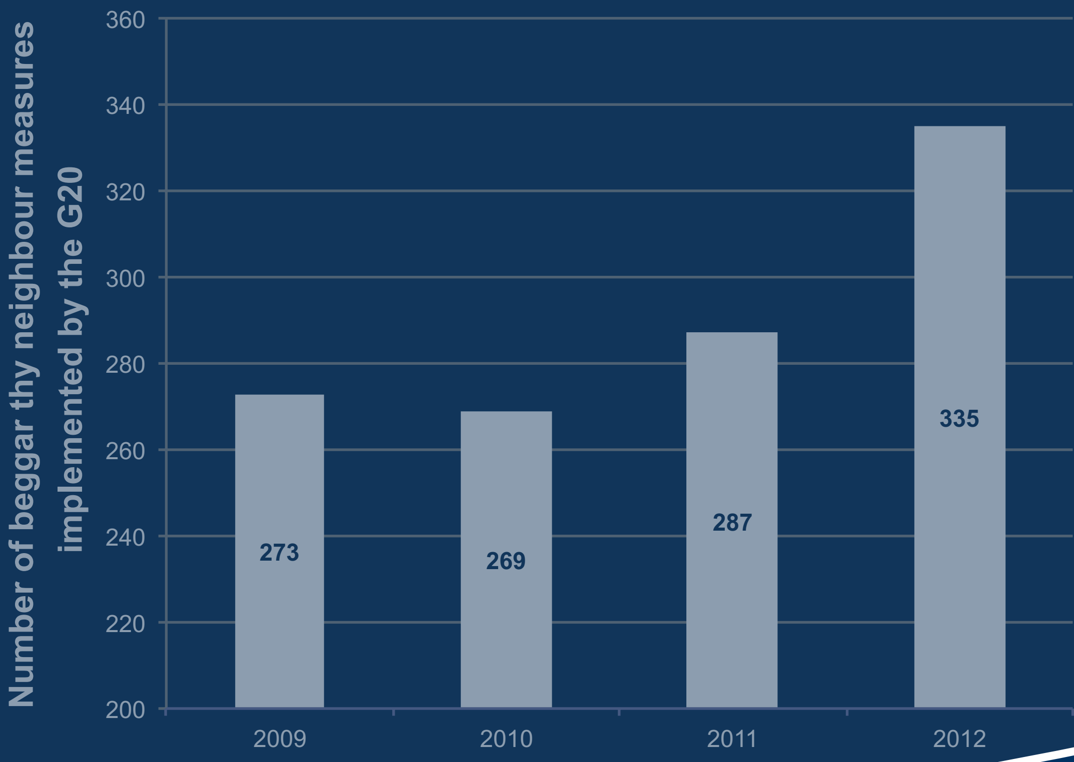
What Restraint? Five years of G20 Pledges on Trade

The 14th GTA Report

by Simon J. Evenett



CEPR

GLOBAL TRADE ALERT

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The 14th GTA Report

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Independent: GTA is a policy-oriented and research initiative of the Centre for Economic Policy Research (CEPR), an independent academic and policy research think-tank based in London, UK. Simon J. Evenett, the co-director of CEPR's International Trade and Regional Economics Programme, is the coordinator of the GTA.

Comprehensive: GTA complements and goes beyond the WTO, UNCTAD, and OECD's monitoring initiatives by identifying those trading partners likely to be harmed by state measures. The GTA considers a broader range of policy instruments than other monitoring initiatives.

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1 Executive Summary

Although protectionism was not responsible for the global economic crisis that became known to many as the Great Recession, five years ago the leaders of the G20 publicly committed themselves to a standstill on erecting new distortions to global commerce.[1] In the light of the experience of the 1930s, the importance of maintaining open trade and investment regimes was emphasised repeatedly.

