
1 Executive Summary: Trade Tensions Mount

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The threats to an open trading system mounted in the second half of 2011 for several reasons. First, macroeconomic conditions deteriorated in Europe and China and doubts about the strength of any US economic recovery could not be shaken off. Government policy is likely to move further into a defensive posture. Second, the initial reports of the incidence of protectionism in the third quarter of 2011 are as high as in the most troubling quarters in 2009, when protectionist fears were at their peak early in the crisis. Moreover, several large trading nations have taken across-the-board measures that adversely affect many trading partners or sectors. Third, high-profile commercial policy disputes between leading nations are no longer confined to currency wars and misalignments. Each of these developments is contributing to mounting trade tensions and likely reflects an erosion of various domestic political restraints against protectionism. The world trading system may face its greatest test in the year ahead.

This Report documents several factors that together imply that the protectionist threat to the world trading system is probably as significant as it was in the first half of 2009, when such concerns were last at their peak. In our last Report, published in July 2011, we raised concerns that a deteriorating macroeconomic climate would lead to greater protectionism. This fear has come to pass: the initial reports of the quantum of protectionism in the third quarter of 2011 are as bad as comparable early reports on protectionism in the first half of 2009. Less than a third of these protectionist measures taken are tariff increases or trade-defence measures; worse, some of these measures have been taken by large trading nations and affect many sectors or trading partners. Recent protectionism cannot be dismissed as a large number of small pinpricks.

Looking forward, the macroeconomic climate is expected to deteriorate further. For example, it is telling that the most recent estimate for growth by the European Union economies in 2012 was only half a percentage point – and that was on the assumption that the Greek and Italian sovereign debt concerns are contained and abate quickly. The European Commission’s forecast openly acknowledged that worse outcomes – implying a recession – were possible and, in a telling aside, noted that they could be worsened by growing protectionist pressures.¹ The growth slowdown in Europe has already caused the pace of Chinese export growth to Europe to lessen. A recession in Europe would also affect North

¹ See page 5 of the forecast’s “Overview”, available at http://ec.europa.eu/economy_finance/eu/forecasts/2011_autumn/overview_en.pdf. This forecast was made public on 10 November 2011.

American multinationals, many of whom still earn a disproportionate amount of sales and profits from European customers.

What is particularly troubling is that in recent months trade disputes between leading trading nations are widening in scope. For much of 2010 and early 2011 the highest-profile disputes concerned so-called currency wars and misalignments – and arguably these were only taken so far. Nowadays many of the subsidy regimes instituted early in the crisis are becoming the subject of disputes between leading trading nations (see Box 1). The disagreements between China, India, the United States, and the European Union over local content requirements, technology transfers, and subsidies in the solar power industry are cases in point.²

Now that the scale of discriminatory government intervention in markets during the crisis is adding to trade tensions, one has to ask how strong are the domestic political restraints should another global economic downturn lead to pressures on governments to “save jobs”, “protect local industries”, etc. As remarkable as it may seem given the tumult of 2008 and 2009, the open world trading system may face its greatest test in the year ahead.

Trade policy developments since July 2011: New protectionist measures outnumber liberalising measures by nearly three to one

Information on trade policy developments discovered after our last Report was published in July 2011 was used to augment the GTA database, available at www.globaltradealert.org. A total of 199 announcements of state measures were found, taking the total number of reports in the GTA database to over 2,000 for the first time. Two thirds of those new entries (132) relate to state measures that are likely to or almost certainly do increase the discrimination against some form of foreign commercial interests.³ These measures outnumber the 47 neutral or liberalising measures by almost three to one.

Consistent with previous GTA reports only a fraction of recently documented protectionism is trade-defence measures or tariff increases. Since our last Report, new protectionist non-tariff barriers, discriminatory investment measures, export subsidies, and discriminatory bailouts together outnumber new trade-defence measures and tariff increases by a ratio of five to two. Once again governments appear to prefer measures that are subject to fewer, looser, or no multilateral trade rules. One possible interpretation of these findings is, to the extent that legally binding WTO rules have had any effect at all, it is probably through the choice of protectionist trade instrument rather than the quantum of protectionism.

Once again, the G20 nations are responsible for the lion’s share of the recently documented protectionist measures. Since July 2011, a further 104 protectionist measures implemented by the G20 countries have come to light. In the interests

2 In addition to media reports, other examples of criticism of crisis-era policy responses can be found in the Minutes of the more recent meetings of the WTO’s Council for Trade in Goods (obtainable from the WTO’s website.)

3 For these purposes a measure in the GTA database that is both implemented and categorised either amber or red is treated as protectionist. The discrimination-based scheme used by the GTA to classify state measures is summarised beneath Table 1 of Chapter 2 of this Report.

Box 1 The aggregation of crisis-era measures has begun; the period of denial is over.

An recent exchange at the World Trade Organization between China and the United States highlights the growing reluctance of leading trading partners to overlook the discriminatory measures that others have taken during the crisis era. In October 2011 the United States submitted a notification to the WTO, which is said to include around a thousand pages of translated Chinese legislation, requesting that China notify its WTO partners of 184 subsidy regimes. According to the WTO's website, the US position was characterised as follows at a meeting on 26-27 October 2011:

"The Committee carried out the transitional review of China's subsidies regime. The United States said China has made many impressive steps to reform its economy, but expressed concern that it still pursued an industrial policy in which subsidies are widely used to protect domestic industry. It said China has an opaque subsidies regime, and that the US had had to file counter-notification on China's unreported subsidy programmes. Canada expressed concerns about China's subsidies in the iron and steel sector. Japan urged more transparency, and welcomed China's recent subsidy notification. Mexico, the European Union and Norway shared the US concerns."¹

Days later the Chinese submitted a formal notification listing 93 subsidy programmes.²

Some of these programmes had been notified by the Chinese government before, but they could well have been scaled up during the crisis era. Other notifications were new. Most of the notified subsidies were part of schemes implemented by the Ministry of Finance and are forms of tax relief (some of which are directly-trade related), cash transfers and other subsidies.

