CHAPTER

5

REGIONAL TRENDS IN TRADE POLICIES: BUILDING TALLER FENCES?

Changes in trade policies tend to mirror the overall tone and tenor of globalization. The rhetoric of protectionism that is gaining popularity among G20 economies, together with events such as “Brexit”, does not bode well for the efforts towards reviving trade growth. This general “inward looking” mood in politics is also evident in the recent trends in trade policies, which is tilting towards increased restrictiveness. Liberalization efforts are increasingly limited to the “like-minded’’ countries and, de facto, discriminate against all others, as in some recent attempts to create mega-regional trade agreements.[1] However, since there is still considerable public resentment and angst regarding these agreements, it is possible that such efforts will be put on hold for some time. More importantly, an increasing protectionist stand does not resonate well with the universally accepted 2030 Agenda for Sustainable Development, in which trade is seen as an important means of implementation.

Against this backdrop, this chapter analyses the recent trends in trade policies that affect trade in goods and services, focusing on the region but also depicting the most important global traits. In addition to presenting the overall state of play, further details are provided concerning these trends in terms of analysing selected sectors (steel) and country groups (G20 and ASEAN). The chapter presents evidence on the continuing prominence of non-tariff measures in the trade policy portfolio of countries. Recognizing the increasing importance of the services sector, the chapter also reviews recent empirical findings relevant for the economies in the region on use of policies affecting trade in services and services sector in general.

A. RECENT TRADE POLICY DEVELOPMENTS AFFECTING TRADE IN GOODS

1. Trade policy measures under WTO disciplines

Trade policy measures can restrict and enable trade. These measures affect imports and exports of goods, and come in a form of changed tariff rates or other duties, quantitative restrictions including bans, customs procedures, taxes and a whole array of other non-tariff measures.[2] Their significant feature is the ability to discriminate among markets, products and services. This sub-section analyses the trends in trade policy measures falling strictly under the purview of WTO disciplines, based on the data collected by the WTO secretariat (WTO, 2016).

> *"The global stock of trade-restrictive measures increased by 17.5 new measures per month."*

Tables 5.1 and 5.2 present the recent trends in restrictiveness and liberalization of trade policies falling under WTO disciplines. From mid-October 2014 to mid-May 2016 (hereafter, the reporting period), the monthly increase in the global stock of trade-restrictive measures amounted to almost 17.5 new measures per month, up from 15 reported as an average during the preceding reporting period from mid-November 2013 to mid-May 2015.[3] At the same time, the number of trade-liberalizing measures also increased from 16.2 to around 19 in the current reporting period (WTO, 2015; and ESCAP, 2015).

The past seven months of the reporting period (mid-October 2015 to mid-May 2016), however, present an alarming picture with the monthly average of newly introduced restrictive trade measures amounting to 22. This constitutes the highest monthly average registered since 2011 and is larger than the monthly amount of new liberalizing measures introduced during the same period (18.6), implying the existence of a trend towards a growing stockpile of trade-restrictive measures (WTO, 2015). In the Asia-Pacific region, on average, 6.6 new restrictive measures were introduced during the full reporting period compared with 4.5 liberalizing measures. Following the global trend, during the last seven months of the reporting period the Asia-Pacific region introduced, on average, 7.7 restrictive trade measures per month. WTO estimated that since reporting began in 2008, of a total of 2,835 trade-restrictive measures worldwide, only 708 had been removed by mid-May 2016 (WTO, 2015), indicating that world has built up a considerable stock of protectionist measures.

Nevertheless, in the last reporting period, there was a very small but still a positive step towards removing some of that protectionist armoury as the world at large introduced 332 new trade-restrictive and 352 liberalizing measures. However, not all regions contributed proportionally to this result. The Asia-Pacific region introduced 125 new trade-restrictive measures compared with 85 liberalizing ones (tables 5.1 and 5.2). Asia-Pacific economies therefore accounted for 37.7% (24%) of trade-restricting (trade-liberalizing) measures introduced globally, which is somewhat less than their joint share of global exports (40%) and global imports (36%) discussed in chapter 1. India and Indonesia, by introducing 28 and 24 new measures, respectively, remain among the top economies in pursuing the use of trade-restrictive measures. At the same time, in terms of liberalization, India and China jointly earned the top rank by adding 16 new liberalizing measures each.

> *"For every trade liberalizing measure introduced, the region added one and a half restrictive measures during the reporting period."*

The impact of different trade measures varies considerably; while some may have significant commercial implications for trading partners, others cause relatively little harm, and some may actually enable trade. In order to assess the impact of individual trade measures, price and income elasticities as well as price impacts must be observed or estimated. This is often too complex due to data constraints, making it difficult to quantify commercial impacts of individual measures. While mere mapping and tracking of implemented trade measures do not suffice for an assessment of the restrictiveness of the global trade environment, they do, however, provide a good sense of

Table 5.1 **Increase in new trade and trade-related restrictive measures, mid-October 2014 to mid-May 2016 and mid-October 2015 to mid-May 2016**

	Mid-October 2014 to mid-May 2016		Mid-October 2015 to mid-May 2016	
Type of measure	World	Asia-Pacific region	World	Asia-Pacific region
Imports	252	94	116	39
of which, tariffs	**154**	**49**	**66**	**18**
Exports	55	18	24	9
Other	25	13	14	6
Total	332	125	154	54
Measures per month	17.5	6.6	22.0	7.7

Source: ESCAP calculation based on data from WTO (2016).

Note: Import measures comprise the following main categories tariffs, customs procedures, taxes, quantitative restrictions and others. Export measures comprise duties, quantitative restrictions and others.

Table 5.2 **Increase in new trade liberalizing measures, mid-October 2014 to mid-May 2016 and mid-October 2015 to mid-May 2016**

	Mid-October 2014 to mid-May 2016		Mid-October 2015 to mid-May 2016	
Type of measure	World	Asia-Pacific region	World	Asia-Pacific region
Import	295	57	103	21
of which, tariffs	**234**	**41**	**74**	**14**
Export	52	14	26	6
Other	7	14	3	4
Total	354	85	132	31
Measures per month	18.6	4.5	18.9	4.4

Source: ESCAP calculation based on data from WTO (2016).

Note: Import measures comprise the following main categories tariffs, customs procedures, taxes, quantitative restrictions and others. Export measures comprise duties, quantitative restrictions and others.

the direction in which the trend in usage of restrictive measures is going. Furthermore, as the impacts of trade-restrictive measures are cumulative, counting both new and previously implemented measures still in place allows for an enhanced understanding of an increase in total trade costs, which are mostly a reflection of the tariffs, other protectionist measures and procedures at the border, and other regulatory barriers beyond the border.

Two overall trends emerge from the previous discussions. First, even though globally trade-liberalizing measures exceeded restrictive measures during the reporting period, a build-up stock of restrictive measures is still towering over any liberalizing attempts. Moreover, the largest trading region, Asia and the Pacific, introduced many more restrictive than liberalizing measures during this period. Second, a worrying trend, globally as well as regionally, is the surge in the number of trade restrictive measures adopted per month from mid-Oct 2015 to mid-May 2016 compared with the overall reporting period. At the same time, the number of trade-liberalizing measures adopted per month remained more or less the same.