While taking steps to rekindle economic growth, lower unemployment and restructure the financial sector are certainly important priorities for national governments at times such as these, the harm done by beggar-thy-neighbour policies should not be overlooked. Whether through tariffs, subsidies, or other less transparent ("murkier") policies[2], such steps shift the pain of economic adjustment on to trading partners, masking competitive deficiencies rather than fixing them. That governments have so many options to tilt the playing field in favour of domestic firms, investors and workers is often conveniently ignored.

In the run up to the next G20 summit in St Petersburg, where according to reliable press reports one item on the agenda is the extension of its standstill on protectionism, it is worth asking what the G20 has actually achieved in this regard. This report draws upon nearly 3,800 reports of "good" and "bad" trade-related measures taken by governments across the globe since the standstill was announced at the first crisis-era G20 summit in November 2008. These reports were assembled by the independent Global Trade Alert (GTA) team and made freely and publicly available on its website.[3] From these reports a comprehensive picture of the G20's actions has been assembled, including the creation of six summary measures of each G20 member's adherence to their pledge on protectionism.

The purpose, then, of this report is to provide the most comprehensive and up-to-date overview of G20 policies towards cross-border commerce since the

1 Chapter 3 of this report states and then assesses the references to this standstill in the communiqués issued after each summit of the G20 Leaders. These references are more revealing than one might expect.

2 Governments can impose covertly or overtly conditions on recipients of crisis-era state largesse that can distort trade, investment, and migration flows. Such largesse can include bailouts for underperforming firms, consumption and wage subsidies, export finance, import and export tax rebates, value added tax rebates, and permissions to invest in a jurisdiction. Moreover, these conditions have been imposed by local as well as central governments. In addition, state financial support need not come directly from the national treasury, but also from state-owned or state-linked banks. Tracing financial support that does not come directly from central governments is particularly difficult and makes it hard for a firm to assess the costs of foreign rivals.

3 www.globaltradealert.org

first crisis-era G20 summit nearly five years ago and to see if the G20's deeds on protectionism have matched its fine words. The implications of these findings for the St Petersburg G20 Summit are also discussed.

Even G20 leaders have their doubts

Any assessment of an international initiative requires a benchmark, influenced no doubt by our expectations of the actors involved. In this regard, as documented in Chapter 3 of this report, at its November 2008 summit the G20 Leaders pledged:

> *"…we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports."* (paragraph 13)

Known as a standstill in trade policy circles, such initiatives had been tried before in the 1930s and in the sharp global downturn in the early 1980s. A key feature of the latest standstill is that it is non-binding and was implemented outside of the WTO legal structure, so violations of the G20 standstill do not automatically constitute violations of WTO rules, the latter exposing the perpetrator to legally binding judgements and possible sanctions under the WTO dispute settlement system. That the G20 Leaders chose to confine the WTO's role to monitoring was telling.

It is also noteworthy that the G20 standstill was not limited to tariffs and quotas, perhaps reflecting the realisation that there are many ways in which governments can beggar-thy-neighbour. Indeed, the communiqué following the last G20 summit in Los Cabos, Mexico, referred to "resisting protectionism *in all its forms*" (paragraph 26, italics added).

While officials from many G20 governments have tried to brush aside – in public at least – concerns about the effectiveness of the standstill on protectionism, it is revealing that the G20 Leaders themselves expressed the following reservation in the Los Cabos Declaration:

> "We are deeply concerned about rising instances of protectionism around the world." (paragraph 28)

This explicit reference to crisis-era protectionism followed more oblique remarks in previous communiqués about the desirability of rolling back or rectifying protectionist measures that might have arisen. All in all, it would seem that blanket defences of the G20 standstill on protectionism are hard to sustain in the light of the G20 Leaders' own words. But what of the facts? Just how bad is the G20's record on protectionism?

Assessed properly, the G20's resort to protectionism has picked up over time

That so many beggar-thy-neighbour acts take time to document biases the data reported on G20 protectionism, skewing assessments in favour of a more benign interpretation of the G20's record. Before considering the data, it is worth recalling that tariff changes and investigations against dumped imports, subsidised imports and import surges garner a lot more publicity than many other state measures that tilt the playing field. Some measures, such as state-directed bailouts through national banks for firms facing international competition, tend to come to light after months and sometimes years, if they ever see the light of day. Moreover, the reporting requirements on WTO members, another potentially valuable source of information, are stronger for more transparent policy instruments that were the subject of yesteryear's trade frictions. In short, experience has shown that the initial assessments of recent government policies towards cross-border commerce underestimate the true extent of state intervention.