1 Text taken from http://www.wto.org/english/news_e/news11_e/scm_26oct11_e.htm

2 WTO document G/SCM/N/155/CHN and G/SCM/N/186/CHN, dated 21 October 2011.

of balance, it should be noted that the G20 also implemented 37 measures that limited or reduced discrimination against foreign commercial interests.

The number of product categories (tariff lines) affected by G20 protectionism continues to rise. With the recent protectionist measures the total number of product categories affected by some type of G20 protectionism has risen 31 to 1080, out of a maximum of 1214. Moreover, since November 2008, the starting point of GTA monitoring of G20 policies, 215 countries' commercial interests have been harmed by G20 protectionism. As well as the individual reports on each G20 member at the end of this Report, these figures give some sense of the scale of the harm done by discriminatory policies of the G20.

Another important recent development has been the fact that leading trading nations have not just undertaken the selective interventions that may harm only a small amount of trade or a small number of trading partners (such as

the investigation and then imposition of antidumping tariffs), but some have now put in place measures that potentially affect all or most of their trading partners or affect a wide range of domestic industries at home. Some of these measures have already received a lot of press attention; others have not. The concern, of course, is that domestic political restraints on discrimination against foreign commercial interests are weakening. Some of the wide-ranging measures implemented in the third quarter of 2011 alone are summarised in Table 1.

The latest update of the GTA database has also led to a revision of the ranking of countries according to the scale of the harm done by their policies. The most significant changes relate to China, now that due account has been taken of various measures China took during the crisis to affect exports. In terms of the number of almost certainly discriminatory measures implemented, China moves up from ninth to seventh position. In terms of tariff lines (products affected) China now enters the top ten offenders for the first time, ranked fourth and affecting 698 (out of 1214) product categories. China now moves to the third spot in terms of sectors affected by protectionism, up from seventh. In terms of trading partners harmed, China edges out the combined effect of the 27 EU member states (EU27) for the top rank. Now China's measures are estimated to have harmed 195 trading partners, as opposed to the EU27's 181 affected trading partners and Argentina's 175 harmed trading partners. The dominance of these rankings by G20 countries and EU member states is apparent.

In addition to these developments since our last report in July 2011, the maps at the end of this chapter provide a succinct way of summarising the resort to protectionism by governments since the first G20 crisis summit in November 2008. Map 2 shows the large number of countries around the world that have taken protectionist measures which harm over 120 of their trading partners' commercial interests. Map 3 shows the nations whose crisis-era protectionist measures now distort more than a quarter of the product categories available for international trade. Likewise, Map 4 highlights those countries that have taken protectionist measures that affect a third or more of economic sectors (as classified by the United Nations). The frequency with which other nation's policies affect a jurisdiction's commercial interests are summarised in Maps 5-7, with particular attention given to the harm done by the policies implemented by the G20 countries. Map 8 extracts some forward-looking information from the GTA database and highlights how many countries could be harmed 100 times more if every pending – but as yet unimplemented – measure comes into force. This last map provides a sense of the global scale of the protectionist overhang facing the world economy.

Table 1 Selected significant protectionist acts in Q3 2011

Implementing jurisdiction, date	Title in GTA database*	Government measures to be taken	Commerce affected
Australia, 20 October 2011	Changes in the antidumping and countervailing policy	Antidumping and countervailing duty policies	In principle affects all trading partners
Azerbaijan, 10 October 2011	A new policy of state protectionism	Public procurement preferences Local content requirements	Measure affects 752 industrial product categories
Brazil, 2 August 2011	The “Brasil Maior” plan to advance competitiveness	Government procurement preferences Faster antidumping investigations Reduced payroll taxes for selected firms	4 major sectors
France, 11 August 2011	Reduction of shortage occupations list for non-EU/EFTA citizens	Restrictive migration policies	Affects in principle all non-EU, non-EFTA migrants
Japan, 21 October 2011	Comprehensive Package Responding to the Yen Appreciation	Export and R&D subsidies	Multiple sectors affected plus additional targeting of small and medium enterprises
United Kingdom, 4 July 2011	Employment-related restrictions for holders of student visas	Migration restrictions	Affects in principle all non-EU, non-EFTA migrants

Note: * With the title of the measure and the implementing jurisdiction interested readers should be able to easily access on the GTA's website the report on each of these measures

Table 2 Which countries have inflicted the most harm? Certain emerging markets and European nations