Tariff hikes remained the most widely adopted trade restrictiveness measure, contributing to 66% and 40% of the global and regional trade restrictive measures, respectively. Unilateral tariff reductions accounted for more than 66% of worldwide liberalizing trade measures and almost half of the Asia-Pacific ones (table 5.2).

To be able to respond to specific trade concerns, Governments may make use of trade remedy measures that allow them to utilize flexibility afforded by members' WTO commitments, i.e. by temporarily imposing higher tariffs on imports from individual sources. Typical trade-remedy measures come in the form of anti-dumping duties (ADs), countervailing duties (CVDs) and safeguards,[4] which allow Governments to address specific concerns arising from dumping, trade distorting subsidies and import surges. Trade remedy measures may, however, in certain circumstances be used as a protectionist tool by Governments facing pressure from domestic companies; they are actually listed as the contingent protection in the UNCTAD/WTO classification of non-tariff measures (see more details in subsection 2). Monitoring their usage therefore enables a broad assessment of the trade restrictiveness of the trading environment. An emerging trend is the utilization of trade remedies as often as, or even more often than traditional protectionist measures, as discussed above (tables 5.3 and 5.2).

"The ratio of initiations of trade-remedy measures to terminations increased significantly, both globally and regionally."

During the reporting period 283 new trade remedies were initiated, of which 106 were initiated by Asia-Pacific economies (table 5.3 and ESCAP, 2015). However, the ratio of initiations of trade-remedy measures to terminations increased significantly globally and regionally, compared with the preceding period, leading to a large increase in the overall number of barriers to trade. Metal products – particularly steel products (see box 5.2) – as well as chemicals, and plastics and rubber accounted for a large share of this increase (WTO, 2016). India was the top initiator of trade remedy cases in the reporting period, initiating 33 new trade remedies, followed by Turkey which initiated 22. India, however, was also the top terminator, ending 21 trade remedies, while Turkey ending only four. Anti-dumping duties remain the most popular form of trade remedies.

2. Trade policy measures beyond WTO disciplines

WTO reporting does not capture all potential trade-restricting measures, as members merely notify measures that fall within the WTO ruling coverage or disciplines set by WTO agreements. For example, in the aftermath of the 2008-2009 financial crisis, many Governments resorted to subsidized financing in the form of bailing out sectors (especially the banking and financial sector) that were in severe difficulties. Such measures are not part of WTO disciplines (agreements) and thus are not included among measures collected for WTO reports. However, the Global Trade Alert (GTA) initiative, gathering data from a wider range of sources and consequently capturing a larger variety of trade distorting measures, aims to close the data gap on less transparent trade distorting measures. The GTA data records all "state measure" that affects the commercial interests of a trading partner and is not confined to border measures, which is the focus of WTO data used in the previous sub-section. Measures such as domestic regulations, stimulus packages, and subsidies which affect commercial interests of a trading partner gets coverage under GTA, even though some of these measures need not be subject to WTO disciplines. Due to the more comprehensive nature of the GTA data, it is possible to obtain a more nuanced picture of the overall trend in use of trade measures.

"Bailouts, trade defence measures, import tariff increases and localization requirements constitute the majority of trade restrictive measures."

A recent GTA report confirms that resorting to protectionism – up by 50% on that observed in 2014 – has increased significantly (Evenett and Fritz, 2016). For example, in 2015, trade-restrictive measures outnumbered trade-liberalizing ones by three-to-one, a trend that will presumably prevail in 2016; in the first four months of 2016, more than 150 protectionist measures were implemented compared with the average of the first four months since 2010, which was between 50 and 100 measures. Three fifths of the trade restrictive measures taken during 2015 came in the form of the following four measures: bailouts; trade defence measures; import tariff increases; and localization requirements (Evenett and Fritz, 2016). From mid-October 2014 to mid-May 2016, the Asia-Pacific region was responsible for introducing 700 (approximately 60%) of the 1,180 trade-restrictive measures introduced worldwide. Manufacturing and agriculture were affected the most (figure 5.1).

Table 5.3 **Trade-remedy measures, mid-October-2014 to mid-May 2016, and mid-October 2015 to mid-May 2016**

		Mid-October 2014 to mid-May 2016		Mid-October 2015 to mid-May 2016	
Trade remedies		**World**	**Asia-Pacific region**	**World**	**Asia-Pacific region**
Initiation	**Total**	**283**	**106**	**118**	**46**
	Anti-dumping	218	87	88	37
	safeguards	27	11	13	4
	Countervailing	38	7	17	5
Termination	Total	188	75	56	18
	Anti-dumping	156	67	45	16
	safeguards	13	6	6	2
	Countervailing	19	2	5	0
Ratio of initiation to termination		**1.5**	**1.4**	**2.1**	**2.6**

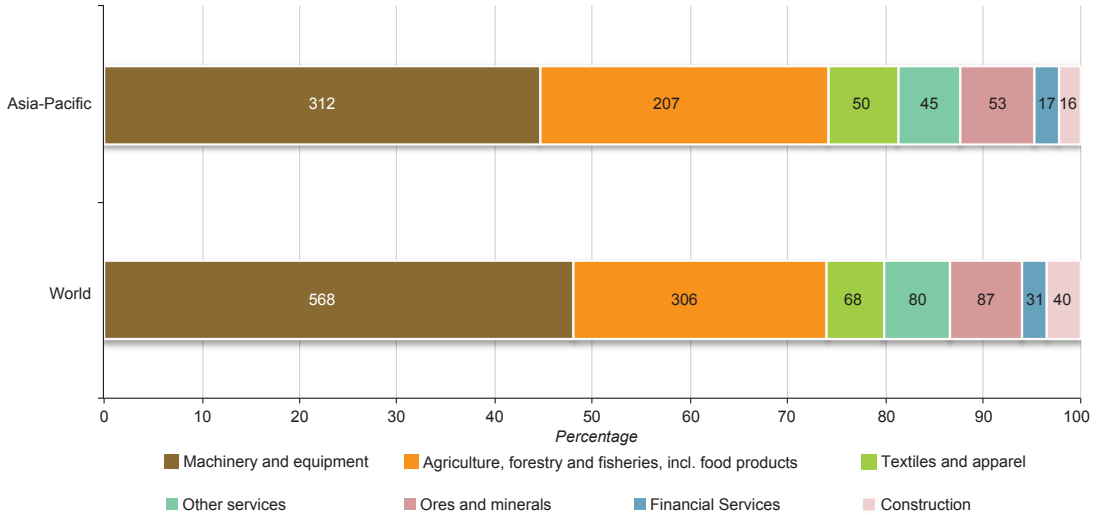
Source: ESCAP calculation based on data from WTO (2016).

"The overall trend in policy mix of the G20 is still pointing in an increasingly protectionist direction."

According to GTA data,[5] of the economies in Asia and the Pacific region, the Russian Federation and India implemented the largest number of "red" or discriminatory measures during 2013 to mid-May 2016, when they introduced 261 and 227 measures, respectively (table 5.4), putting them on a par with the United States of America, which implemented 259. Box 5.1 highlights the case of a surge in protectionism across G20 economies, including its regional members, which could have detrimental impact on overall global economic growth prospects.