Figure 1.1 Failure to correct for reporting lags hides the 2012 jump in protectionism imposed by the G20

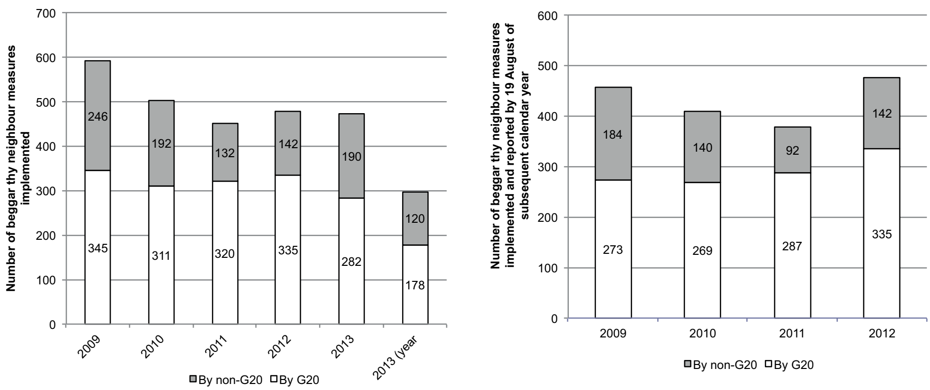


Figure 1.1 demonstrates the importance of reporting lags in interpreting the record of the G20 on protectionism. The left-hand panel reports, as of 19 August 2013, how many times the G20 countries undertook beggar-thy-neighbour actions since 2009, the first complete calendar year after the November 2008 standstill commitment was made. On 19 August 2013, the GTA database included reports on a total of 345 instances of protectionism[4] imposed by G20 members during 2009, a calendar year that was concluded almost 15 quarters ago. For the calendar year 2012, which ended nearly three quarters ago, the comparable total is already 335. Still, casual inspection of the left-hand panel of Figure 1 might give the impression that the resort to protectionism by the G20 has been

4 Throughout this report, and others by the Global Trade Alert team, the term "protectionism" is used synonymously with "beggar-thy-neighbour" policies. As modern cross-border commerce involves more than trade in goods, confining the definition of protectionism to policies that restrict imports or stimulate exports is unwarranted.

steady since 2009, which some might "spin" to the media and the public as protectionism being "under control."[5]

Better apple-for-apple comparisons of the annual resort to protectionism by the G20 can be obtained by asking, at the same point in time in the reporting cycle, how many measures in a given calendar year had been found, documented, and published by the GTA team. Given that the statistics for this report were assembled on 19 August 2013, following a considerable update and extension of the underlying database over the summer, this date is perhaps as good as any. In fact, a date in the third quarter of the year allows for at least two full quarters of investigation and reporting since the completion of a given calendar year.

The right-hand panel of Figure 1 shows the total number of protectionist measures implemented by the G20 countries in a calendar year that had been reported by 19 August of the following year. By 19 August 2010, then, 273 protectionist measures imposed by the G20 countries in 2009 had been documented. By 19 August 2013, the comparable total for G20 measures imposed in 2012 was 335. Indeed, a comparison of these annual totals suggests that the resort to protectionism in 2011 was 6% higher than in 2009 and, worse still, the resort to protectionism in 2012 was 23% higher than in 2009. A less sanguine picture of G20 restraint emerges once reporting lags are taken into account. Whatever bite the standstill had seems to have diminished over time. But did the standstill have any bite in the first place?