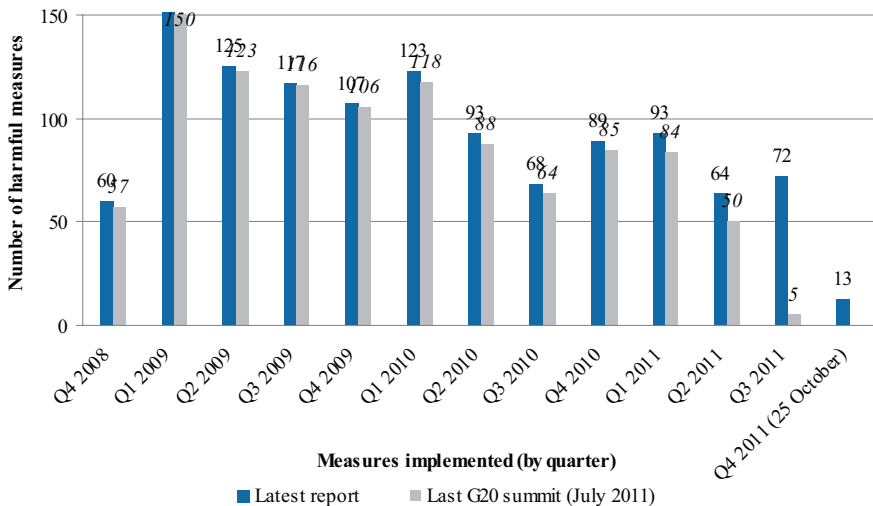
Metric, Country in specified rank, Number				
Rank	Ranked by number of (almost certainly) discriminatory measures imposed	Ranked by the number of tariff lines (product categories) affected by (almost certainly) discriminatory measures	Ranked by the number of sectors affected by (almost certainly) discriminatory measures	Ranked by the number of trading partners affected by (almost certainly) discriminatory measures
1	EU27 (242)	Vietnam (927)	Algeria (62)	China (195)
2	Russian Federation (112)	Venezuela (786)	EU27 (58)	EU27 (181)
3	Argentina (111)	Kazakhstan (729)	China (47)	Argentina (175)
4	UK (59)	China (698)	Nigeria (45)	Germany (161)
5	Germany (58)	Nigeria (599)	Kazakhstan (43)	India (154)
6	India (56)	EU27 (550)	Germany (42)	UK (154)
7	China (55)	Algeria (476)	USA (42)	Belgium (153)
8	France (51)	Russian Federation (439)	Ghana (41)	Finland (153)
9	Brazil (49)	Argentina (429)	Indonesia (40)	Indonesia (151)
10	Italy (47)	Indonesia (388)	Russian Federation (40)	France (150)

Note: There is no single metric to evaluate harm. Different policy measures affect different numbers of products, economic sectors, and trading partners. GTA reports four measures of harm.

Initial totals for third quarter 2011 protectionism are particularly high

One of the surprising findings from the latest update of the GTA database is the rather large number of discriminatory measures implemented in the third quarter of 2011. A total of 72 such measures were found by early November 2011. To facilitate interpretation it may be useful to know that, almost six months after the first quarter of 2009 had closed, the GTA team had found 77 protectionist measures had been implemented in Q1 2009. This is significant for two reasons. First, during Q1 2009 concerns about protectionism early in the crisis were at their peak or, if not, close to it. Second, as the GTA team has come to learn reporting lags have led us to revise upwards the number of protectionist measures implemented in Q1 2009 to 150 (see Figure 1.) That the initial reports for the quantum of protectionism in Q3 2011 are almost as large as those for Q1 2009 is surely a cause for concern. That concern must also be heightened by the fact

Figure 1 Deteriorating prospects for the world economy since Q4 2010 coincided with an increased resort to discrimination



Note 1: The total quarterly number of harmful measures for Q1-Q3 2011 is converging quickly to the 100-120 range seen in 2009. Q3 2010 seems more anomalous as time goes by.

Note 2: In Figure 1 a harmful measure is taken to be one which has been implemented since November 2008 and is almost certainly discriminatory (coded red) or likely to be discriminatory (coded amber).

that, as shown in Table 1, several protectionist measures were implemented by large trading nations whose effects are likely to be wide-ranging and, therefore, economically significant.

The high number of protectionist measures implemented in Q3 2011 are important for other reasons too. First, the fear that the summer 2011 deterioration in economic prospects might lead to greater resort to protectionism has come to pass. Policymakers are not dealing with hypotheticals now – recorded protectionism has recently increased to worrying levels. Second, the upward revisions of the total amounts of protectionism in Q1 2010 through to Q2 2011, imply that 2010 and the early part of 2011 are rapidly converging to the 100-120 range of total number of protectionist measures implemented per quarter that was witnessed in 2009. The last GTA Report cast doubt on the wisdom of downplaying protectionism in 2010 – as certain policymakers and analysts did – and our latest findings reinforce that initial skepticism. There are real dangers in reading too much into low initial quarterly estimates of the number of protectionist measures implemented.

What policy implications follow from these findings? For sure, there is diversity across countries, protectionist instrument used, and harm done. Moreover, the evolution of protectionism (away from more transparent policy instruments such as tariffs and towards measures less well-disciplined by international trade rules) adds to the difficulties in making clean-cut comparisons. Still, the findings reported here suggest that deteriorating macroeconomic prospects has already induced more protectionism and more protectionism of the most damaging (that is, across-the-board) type. If the recent numbers are anything to go by, those

policymakers that were concerned about protectionism in 2009 ought to be as concerned now – possibly more concerned if one takes a dim view of future global economic growth.

Organisation of the rest of the Report

The remainder of this Report is organised as follows. Next comes a chapter on recent developments in protectionism since the first G20 crisis-era summit in November 2008 (Chapter 2). Two chapters on specific aspects of contemporary protectionism follow.