On the flip side, it is estimated that China's commercial interests were harmed 484 times, from January 2015 to May 2016, which is equivalent to China's commercial interests on average being harmed on

Figure 5.1 **Sectoral composition of new restrictions, including less-transparent measures (share of total), mid-October 2014 to mid-May 2016**



Source: ESCAP calculation based on data from Global Trade Alert, 2016.

Table 5.4 **Ranking of Asia-Pacific countries according to the overall number of red[a] measures implemented**

Implementing jurisdiction	"Red" measures		
	2013-July 2016	Mid-October 2014 to mid-May 2016	Mid-October 2015 to mid-May 2016
Russian Federation	261	119	42
India	227	87	28
Indonesia	92	43	7
Kazakhstan	76	26	7
Japan	70	47	7
Turkey	68	33	6
Australia	51	27	12
Pakistan	44	19	8
Republic of Korea	31	10	1
Viet Nam	31	11	2

Source: ESCAP calculation based on data from Global Trade Alert, 2016.

[a] GTA codes a measure as "red" if it almost certainly discriminates against a foreign commercial interest (Evenett and Fritz, 2016).

Box 5.1 **G20: Surge in protectionism**

The G20 includes the world's largest trading economies, including eight in Asia. In 2014, almost 60% of Asia-Pacific exports went to G20 members. Consequently, any trade-restrictive measures adopted by G20 members are of particular significance for the Asia-Pacific region. Since the global financial crisis, G20 leaders have repeatedly vowed to roll back existing protectionist measures and resist imposing additional ones. However, there is plenty of evidence that G20 fell short on their promises (Evenett, 2016; WTO-OECD-UNCTAD, 2016).

The latest WTO-OECD-UNCTAD overall assessment report on G20 trade measures covers mid-May 2016 to mid-October 2016. It shows that during this period, the G20 returned to the trend level for initiating new trade restrictions. The monthly average of new trade restrictions imposed came down to 17 per month – compared with 21 per month for the previous reporting period (mid-october 2015 to mid-May 2016), which was the highest counted since monitoring began in 2009. At the same time, the number of trade facilitating measures dropped 1 measure to 13 per month compared with the previous report and remained below the 2009-2015 average. Hence, the overall trend in policy mix is still pointing in an increasingly protectionist direction. Since 2008, only about 25% of trade restrictions recorded for G20 economies have been rolled back, with the total number of restrictive measures currently in place amounting to 1,671, constituting an approximate 6% growth in the overall stockpile of trade restrictions during the past review period (WTO-OECD-UNCTAD, 2016).

According to GTA data, which include a broader range of trade measures than the WTO-OECD-UNCTAD (2016) report, 736 new discriminatory measures were implemented worldwide in 2015, with G20 members being responsible for 599[a] or 81.4% of all measures, up from 76.6% in 2014 (ESCAP calculations using 2016 GTA data). In 2015, the G20 economies of the Asia-Pacific region – India, the Russian Federation, China, Indonesia, Turkey, Japan, Australia and the Republic of Korea – introduced 303 new measures, accounting for just over half of the trade-restrictive measures implemented by the G20 economies, and up from 276 (47%) in 2014. The Russian Federation, India, Indonesia and Japan, for example, implemented 86, 67, 42 and 36 new trade restrictive measures (which the GTA codes as "red" measures), respectively, in 2015, ranking them second, third, fifth and seventh most protectionist economies, respectively, in the world, compared with 84, 75, 36 and 14 measures, respectively, in 2014 (see table below). With the exception of India and China, all Asia-Pacific G20 economies increased the number of new trade restrictions introduced in 2015 compared with 2014 (ESCAP calculations using 2016 GTA data).

Despite the challenging global environment, G20 members (including those in Asia and the Pacific) must revive their commitments to maintaining and strengthening the open global trade environment, so that others may follow. For this to succeed, active steps must be taken towards untangling and dismantling the growing and complex web of trade restrictive barriers.

Table. Top 10 economies implementing "red"[b] measures, 2014 and 2015

Ranking	2014		2015	
	Economy	Number of "red" measures imposed	Economy	Number of "red" measures imposed
1	United States of America	107	United States of America	90
2	Russian Federation	84	Russian Federation	86
3	India	75	India	67
4	Brazil	54	Brazil	42
5	Germany	42	Indonesia	42
6	Argentina	39	Argentina	36
7	Indonesia	36	Japan	36
8	Italy	36	United Kingdom	36
9	China	32	Italy	34
10	United Kingdom	32	Canada	27

Source: ESCAP calculation based on data from Global Trade Alert, 2016.

a When more than one member of the relevant country group is involved in introducing a measure, then this measure is only counted once (i.e. Germany and Italy introducing a measure under the European Union counts as one measure in the aggregate, but when stating numbers for individual countries, it is counted twice).

b GTA codes a measure as "red" if it almost certainly discriminates against a foreign commercial interest (Evenett and Fritz, 2016).

a daily basis. Other G20 States such as Germany, Japan and the United States were estimated to have been hit between 300 to 360 times during the same time period (Evenett and Fritz, 2016). During 2013-2016 in the Asia-Pacific region, China, the Republic of Korea and Japan were most affected by "red" measures. While the United States, for example, was the target of 683 "red" measures, China was targeted 710, the Republic of Korea 695 and Japan 625 times (table 5.5).

3. Exploring the reasons behind the increase of protectionism

> *"The analyses of trade tensions in steel industry reveal that some of the key reasons for current increase in protectionism are past trade distorting measures and supply glut."*

There is no single reason for the cumulative increase in protectionism. However, looking at some of the key sectors affected by trade tensions can reveal some of the underlying causes. WTO (2016) highlighted the fact that metals (especially steel), followed by the plastics, rubber and chemicals sectors, saw the greatest increase in the initiation of trade remedies. In an attempt to uncover some of the factors driving this overall increase in trade restrictive measures, box 5.2 provides an analysis of the trade policy tensions in the steel industry. The key point revealed by the analysis is the long-term trade-distorting impact of measures, such as state subsidies, and how they can lead to spiralling of protectionism in future. Interestingly, this is a common phenomenon among the sectors highlighted by WTO (2016) that saw an increase in trade remedies. Trade-distorting measures of the past and present are continuing to insulate several industries from reacting to the fall in world demand following the financial crisis and the ongoing slow economic recovery. This, together with the continuing low price of oil, which is a key raw material in these sectors, has contributed to a supply glut. The recent G20 leaders' Summit in Hangzhou, China explicitly recognized the problem of "excess capacity" in industries and its negative impact on international trade (European Commission, 2016a). Further industry- and country-level research is required in order to identify other specific reasons for the increase in protectionism. Nevertheless, rising trade tensions should act as a caveat for Governments planning to take more interventionist policies in specific economic sectors or industries in future. As many countries are now realizing that, once instituted, it is often difficult to withdraw such measures.

4. Continuing prominence of non-tariff measures in trade policy portfolio

> *"With the fall in applied tariff rates, non-tariff measures are emerging as an important barrier to trade."*

Two dominant long-term trade policy trends are obvious: (a) the lowering of average applied tariffs over the past few decades; and (b) the growing importance of non-tariff measures (NTMs) as barriers to trade during the same period.

In keeping with the global trend, average applied tariff rates in the majority of Asia-Pacific countries have decreased substantially during the past few decades.