The G20's resort to protectionism pales when compared to mid-sized trading nations

G20 countries pledged not to introduce new forms of protectionism while other trading nations did not – or at least did not do so in the same high profile manner. If the G20 standstill bit, surely it would show up in the aggregate statistics on the resort to and rolling back of crisis-era protectionism? Moreover, surely the G20's performance on those metrics should exceed those of nations that did not made this standstill pledge?

To explore this matter objectively, the G20 nations' performance was compared with the ten next largest trading nations (as measured by the sum of their total value of annual imports and exports).[6] An alternative might be to compare the

5 In fact, these annual totals for 2009 to 2012 represent a sharp jump on the annualised rate of protectionist G20 measures implemented during the months November and December 2008, immediately after the standstill was supposed to come into effect. The total number of protectionist measures implemented by the G20 during those two months implied an annualised rate of 204 measures, much less than the 345 measures found so far for the calendar year 2009.

6 In identifying the next 10 largest trading nations outside of the G20, it is worth bearing in mind that the EU is a member of the G20. Hence, several medium-sized and smaller EU economies with large amount of imports and exports were excluded from the "Next 10." Ultimately, data on the following countries was used to calculate the statistics for the "Next 10": Chile, Iran, Israel, Malaysia, Norway, Singapore, Switzerland, Thailand, the United Arab Emirates, and Viet Nam. Some of the "Next 10" countries are members of the Asia-Pacific Economic Community (APEC), which collectively made less prominent pledges to eschew protectionism during the global economic crisis. Monitoring of APEC nation compliance with such pledges has been less frequent than for the G20 countries and the associated policy choices have received considerably less public scrutiny.

G20 nations with the rest of the world's resort to protectionism, but the mid-sized trading nations are likely to have more in common with the G20 than the large number of tiny island economies and others that would affect the average statistics for the rest of the world.

Using data on the G20 and what is referred to here as the "Next 10" mid-sized trading nations, the following summary statistics on their resort to protectionism and propensity to roll back crisis-era protectionism were calculated:

1. The share of all commerce-affecting measures implemented since November 2008 that harm foreign commercial interests (a measure of the incidence of protectionism since the standstill pledge was first taken in November 2008).

2. The share of all commerce-affecting measures implemented since the last G20 summit in Los Cabos, Mexico that harm foreign commercial interests (a measure of the incidence of protectionism over the past year, since the G20 Leaders publicly expressed reservation about rising protectionism).

3. The share of protectionist measures imposed since November 2008 that remain to be unwound (an indicator of the degree to which commitments to roll back protectionism have not been adhered to).

4. The share of tariff lines (that is, categories of products traded) that are affected by protectionist measures that have been implemented since November 2008 (another indicator of the scale of protectionism implemented since the G20 standstill was first announced).

5. The share of tariff lines that are still affected by protectionist measures that were implemented since November 2008 and have not yet been unwound (another indicator of failure to roll back protectionism).

6. The share of protectionist measures imposed since November 2008 that are not tariff increases or measures against dumped imports, subsidised imports, or import surges; the latter being examples of easily spotted, relatively well regulated, and transparent forms of protectionism (an indicator of the extent to which governments have resorted to "murkier" beggar-thy-neighbour policies that are not so tightly governed by WTO rules as tariffs, etc.).