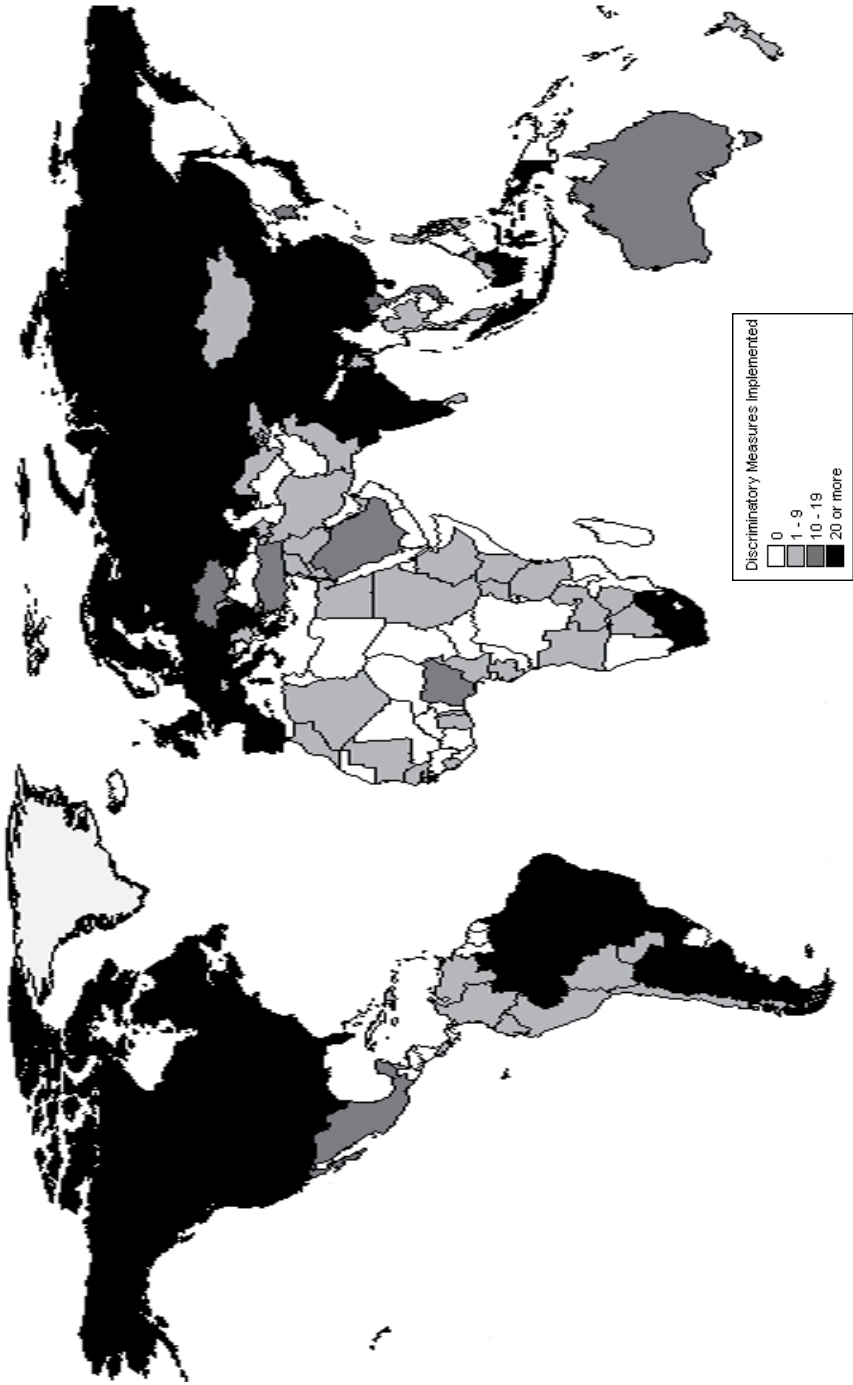
The third chapter of this Report summarises the incidence of protectionism affecting the least developed countries (LDCs). This chapter has been included because the current and former chairs of the G20 have professed an interest in trade and development matters and the LDCs represent the most vulnerable of the developing countries.

Part 2 Chapter 2 of this Report documents the changes in tariff policies of over 100 nations between 2005–06 (before the global economic crisis) and 2009–10. Data from the World Trade Organization is employed and certain patterns of defensive policy responses are identified. The implications of these policy responses for interpreting the effectiveness of multilateral trade disciplines are discussed.

