Mirror Strategy is “the war to end all wars”.