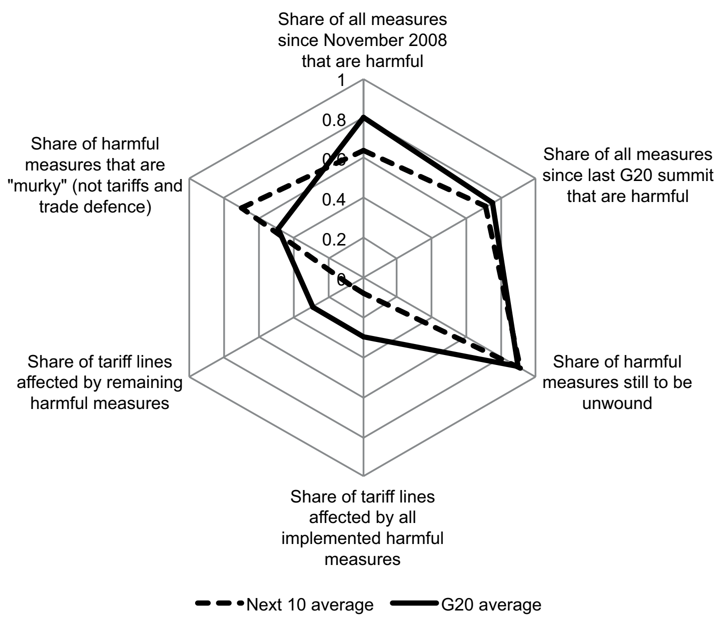
These six measures were deliberately constructed to lie between zero and one, with higher values indicating a greater departure from the G20 commitments on resisting protectionism and rolling it back. For each nation or group of nations the values of these six measures are depicted on a traditional radar chart, which looks like a spider's web. In our case, the further the line connecting the six scores is from the centre of the web, the greater the jurisdiction in question's departure from these G20 commitments.

In Figure 1.2, the performance of the average[7] G20 nation is compared to the average Next 10 nation on these six metrics. What is striking is that, on all but one criteria, the performance of the G20 members is not markedly better than the Next 10 mid-sized trading nations. The mix between liberalising and protectionist measures is more skewed towards beggar-thy-neighbour measures among the G20 nations, the protectionism imposed by G20 nations affects more product categories, and the G20 nations have unwound less crisis-era protectionism than the Next 10 mid-sized trading nations.

Yet the average G20 member resorted to murky protectionism half the time, while the average Next 10 nation resorted to murky protectionism nearly two-thirds of the time they chose to tilt the playing field towards domestic commercial interests. While murky protectionism is of interest – previous research showing its prevalence since the onset of the Great Recession – strictly speaking the G20 standstill does not distinguish between protectionism of different degrees of transparency.

When faced with the same systemic economic crisis, the countries that pledged at the G20 not to erect new trade barriers and the like, in fact, raised them by more than those that made no such pledge. These findings speak badly of the G20 standstill on protectionism.

Figure 1.2 Only in the resort to murky protectionism did the G20 clearly outperform the Next 10 trading nations



7 The averages are calculated using weights based on the share of a nation's total trade in the respective group's total trade.

Some G20 members are more protectionist than others

While the G20 as a group has performed worse than the 10 largest mid-sized trading nations, there is considerable variation across the G20 in their resort to protectionism, in rolling back protectionism and in the number of times they have harmed their trading partners. This report includes a diagram similar to Figure 1.2 for each G20 member as well as a map showing the number of times each G20 member has harmed each of its trading partners across the globe.. For country detail, see these diagrams and maps listed in the Table of Contents. Here, however, three figures (3 to 5) highlight important aspects of the variation across the G20.

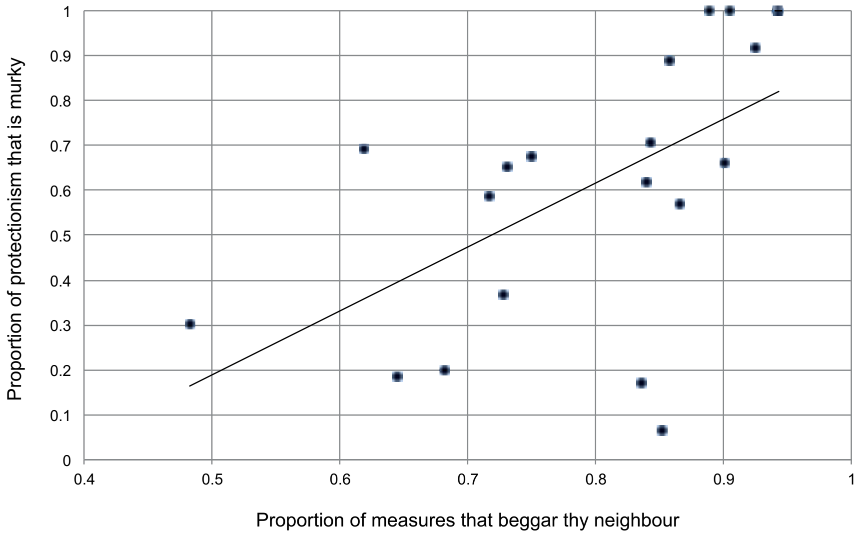
Each point in Figure 1.3 refers to a G20 member. This figure contains three findings. First, since November 2008 there has been considerable variation across the G20 members in the propensity for trade-related interventions to be protectionist. Still, in all but one G20 member, more than half of interventions affecting international commerce impose harm on trading partners' exporters, foreign investments or overseas workers (see the horizontal axis of Figure 3).