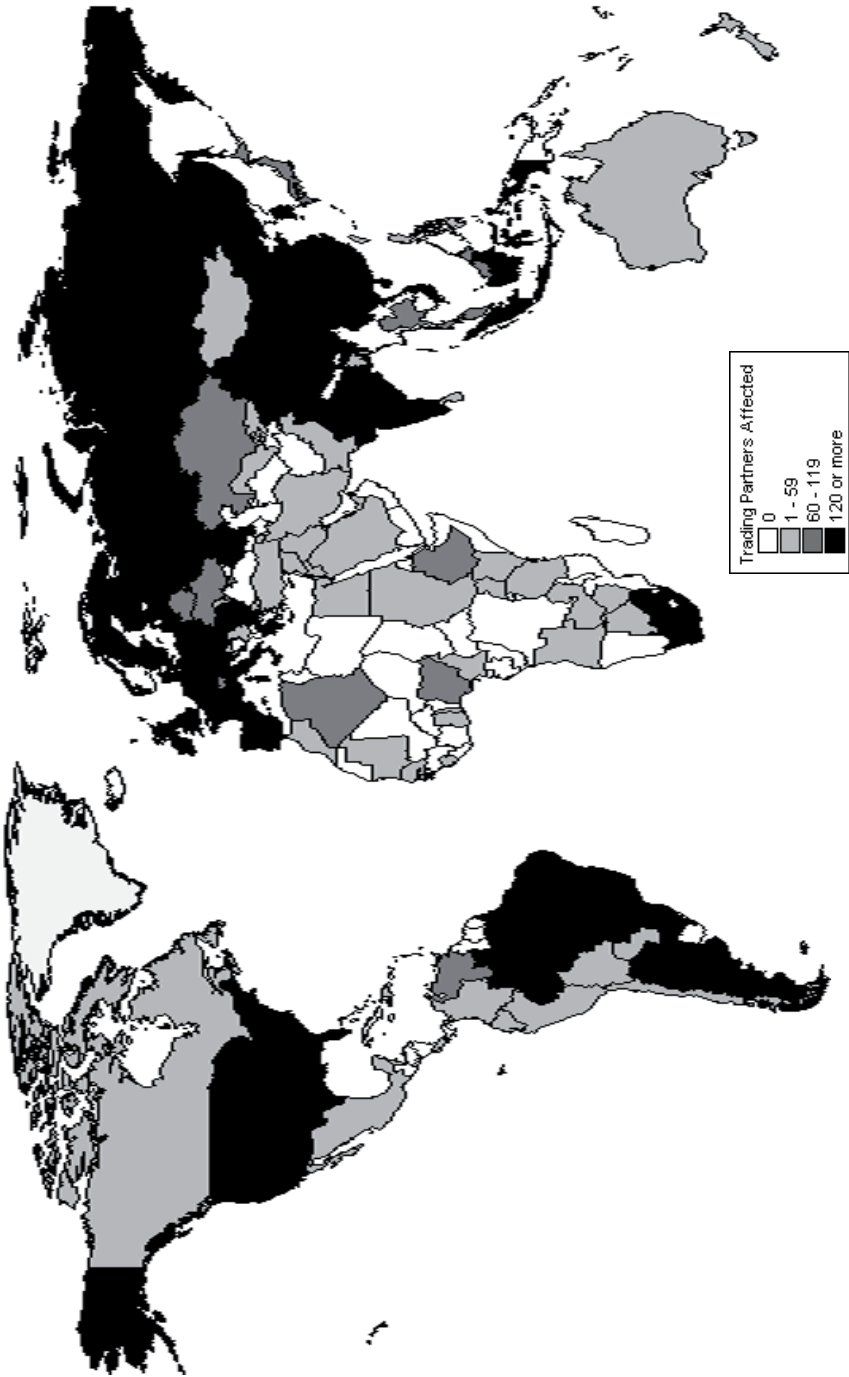
Finally, a summary of the measures taken by each G20 country since November 2008 is presented, along with data on the harm done by other nations to the commercial interests of each G20 country.

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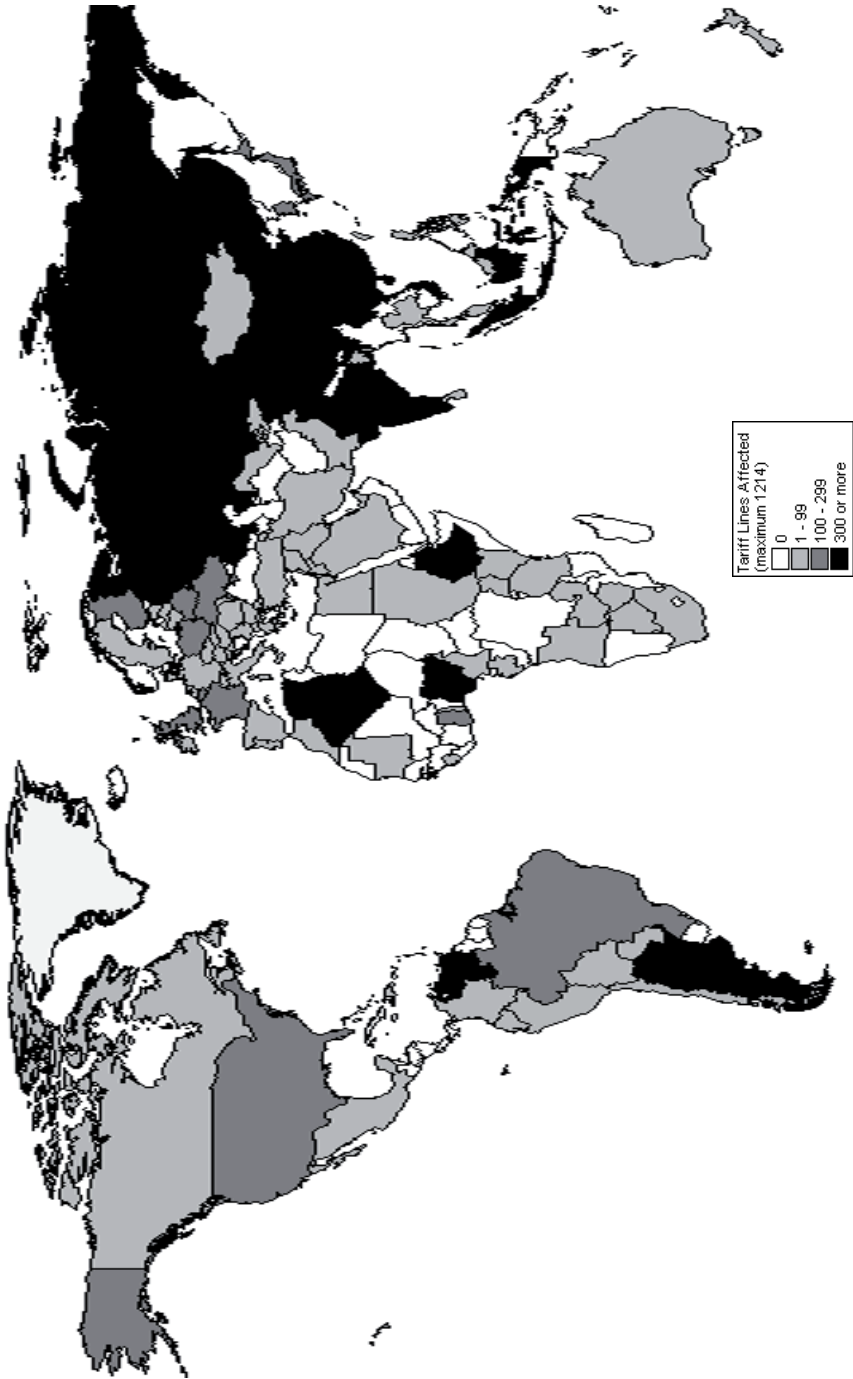
Map 1 Number of discriminatory measures implemented since the first G20 crisis related summit, ignoring measures in the pipeline