Table 5.5 **Top 10 targeted jurisdictions in the Asia-Pacific region**

Targeted jurisdiction	Number of "red"[a] measures		
	2013-July 2016	Mid-October 2014 to mid-May 2016	Mid-October 2015 to mid-May 2016
China	710	312	73
Republic of Korea	695	306	71
Japan	625	270	61
India	574	249	54
Russian Federation	501	222	49
Thailand	494	219	54
Turkey	441	206	51
Malaysia	422	204	52
Singapore	390	198	50
Indonesia	373	164	39

Source: ESCAP calculation based on data from Global Trade Alert, 2016.

[a] GTA codes a measure as "red" if it almost certainly discriminates against a foreign commercial interest (Evenett and Fritz, 2016).

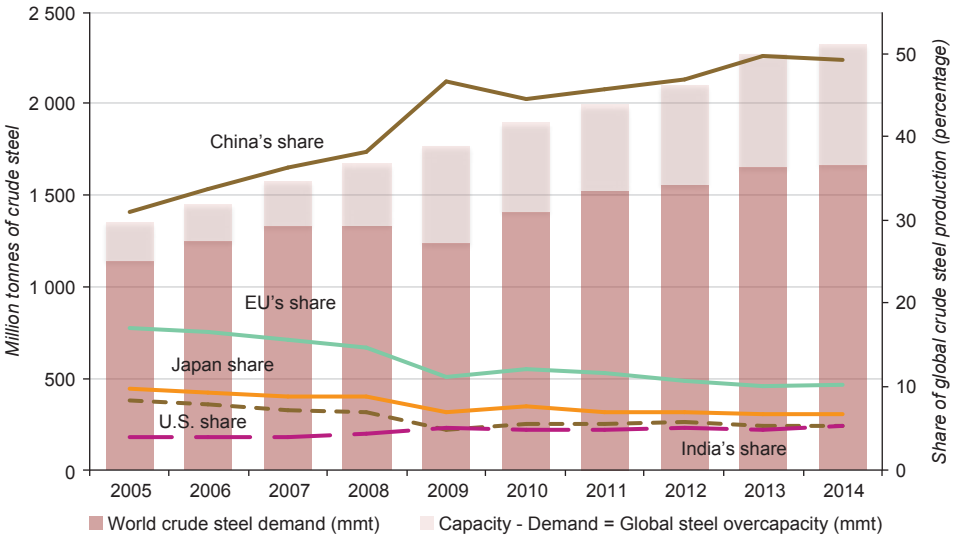
Box 5.2 **Trade tensions in the steel industry**

Tensions in the global steel market have been growing for some time, with much of the blame being placed on Chinese producers who account for nearly half of the global steel market, according to the World Steel Association (WSA) (2016). In 2015, Chinese steel exports rose by around 20%, while exports in most other major steel-exporting economies declined, according to the Organisation for Economic Co-operation and Development (OECD) (2016). One of the main reasons cited for the excess steel production is that state-owned enterprises (SOEs) in China are insulated from the market forces by generous state subsidies. For example, in late-2015, while about 30 private steel enterprises in northern China closed their operations as a response to plummeting prices, the larger SOEs have not shown any response to market signals (Liu and Song, 2016).

The arrival of so much steel on the global market as well as the large spreads between Chinese steel prices and those in other regions have pushed down world steel prices and fuelled trade tensions. The scale of global steel production overcapacity is currently estimated to exceed 600 million metric tons. The Asia-Pacific region is especially affected by the impact of the current global steel glut due to intraregional trade; in 2014, for example, 66.6%, 81.7% and 63.3% of steel exports by China, Japan and the Republic of Korea were concentrated in Asia (WSA, 2015). Many believe that China's low-cost excess capacity – for which, to a large extent, its government subsidies are blamed – is displacing production and sales in other countries. This has provided incentives for Governments to increasingly resort to implementing trade-related policy instruments to protect the domestic steel sector. However, it is not only China that is seen as a contributor to the global steel glut, as steel industries in other countries such as the Republic of Korea, Japan, Italy, the Russian Federation and India have also become recipients of increased discriminatory trade measures.

Due to its strategic and cyclical nature, the steel industry has typically attracted a large number of trade remedy cases; from 1995 to 2014, for example, base metals (including steel) accounted for 29% of total anti-dumping (AD) initiations (OECD, 2016). Data, however, indicate that the number of AD and countervailing duties (CVD) cases reached historically high levels in 2015, with 41 new cases of AD and CVD investigations being initiated (OECD, 2016). Furthermore, the rate of new cases being picked up appears to be continuing to accelerate. In fact, metal products, and particularly steel products, accounted for the largest share of AD and CVD initiations from mid-October 2015 to the end of May 2016 (WTO, 2016).

Figure A. Global steel overcapacity and shares of global steel production, 2005-2014



Source: ESCAP calculations based on data from WSA (2016) and OECD (2016).

Note: Data not available for 2015 world crude steel demand.

Box 5.2 *continued*

Trade remedies, although often receiving much of attention from the media, are not the only policy measures that governments are resorting to and may not be as harmful to trade as other measures like export incentives or subsidies, which affect a larger proportion of world steel trade (Evenett and Fritz, 2016). Data indicate that since November 2008 the number of all harmful trade measures in the steel sector (including state aid measures, export incentives and investment measures) has outnumbered liberalizing measures 4.5 to 1. This figure is significantly higher than other sectors, which average 3 to 1 (Evenett and Fritz, 2016). Figure B summarizes the number of all discriminatory measures imposed in the steel sector and captured by the GTA since end of 2008, showing that the total in 2015 exceeded the total for all previous crisis-era years.

China, the Republic of Korea and Japan were the most frequent targets of steel measures during the reporting period worldwide, followed by Germany and Italy, and with many further Asia-Pacific economies following closely behind them. Most notable is China, which has been targeted by steel measures 562 times since Q4 2008 (115 times alone in 2015 and Q1 of 2016). The United States, for example, recently put tariffs of 522% for cold-rolled steel imports from China into place (United States International Trade Commission, 2016). Additionally, individual WTO members have signalled that their willingness to support market-economy status for China in the WTO later this year is dependent on it cutting back its steel production (*Wall Street Journal*, 2016).

The outlook for the global steel market continues to look weak, and while trade protectionism may provide short-term relief for domestic steel producers, it is feared that it does not provide the long-term resolution needed to support the industry and, moreover, is exacerbating the existing tensions between trading partners (OECD, 2016). It is therefore important for Governments to discuss how trade policy could be better coordinated among economies to prevent escalation of trade disputes. Ultimately, Governments should work together to remove trade-distorting policies such as subsidies and other interventions that, in their own right, promote the creation of new capacity or delay the elimination of inefficient steel production and the structural adjustment of the steel industry.

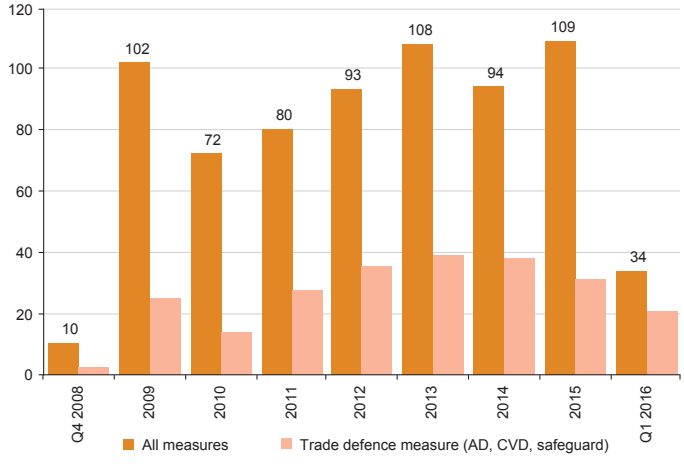
In order to specifically address the issues in the steel industry, G20 leaders' Summit in Hangzhou, China called for increased information sharing and cooperation through the formation of a Global Forum on excess steel capacity (European Commission, 2016a).