Second, compared to the propensity to resort to protectionism, the variation across G20 members in the propensity to resort to murky protectionism is greater. Third, over the past five years the G20 countries where the protectionist impulse has been stronger tend to be those G20 members that also resorted more often to less transparent – or murkier – means.

Bear in mind that many of those murkier forms of protection are subject to weak or no WTO rules. When governments of the largest economies of the world have come under considerable pressure to favour domestic commercial interests, they have tended to circumvent WTO disciplines by avoiding policies subject to more demanding multilateral rules. Since the global economic crisis began, those rules have probably altered the composition of protectionism rather than the amount of it.

Figure 1.4 compares the resort to protectionism and propensity to roll it back across the BRICs and across four richer industrialised nations. The latter comprise Canada, Germany, Japan and the United States and statistics of the six metrics mentioned earlier can be found for each of these nations in the bottom panel of Figure 1.4. Meanwhile, the performance of each of the four BRICs is shown in the top panel. It is evident that there is variation among each group as well as between these two groups of G20 members.

Figure 1.3 Those G20 countries that discriminated against foreign commercial interests more often also employed more murkier forms of protectionism



In the five years since the first crisis-era G20 summit, protectionism by the BRICs tended to cover more product categories than the richer "Quad" mentioned above. In contrast, a higher proportion of the trade-related measures imposed by the latter over both the past year and over the past five years are protectionist. In this regard, it is worth bearing in mind that the BRICs have imposed more than twice as many protectionist measures over the past five years as the four industrialised countries examined here. Finally, the BRICs resort to murky protectionism less often.

Since the first crisis-era G20 summit, there has been considerable variation over time as to which G20 members have been responsible for the bulk of protectionist measures imposed by the G20 group, as shown in Figure 1.5. In 2009, more than half of the protectionist measures implemented by the G20 group were imposed by the member states of the EU (acting individually or collectively), by Japan or by the United States. The contribution of these countries fell sharply after 2009. The BRICs' share of G20 protectionism reached nearly 50 per cent in 2010 before falling back in 2011 and 2012. In the year to date (2013), the BRICs share has jumped again, but the reporting lags mentioned earlier suggest that these initial findings should be treated with some caution.

Taken together, the BRICs, the EU, Japan and the United States together account for no less than 60 per cent of all G20 protectionism during each year since 2009. In 2009, these jurisdictions alone were responsible for over 90 per cent of all G20 protectionism imposed and, for that matter, 56 per cent of all protectionism imposed worldwide during that year. By 2012, of interest because of the spike in G20 protectionism documented earlier, these percentages had fallen to 64 and 45, respectively.