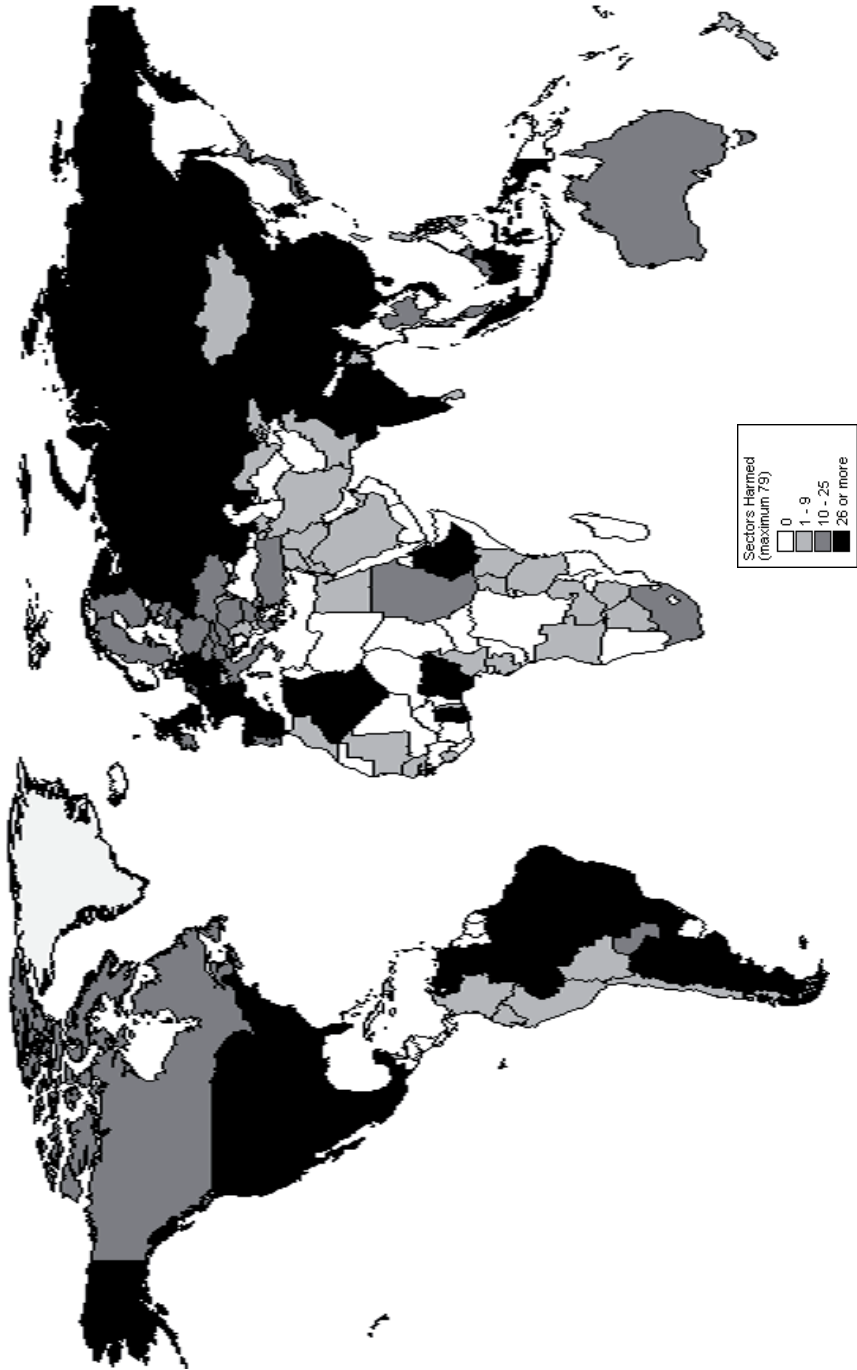
Map 2 Number of trading partners harmed by each jurisdiction's discriminatory measures