Top 10 targeted Asia-Pacific jurisdictions, steel measures, Q4 2008-Q1 2016

China	562
Republic of Korea	465
Japan	450
Russian Federation	408
India	388
Turkey	190
Thailand	179
Malaysia	158
Singapore	158
Indonesia	147

Source: ESCAP calculation based on data from Global Trade Alert, 2016.

Figure B. Number of discriminatory trade measures imposed in the steel sector, Q4 2008-Q1 2016



Source: ESCAP calculation based on data from Global Trade Alert, 2016

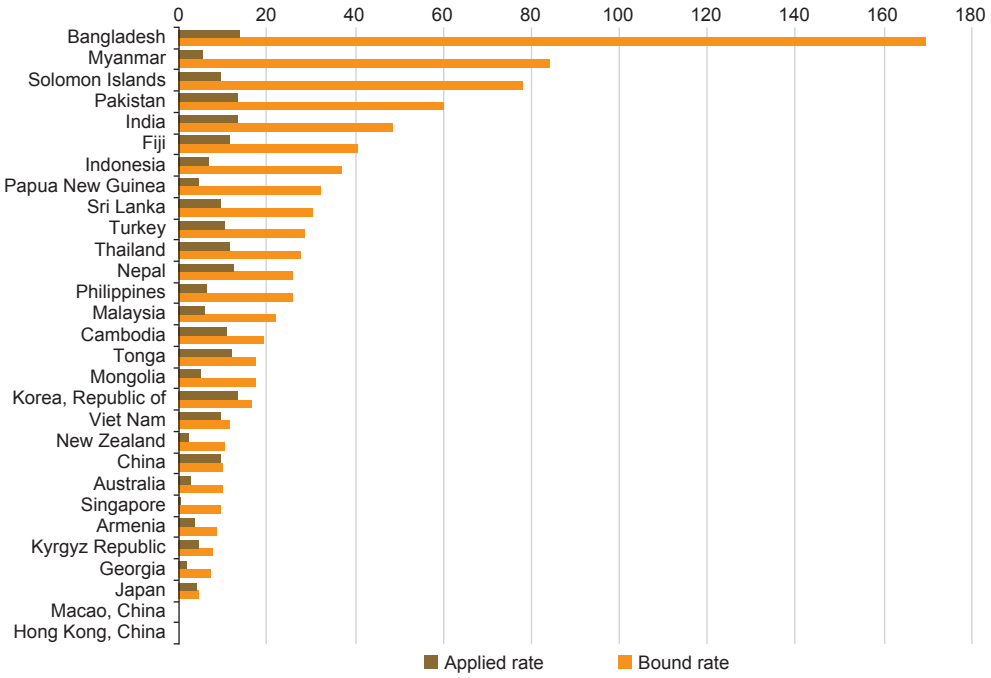
Note: Following OECD (2016), counted as steel measure if HS 7206-7302, HS 7304-7302 and/or HS 7307.02-7307.99 affected.

Reductions have been achieved through a combination of: (a) unilateral liberalization, with countries adopting more open trade-oriented development strategies; (b) preferential trade agreements, allowing greater market access to partners; and (c) multilaterally, through liberalization within the WTO framework. In 2012, average applied rates in developed countries were below 2% while those in developing countries amounted to 8%; in 1995, the equivalent rates were 6% and 17%, respectively (World Bank, 2012). These figures, however, vary substantially across sectors, with average trade-weighted tariff rates for sensitive products (e.g. agricultural products) remaining higher than those for manufactured products. In 2014, the simple average of world MFN-applied tariffs was 6% for manufacturing goods and just below 3% for natural resources, compared with 7% and 4%, respectively, in 2008. For agricultural products it was 15%, down by 2 percentage points from 2008. Widespread preferential access also contributed to the reduction in tariffs. For example, preferential liberalization in agriculture goods contributed to another 2 percentage point reduction of simple average agricultural tariffs from 2008 to 2015 (UNCTAD, 2015a). Despite the combined impact of preferential and multilateral liberalization, in 2014 developing Asia's trade-weighted average tariffs for the agriculture sector – at around 15% in East Asia and 23% in South Asia – were the highest in the world (UNCTAD, 2015a).

Despite the reduction in average tariff rates, developing countries still have substantial "policy space" – also commonly referred to as "water" in tariff rates - with their bound rates remaining considerably higher than their applied rates (figure 5.2).[6] This allows policymakers in developing countries to react in cases of import surges by increasing applied rates without violating WTO commitments; however, in some cases, Governments may also resort to safeguards. The magnitude of policy space varies substantially between Asia-Pacific economies, with, for example, Hong Kong, China and Macao, China not having any at all, while Bangladesh can increase its applied tariffs by more than 10 times and still comply with WTO rules.

Moreover, a large part of tariff lines remain "unbound" in many developing and least developed economies, even more so on "sensitive products", which are designated by the countries themselves and which are not subject to tariff binding. For example, in 2013 Bangladesh had a binding coverage of 15.5%

Figure 5.2 **Bound and applied MFN tariff rates in selected Asia-Pacific economies (all products, simple averages)**



Source: WTO (2015).

compared with 74.4% in India, 99.4% in Nepal and 100% in both Cambodia and the Lao People's Democratic Republic (WTO, 2015).