Figure 1.4 Protectionist dynamics differ among leading G20 nations

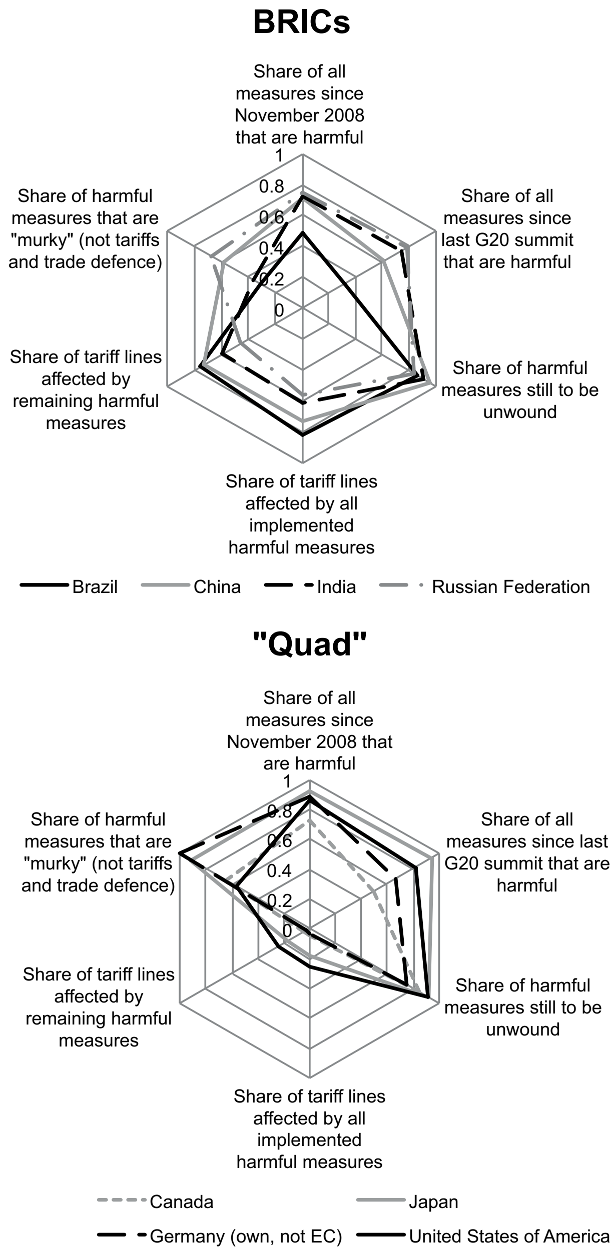
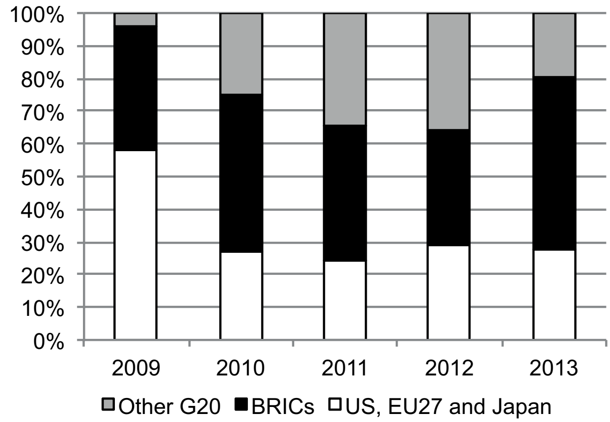


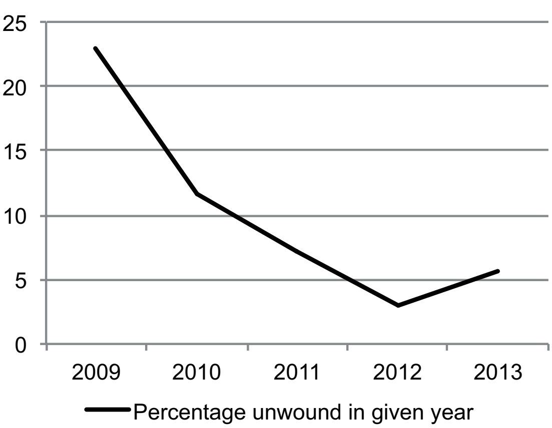
Figure 1.5 Those responsible for the bulk of G20 protectionism has varied since 2009



90 per cent of crisis-era G20 protectionism still needs to be unwound

Another shadow over the G20 promises on trade is cast by the evidence on the degree to which protectionism imposed since November 2008 has been unwound. Figure 1.6 shows, for each calendar year since 2009, what percentage of protectionism imposed in a given year has been unwound subsequently. Even in 2009, the best year by far in this respect, over three-quarters of beggar-thy-neighbour measures have not lapsed or been unwound. Unless crisis-era protectionism is unwound, it risks become a permanent feature in the world economy. One lesson from history is that bouts of protectionism tend to take decades to be removed or negotiated away.