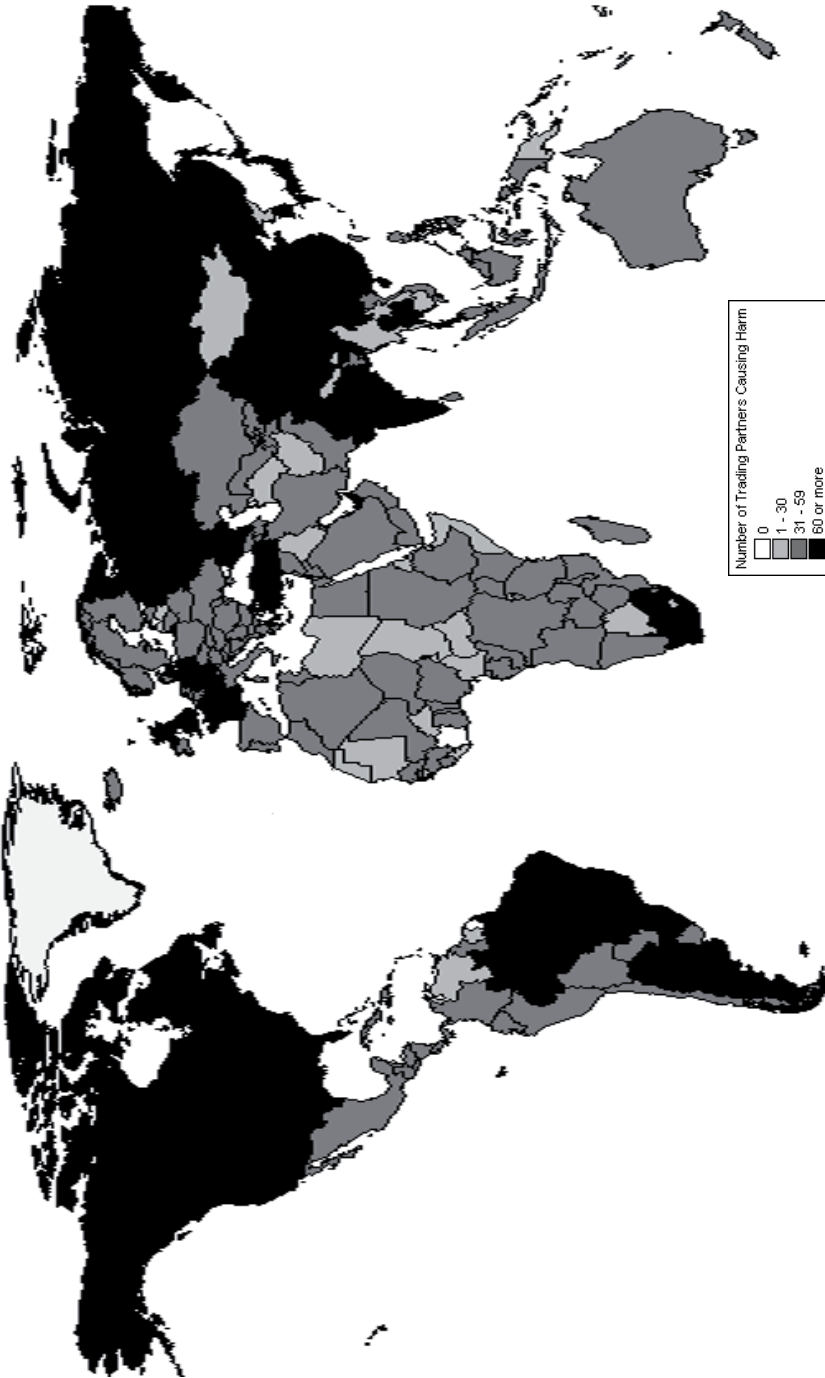
Map 3 Number of (4 digit) tariff lines harmed by each jurisdiction's discriminatory measures



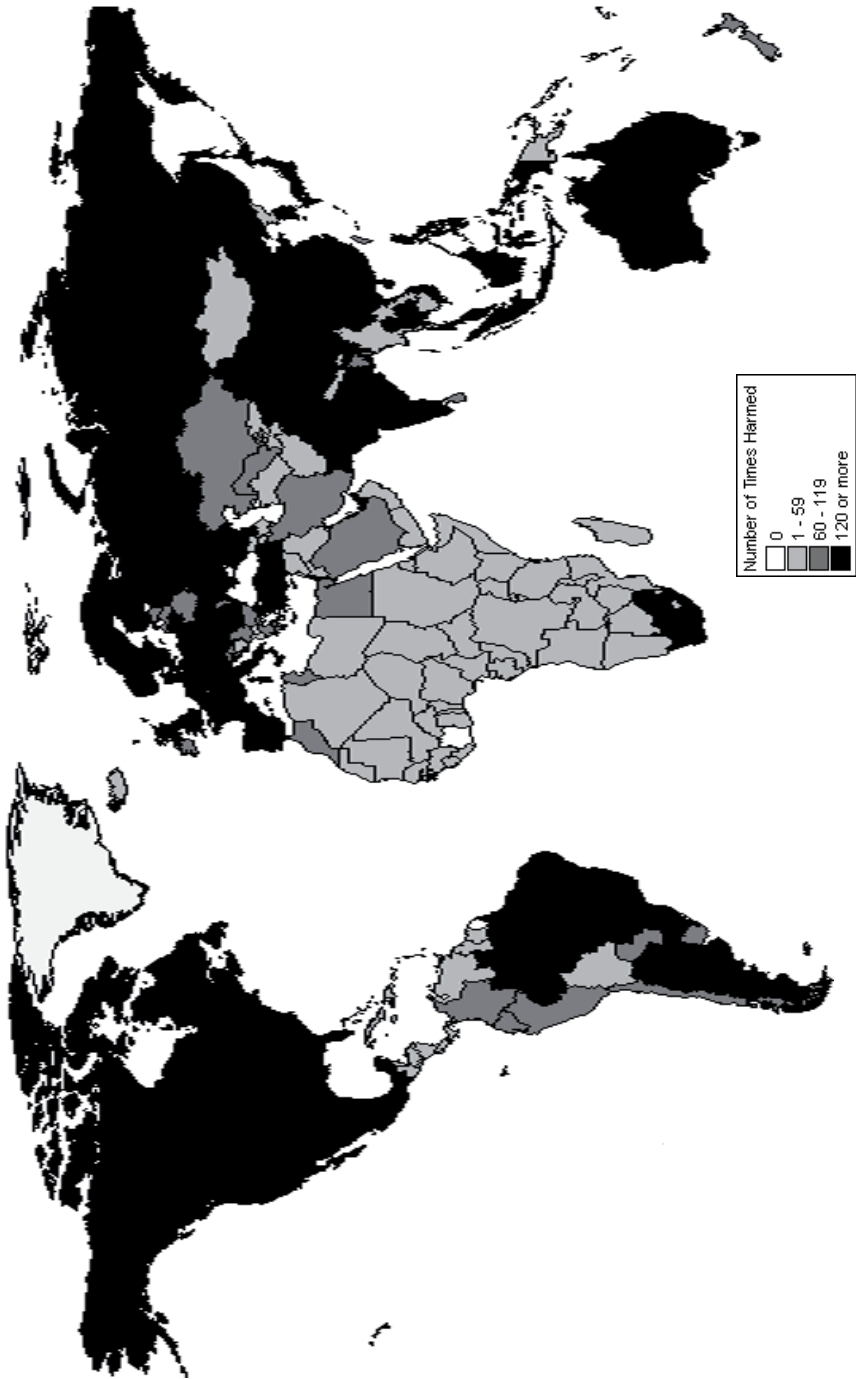
Map 4 Number of sectors harmed by each jurisdiction's discriminatory measures