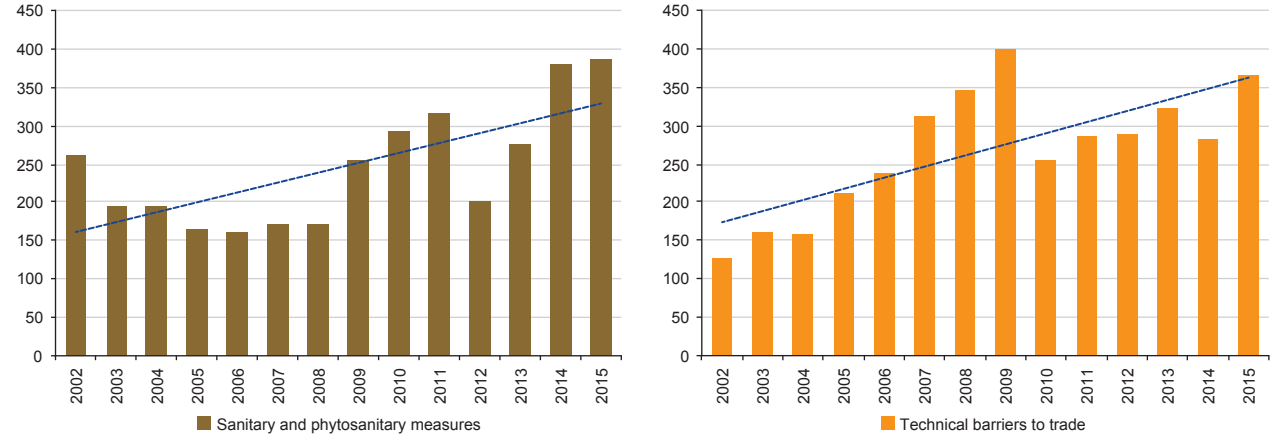
In addition to tariffs, other policies and regulations determine the scope of market access, and as tariff rates and the number of products covered by tariffs have fallen over time, the latter have become relatively more important. Non-tariff measures (NTMs) cover a wide variety of regulations that may impede trade, intentionally or unintentionally. Research has found that 93% of goods exported globally and more than 75% of HS-4-digit product categories are currently potentially linked to technical regulations (Okun-Kozlowicki, 2016). "Technical NTMs" such as product-labelling standards and sanitary and phytosanitary (SPS) measures, which cover regulations on plant and animal health, have become the most common form of NTMs. Despite often fundamentally serving legitimate and important public policy objectives, these measures are occasionally misused by Governments to disguise protectionist actions. Technical NTMs are more complex, less transparent and harder to monitor than tariffs. They therefore provide a convenient means for Governments to discriminate against imported products while avoiding dispute over trade policy with their partners. This may harm trade significantly, especially in developing and least developed countries, where testing or certification facilities to ensure compliance are often lacking. Developing countries consequently have to resort to outsourcing services such as laboratory testing or certification in order to meet standards, which can erode any advantages they have (e.g. from lower labour costs) (Heal and Palmioli, 2015).

"The number of newly-initiated NTMs (TBT and SPS) within the region saw an increase in 2015, when compared with previous years."

In 2002, the number of newly-initiated NTMs notified to WTO totalled 1,200. The annual newly-initiated NTMs have increased significantly since then, and in 2015 amounted to 2,236, with more than a third of them originating from Asia-Pacific countries (up from one fifth in 2013). Some of this increase may be attributed to enhanced recording through the WTO Integrated Trade Intelligence Portal (I-TIP) platform. However, the increase in technical NTMs is also partially explained by the growth of health and environmental consciousness, especially among middle-class consumers in emerging economies (Cadot and Malouche, ed., 2012). This has pressured Governments into adopting new regulations (for example, to ensure food safety and prevent dissemination of disease). The rise in Asia-Pacific's share of new NTMs can thus be partially explained by the fast-growing middle class in many of its economies such as in China.

Figure 5.3 depicts the increasing number of SPS and technical barriers to trade (TBT) measures initiated by the economies of the Asia-Pacific region from 2002 to 2015. Particularly notable is the fact that they increased parallel to the economic slowdown caused by the 2008-2009 financial crisis. China and the Republic of Korea – important markets for other Asia-Pacific producers – were responsible for a substantial amount of the increase in the use of NTMs (Heal and Palmioli, 2015).

Figure 5.3 **Increase in the number of newly-initiated TBT and SPS measures in the Asia-Pacific region**



Source: ESCAP calculation using data accessed June 2016 at the WTO I-TIP Database.

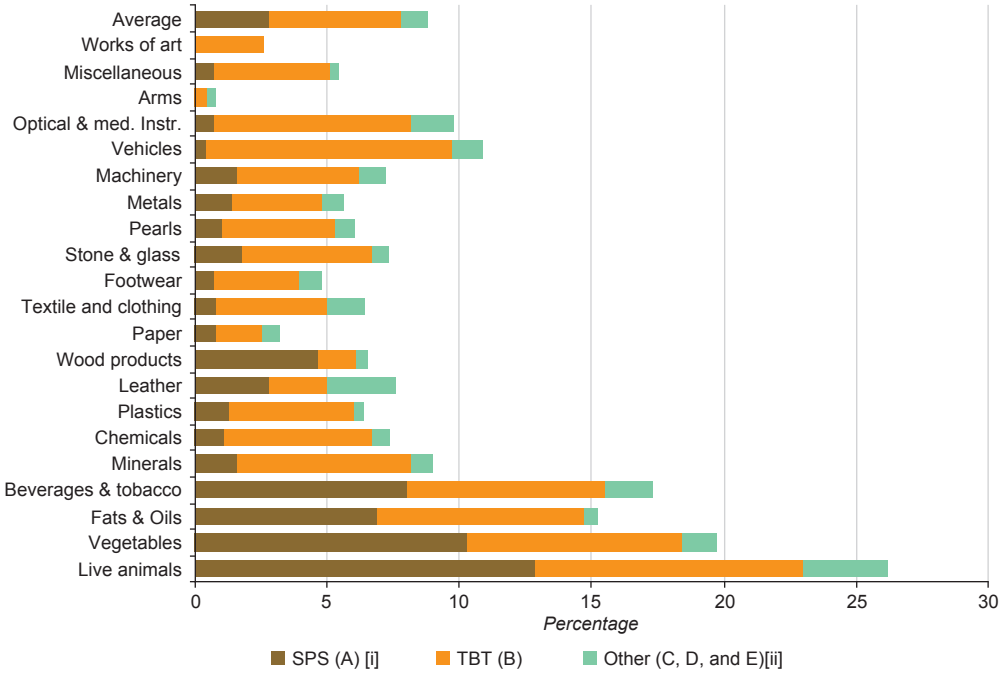
NTMs are now believed to pose a greater impediment to trade as well as the cause of higher trade costs than tariffs – the traditional barriers to trade – in many sectors (UNCTAD, 2012). Most notably affected are the agricultural and food sectors. This is particularly disadvantageous to developing countries, which typically have comparative advantages in those sectors. Thus, with an increased amount of NTMs being initiated in agricultural and food product export destinations, producers in developing countries will find it difficult to export their products to lucrative global markets.

A recent study allows the comparison of ad valorem tariff equivalents (AVE)[7] of NTMs as global averages for different sectors (Cadot and Gourdon, 2015), based on data collected during 2009-2012. The average AVE across all sectors is 8.8%. However, it differs significantly between sectors, ranging from 0.8% in the case of arms and 26% – being the highest in the live animals sector where both SPS (i.e. sanitary certificates) and TBT measures (i.e. labelling requirements) are abundant.

Comprehensive and updated data availability on NTMs remains a challenge. UNCTAD and its partners have compiled a dataset for ASEAN countries.[8] Box 5.3 describes the state of play of NTMs within ASEAN economies based on this dataset. The analyses show that TBT and SPS measures dominate the NTM portfolio among ASEAN members, with Thailand, the Philippines and Malaysia emerging as the top users of NTMs within ASEAN.

Recent empirical literature underlines the increased importance of preserving an open and predictable trade policy in an environment where global value chains (GVCs) are increasingly abundant (OECD, 2013). This is due to the fact that, with production being dispersed across countries, intermediaries cross borders numerous times prior to their final assembly. Countries, instead of producing final goods in their entirety, are increasingly specializing in performing certain tasks located at different points of the supply chain, making easy access to inputs vital. Even small additional costs arising from barriers to import, such as NTMs, can harm the competitiveness of countries and their ability to participate in global value chains. Additionally, it may discourage investment by putting off multinational companies seeking to set up production bases in the country, due to inefficiencies. Measuring the exact magnitude of the impact of

Figure 5.4 **Non-tariff measures ad-valorem equivalents, by HS Section and NTM Chapter**



Source: Cadot and Gourdon (2015).