Figure 1.6 Little G20 protectionism has been unwound – so much more needs to be done



Implications for the St Petersburg G20 Summit

In the light of the evidence presented here, covering the entire period since the G20 first adopted its standstill on protectionism, the current G20 approach to promoting open trade and investment regimes is not fit for purpose. In recent years, not only have G20 members resorted to protectionism more frequently than at the beginning of the crisis, they have rolled back few crisis-era beggar-thy-neighbour measures. This means that the stock of crisis-era protectionist measures imposed by the G20 nations just keeps on growing.

As of the end of August 2013, the G20 members have implemented a total of 1527 beggar-thy-neighbour measures since they adopted their standstill on protectionism in November 2008. Just under 89 per cent of these protectionist measures remain to be unwound. Furthermore, G20 resistance to protectionism and promoting its rollback is worse than the mid-sized trading nations that did not take this standstill pledge. The glaring flaws in the G20's "softly, softly" approach are apparent.

Given its record on protectionism, the choice before the G20 members is to "mend it or end it." If the non-binding G20 approach is to amount to peer pressure rather than peer protection, then monitoring of the protectionist pledges must not only be stepped up, but also acted upon. Sweeping these matters under the carpet and pulling punches – when unsparing criticism of breaches is needed – hasn't delivered and won't deliver, all of which undermines the credibility of the G20. The only silver lining to the G20's woeful record is that the WTO looks more effective, relatively speaking.

Assuming that the goal of G20's work on protectionism is still to resist it, serious consideration should be given as to whether the deliberative functions of the WTO could be deployed to highlight and analyse crisis-era protectionism and to encourage its unwinding. In sectors where beggar-thy-neighbour activity has been most intense (see Table 2.9 in Chapter 2), initiatives could be devised in Geneva to promote simultaneous unwinding of protectionism over time – the commercial policy equivalent of mutual disarmament. For sure, WTO processes can take time and can get bogged down, but after the last five years, the leading non-binding alternative has hardly covered itself in glory.

Organisation of the remainder of this report

Following this Executive Summary, charts and maps summarising each G20 country's resort to protectionism and rolling back of protectionism are presented. An overview of global protectionism can then be found in Chapter 2.

Having presented the global landscape of protectionism, the remaining chapters focus on the policy choices of the G20 members. To set the scene, the evolving G20 commitments and statements on protectionism are described in Chapter 3. While diplomatic communiqués are not always that revealing, there are interesting changes over time in the manner in which the G20 chose to characterise its work on protectionism.

In Chapter 4 further information on the commercial policy stance of G20 governments since the first crisis-era summit is presented and interpreted. Given the importance of reporting lags to interpreting the G20 record of protectionism, this matter is taken up in Chapter 5 in more detail than presented here.

For the past five years, leaders of the G20 countries have said they would not implement new trade restrictions, WTO-inconsistent export subsidies, or export taxes and quotas. They also promised to "roll back" any crisis-era protectionism that was imposed. Drawing upon nearly 3,800 separate reports of trade-related government measures collected and published by the Global Trade Alert team, this Report contains the most up-to-date and comprehensive assessment of adherence to the G20's "standstill" on protectionism. At a time when the World Trade Organization is in the doldrums, the performance of this non-binding alternative to inter-governmental cooperation on commercial policies takes on greater significance.

This Report may be of interest to government officials, scholars, analysts, media experts, and students interested in how the governments of the world's largest economies have mixed trade liberalisation and beggar-thy-neighbour policies as the Great Recession has unfolded. The Report contains six new measures of the resort to protectionism and the propensity to unwind it, computed and reported for each G20 member. Such measures, which can be tracked over time, will add to the transparency of the world trading system.

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