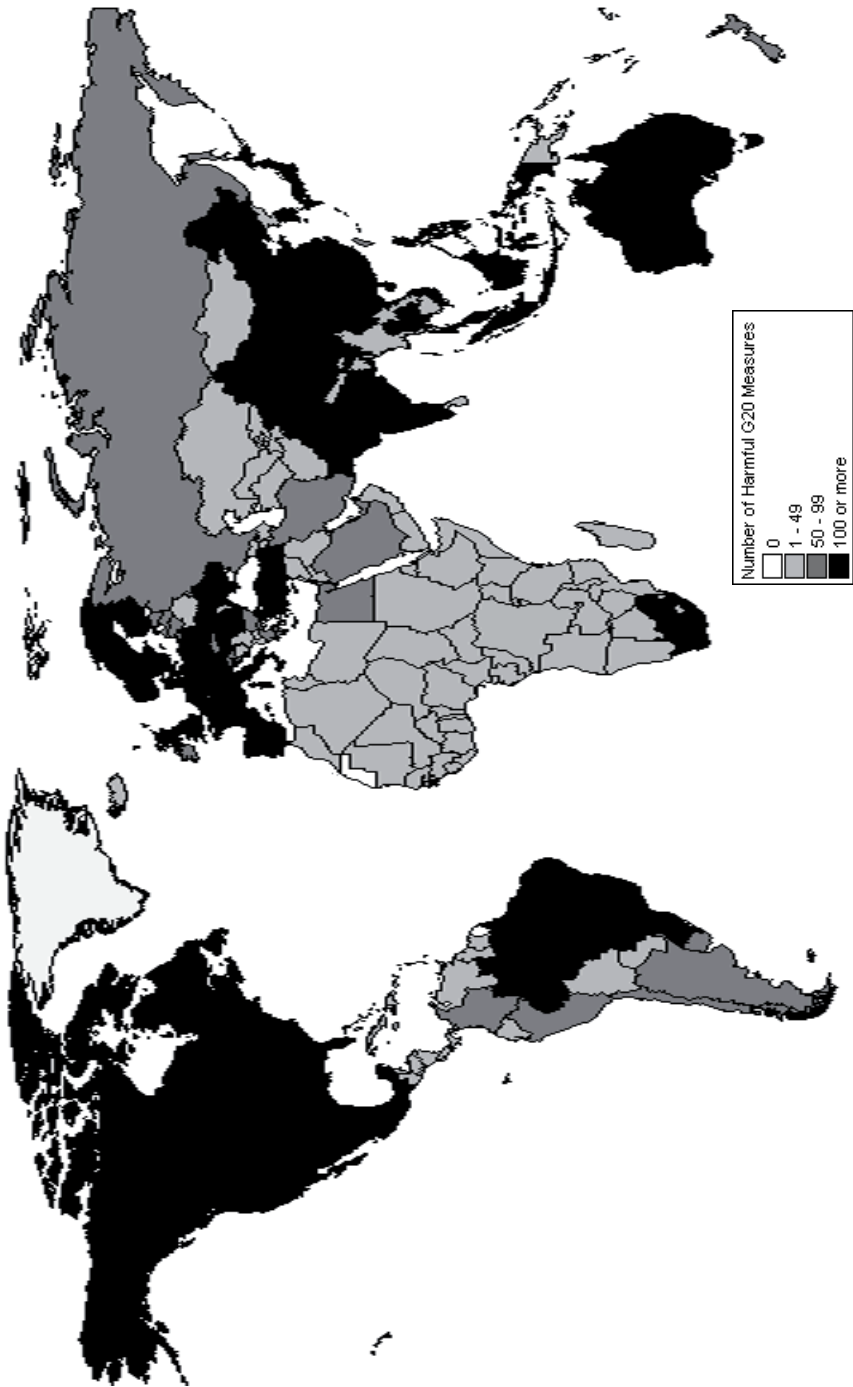
Map 5 Number of trading partners affecting a jurisdiction's commercial interests



Map 6 Number of times a jurisdiction's commercial interests are harmed by trading partners



Map 7 Number of harmful measures implemented by G20 countries affecting each jurisdiction



Map 8 Number of pending discriminatory measures likely to harm a jurisdiction