Notes: (a) The letters A, B, C, D and E refer to the Chapters used for classifying different types of NTMs used in the new UNCTAD classification (UNCTAD, 2015b). Technical measures (Chapters A and B) refer to product-specific properties such as characteristics, technical specifications and production process of a product. Non-technical measures (Chapters C to O) refer to trade requirements, such as shipping requirements, custom formalities, trade rules, taxation policies, etc. (b) Chapter C refers to "Pre-shipment inspection and other formalities"; Chapter D refers to "Contingent trade protective measures"; and Chapter E refers to "Non-automatic licensing, quotas, prohibitions and quantity-control measures other than for SPS or TBT reasons."

Box 5.3 **Use of non-tariff measures in ASEAN**

The establishment of a regional trade arrangement is supposed to speed up the process of economic integration in the respective region. Thus, with the establishment of the ASEAN Economic Community (AEC) and the implementation of one of its flagships, i.e. the ASEAN Trade in Goods Agreement (ATIGA), reductions of non-tariff barriers (NTBs) should be high on the agenda. Notwithstanding that, many have argued that there is still a high level of NTMs within the ASEAN region and this is reflected in the number of NTMs used by ASEAN members. The Economic Research Institute for ASEAN (ERIA) has taken the initiative to categorize NTMs in ASEAN[a] improvising the UNCTAD definition and classifications of NTMs. The data generated from the work by ERIA[b] is re-processed in this box. The NTMs are classified into contingent trade protection measures (CTPM), export-related measures (EXP), pre-shipment inspections (INSP), other measures (OTH), price control measures (PC), quantity control measures (QC), sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT).

As shown in table, each type of NTM has a different degree of frequency with regard to each and every ASEAN member.

Table. Number of NTMs, by ASEAN member and type of NTMs

ASEAN member	CTPM	EXP	INSP	OTH	PC	QC	SPS	TBT	Total
Brunei Darussalam		46	1		18	2	161	288	516
Cambodia		70	1		12	3	36	121	243
Indonesia	44	74	53	4	5	8	125	321	634
Lao PDR		82	14	1	48	26	38	82	291
Malaysia	24	72	5		12	9	260	331	713
Myanmar		35	2	1	13	5	75	41	172
Philippines	1	146	24	12	23	56	233	360	855
Singapore		49	2		35	1	127	300	514
Thailand	53	128	44	3	21	40	762	562	1 613
Viet Nam		57	5	11	7	7	121	122	330
Total	122	759	151	32	194	157	1 938	2 528	5 881

As of 21 July 2016,[c] a total of 5,881 NTMs had been taken by all ASEAN members. The type of NTMs with the highest number of use was TBT, followed by SPS measures and export-related measures. If export-related measures are excluded, a significant difference is seen in the total number of TBT and SPS cases used by ASEAN members and the rest of the NTMs. Of the total number of reported NTMs (5,881), a total of 1,938 cases were in the form of SPS and 2,528 cases in the form of TBT. In other words, 33% of all NTMs used by ASEAN members were SPS and 43% were TBT. Both SPS and TBT accounted for 76% of all NTMs in ASEAN for the period covered.

With regard to the country users of NTMs, the table above also indicates the relevant patterns of the number of NTMs that individual ASEAN members have taken as well as the types of the measures. As of 21 July 2016, Thailand was the most frequent user of NTMs with 1,613 measures, followed by the Philippines (855) and Malaysia (713). The difference between the total measures used by Thailand and those by the second- and third-highest users was significant. The difference between Thailand and the Philippines was 758 (47%) while with Malaysia it was 900 (55.7%). With regard to the types of NTMs, TBT was the most frequently used measure by ASEAN members followed by SPS. In all members except Thailand and Myanmar TBT were the most frequently used NTM; in Malaysia and Thailand SPS was the most frequently used NTM. This suggests that the move to cut down on NTM usage through the AEC will be reflected in the disciplining of the national TBT and SPS regulatory regimes of ASEAN members. This does not mean, however, that scrutinizing the other types of NTMs is not pivotal. Different types of NTMs have different natures and conditions that entail different consequences.

Source: Contributed by Dr. Haniff Ahamat, Associate Professor, Faculty of Law, National University of Malaysia.
a See De Cordoba, 2016.
b See http://asean.i-tip.org/Forms/TableView.aspx?mode=modify&action=search (accessed 21 July 2016).
c ibid (accessed 21 July 2016).

NTMs on trade, however, is highly complex, as NTMs are heterogeneous and often appear as a package of measures rather than a single measure, making cost comparison tricky (Heal and Palmioli, 2015). It is therefore vital to address the issue of NTM-based protectionism; however, a prerequisite is a continued effort to improve data availability on the impact and prevalence of NTMs.

B. TRADE POLICIES AFFECTING COMMERCIAL SERVICES

> *"Services sector restrictiveness can impede trade, both in the services and the manufacturing sectors."*

Trade in services is an important component of global trade. The phenomenon of "servicification", which refers to the increased role of services in the manufacturing production, has gained the attention of academics and policymakers alike (Cernat and Kutlina-Dimitrova, 2014). In the Asia-Pacific region, the spread of GVCs has resulted in an expansion of servicification across developing economies (Anukoonwattaka, Scagliusi and Mikic, 2015). In the aftermath of the 2008-2009 financial crisis, when compared with trade in goods, global services trade declined less during the crisis and have grown faster since the crisis (Mattoo, 2016). There is growing evidence showing that services liberalization could significantly contribute to gains in economic performance, including productivity in manufacturing and the coordination of activities both between and within firms (Francois and Hoekman, 2010). It has been found that services trade restrictiveness can have a detrimental impact not just on export and import of services but also trade in downstream manufactured goods (Nordås and Rouzet, 2015). All this suggests the importance of analysing trade policies related to the services sector.

> *"More efforts are needed to systematically collect data and analyse the restrictiveness of services sector policies, especially in developing countries."*

While quantifying trade in services is itself a difficult task, measuring its restrictiveness is even more challenging. Currently, internationally comparable and annually updated data on policies that have an impact on trade in services is virtually non-existent.[9] In 2012, the World Bank released a Services Trade Restrictions Database of 103 countries; however, the data have not been updated.[10] In 2014, OECD started an initiative to annually update the service trade restrictiveness index (STRI) for a range of sectors in selected countries (including OECD and a few non-OECD members). The database has now been updated to 2015 for seven sectors: computer services; construction; professional services, comprising accounting, architecture, engineering and legal services; and telecommunications. The analysis in this section uses data for the nine Asia-Pacific countries currently available from the database, as described in table 5.6. This list includes the top three performers in terms of total trade in the commercial service sector, i.e. China, Japan and India (ESCAP, 2015).

When compared with trade in goods, one distinguishing feature of the trade in services is clear – it is predominantly affected by "beyond the border" measures not necessarily related to trade policies. For example, these measures can range from restrictions on foreign ownership, to the degree of competition or the movement of people that affects different modes of service delivery to varying degrees. Capturing this fact, the OECD STRI includes policy measures that are categorized under five policy areas: barriers to competition and public ownership; regulatory transparency and administrative requirements; restrictions on foreign ownership and other market entry conditions; restrictions on the movement of people; and other discriminatory measures and international standards.

A higher STRI score indicates higher restrictiveness to services trade. Table 5.6 indicates the variation in service trade restrictiveness from 2014 to 2015, together with STRI scores in 2015 for seven sectors. With the exception of India and New Zealand, there was no increase in service trade restrictiveness in the region by the countries analysed. India registered an increase in trade restrictiveness in five out of seven categories analysed, while in New Zealand there was an increase in restrictiveness in telecommunications services. Overall, among the seven sectors, the telecommunications sector saw the most widespread liberalization, with five out of nine countries taking measures to liberalize the sector; other countries did not take any measures resulting in an increased STRI. During that period, the Russian Federation, followed by Japan, adopted liberalizing measures in the highest number of sectors (six and four, respectively).

For OECD members as a whole, there was a clear trend in liberalization in telecommunications and legal services between 2014 and 2015. However, in the other five sectors there were signs of increasing

Table 5.6 Trend in STRI of selected Asia-Pacific countries, 2014-2015

	Accounting	Architecture	Engineering	Legal	Telecom	Computer	Construction
Australia	0.167	0.134	0.103	0.145	0.229	0.122	0.137
China	0.39	0.249	0.245	0.460	0.414	0.243	0.324
India	0.887	0.610	0.286	0.946	0.457	0.357	0.318
Indonesia	0.465	0.302	0.301	0.937	0.569	0.328	0.403
Japan	0.193	0.082	0.097	0.210	0.170	0.096	0.055
Republic of Korea	0.270	0.217	0.134	0.475	0.254	0.122	0.144
Russian Federation	0.255	0.320	0.307	0.312	0.462	0.364	0.366
New Zealand	0.175	0.168	0.153	0.185	0.253	0.148	0.120
Turkey	1.000	0.161	0.134	0.485	0.236	0.182	0.193
Asia-Pacific average	0.422	0.249	0.196	0.462	0.338	0.218	0.229
OECD average	0.269	0.214	0.200	0.335	0.177	0.183	0.181

Source: ESCAP calculation based on OECD STRI dataset available from http://stats.oecd.org/, accessed July, 2016.

Note: The value of STRI corresponds to 2015. The colour of each cell corresponds to the degree of change in STRI in 2015 compared with 2014. Green = liberalization; red = increase in restrictiveness; yellow = no increase in restrictiveness. Higher STRI score represents higher restrictions to services trade.

restrictiveness in terms of the OECD average STRI score. However, this increase in restrictiveness was driven by a small group of countries, and in 24 out of 35 OECD economies there was no increase in restrictiveness in any of the seven sectors analysed. In terms of average STRI for the subgroup of Asia-Pacific countries observed, there was greater liberalization in four sectors, i.e. architecture, legal, telecommunications and construction. The ratcheting up of restrictiveness in the remaining three sectors was driven mainly by India.

In terms of services trade policies, the Asia-Pacific region is more restrictive when compared with the global average. The STRI score (based on the World Bank dataset) for the Asia-Pacific region as a whole (32.1) is higher than the world average (28.3).[11] However, there is substantial heterogeneity in service restrictiveness within the region. Gootiz and Mattoo (2015) gathered additional data specifically on ASEAN members and found that the average STRI was 60% higher than the global average. Therefore, it remains to be seen whether enhanced regional integration efforts will lead to increased liberalization in terms of services trade. Current evidence points to the fact that under the ASEAN Framework Agreement on Services (AFAS), there has not been any significant liberalization among members and, in a few instances, services trade policy has actually become more restrictive (Gootiz and Mattoo, 2015). In the ongoing negotiations of the Regional Comprehensive Economic Partnership (RCEP), service liberalization appears to have become a contentious issue among ASEAN members (Palit, 2016).

Miroudot and Pertel (2015) showed that there is considerable "water"[12] in service trade policies of countries, signifying both openness as well as a high degree of policy uncertainty. Liberalization of service sectors could facilitate cheaper import of services and would help to increase the competitiveness of domestic service providers. Recognizing the increasing importance of the services sector, the region should continuously monitor its service trade policies and the level of restrictiveness that it entails.

C. CONCLUSION

The trends in trade policies are leaning more towards restrictiveness, especially from October 2015 to May 2016. The number of trade restrictive measures adopted, both globally and within the region, has increased significantly. The G20 economies showed a surge in protectionist tendencies despite the commitment made by their leaders to ensure a more open global trade environment. Analysis of the global steel industry reveals that one of the factors driving the increase in restrictiveness belongs to trade distorting measures adopted in the past, alluding to the long-term negative impact of such measures and the challenges created by their removal.

Considering the increasing role of services in production patterns there is a need for more comprehensive efforts in the mapping of services trade policies especially for developing and least developed countries. The data available on services trade restrictiveness pertaining to some of the major economies of the region show that there has been no increase in

service trade restrictiveness and that the Asia-Pacific region, based on the represented economies in the monitoring, performs better than the OECD average.

Endnotes

[1] Such as the Trans-Pacific Partnership (TPP) Agreement or the Regional Comprehensive Economic Partnership (RCEP) involving Asia-Pacific region economies.

[2] See UNCTAD (2015b).

[3] In analysing trade policy trends the APTIR report relies on the data generated from notifications of countries to WTO and reported in the WTO Trade Policy Reviews.

[4] AD measures are actions taken by Governments to protect domestic industries from unfairly low-priced exported products. CVDs can be used as a tool to counteract the effects of subsidies by national authorities on domestic industries; and safeguards – in contrast to the previous two measures this is not a reaction to unfair practices of another party – to temporarily allow the protection of domestic industries from negative effects occurring due to a surge of imports.

[5] GTA codes a measure as: (a) "red" if it almost certainly discriminates against a foreign commercial interest; "amber" if its implementation is likely to discriminate against foreign commercial interests or if the measure hasn't been implemented yet – but, should that happen, it would almost certainly be discriminatory; and (c) "green" if the measure either improves the transparency of the national trade policy regime, or if it improves or has no effect on the relative treatment of foreign versus domestic commercial interests (Evenett and Fritz, 2016).

[6] To bind a tariff means to make a commitment (typically through a multilateral negotiations or accession to WTO) not to increase a rate of duty beyond an agreed level. Once a rate of duty is bound, it may not be raised without compensating the affected parties. In contrast, the applied tariff rates are those actually imposed at a border. These are often considerably lower that the bound rates.

[7] An ad valorem tariff equivalent is an estimate of ad valorem effect that a non-ad valorem duties or non-tariff measures have on the imports. In principle these are imperfect estimates as they depend on the price of the imported goods remaining unchanged. See more in World Tariff Profiles 2006 (WTO, 2007).

[8] See New Database of ASEAN Non-Tariff Measures, available from http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1234&Sitemap_x0020_Taxonomy=UNCTAD%20Home.

[9] See Borchert, Gootiiz and Mattoo (2012) for details on this database.

[10] More information on this database is available from http://iresearch.worldbank.org/servicetrade/aboutData.htm#ScopeOfDatabase.

[11] ESCAP calculation based on STRI data provided by the World Bank. Available fromhttp://iresearch.worldbank.org/servicetrade/, accessed July 2016.

[12] Water in the General Agreement on Trade in Services (GATS) refers to the difference between the bound level of trade restrictivenesspermitted by GATS and the actual trade regime.

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