

## Towards a Meaningful Trade Policy Agenda for the G-20 in 2010

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The Group of Twenty Finance Ministers and Central Bank Governors from the world's 20 largest economies, known as the G-20, represents a remarkable experiment in global economic governance, opening up international decision-making processes to a broader range of countries. The ultimate purpose of this policy brief is to describe a possible trade policy agenda for the G-20 in 2010. However, before doing so it will be helpful to describe the G-20's approach to trade policy cooperation and its record in 2009.

### The G-20 pledges on protectionism

In the second half of 2008, when frozen financial markets and banking systems were restricting the supply of working capital (including trade finance) to manufacturers and traders, it became apparent that the financial crisis would spill over into the rest of the world economy. Fears arose that governments would resort to protectionism, or more precisely, discrimination against foreign commercial interests. There was also recognition that existing trade agreements did not cover all of the different forms of discrimination available to governments.

Towards the end of 2008 the leaders of the major economic powers made an important decision not to coordinate their

commercial policy responses through the World Trade Organization (WTO). Instead, commercial policy was incorporated into the deliberations of a hastily called summit of the G-20 nations in November 2008. A senior official process identified the areas of common agreement in advance of the summit; little if any negotiation took place among the heads of government and state who attended the summit.

In their Declaration issued on 15 November 2008 the G-20 Heads of State and Government affirmed:

"We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, 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."

This statement has been interpreted as the G-20's pledge to eschew protectionism. Note that the central pledge is time bound. Note also that the measures covered by the statement are not defined with any precision. Worse, there

**Table 1. Measures implemented worldwide and by G-20 countries since the first G-20 Summit in November 2008**

	Worldwide		G-20	
	Total	Total except unfair trade and safeguards investigations	Total	Total except unfair trade and safeguards investigations
Total number of measures in Global Trade Alert database	444	352	276	198
Total number of measures coded green*	60	54	45	40
Total number of measures coded amber*	58	37	34	17
Total number of measures coded red*	322	259	197	141
Total number of 4-digit tariff lines affected by almost certainly discriminatory measures	1,214	1,214	977	967
Total number of 2-digit sectors affected by almost certainly discriminatory measures	79	79	58	58
Total number of trading partners affected by almost certainly discriminatory measures	232	232	196	196

Source: Global Trade Alert (GTA) database, downloaded on 21 December 2009.

\* The colour coding is explained in detail at [www.globaltradealert.org](http://www.globaltradealert.org).

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are some measures, such as discriminatory subsidies and bailouts, which are not mentioned. Indeed, observers cannot be sure that the G-20 leaders shared a common view of what measures constitute protectionism.

Like the other pledges made in this G-20 declaration, those relating to trade restrictions were non-binding. Moreover, no monitoring—let alone enforcement—measures were taken to ensure that the commitment was followed. There is a striking difference between the specific steps, reporting requirements, and future decisions that the November 2008 Declaration contains for various financial sector matters and their absence in the case of commercial policy.

At the following G-20 summit in London in April 2009 arguably more specificity was given to the pledges concerning commercial policy. Not only was the pledge extended another year (to 2010) but “financial protectionism” was identified as a particular concern. Moreover, notification and monitoring steps were introduced with a specific role given to the WTO in this regard. The linkages between trade and trade finance, which by then had received substantial attention in the press, were acknowledged.

In addition, at the London Summit G-20 leaders committed themselves to the completion of a multilateral trade negotiation that had been underway since 2001; negotiations that had reached their latest impasse in the summer of 2008. It was asserted that doing so would provide a US\$150 billion boost to the world economy. Although the Doha Round was not a crisis-inspired measure, by making a public statement about this matter the G-20 joined the well established practice of its predecessor the G-7. Whether this particular public statement has any effect on the multilateral trade negotiations is another matter (there is precious little evidence that previous G-7 statements helped.)

Reinforcing the impression of the G-20's somewhat perfunctory attention to commercial policies is the

declaration of the September 2009 G-20 Summit in Pittsburgh. Much of the specificity of the London Declaration is lost. Moreover, the commercial policy pledges were demoted towards the end of the Declaration. Still, general commitments to “fight protectionism” and to conclude the Doha Round were made. Interestingly, there was a contrast in the language concerning being “committed” to a Doha Round conclusion and “we will spare no effort” to reaching a climate change-related agreement in Copenhagen. If language means anything in public declarations, then readers might readily infer which of the latter two international negotiations had the priority.

During 2010 the G-20 Leaders will meet twice, once in Canada and once in the Republic of Korea. More, it seems, is known about Korean intentions for its chairmanship of the G-20. Apparently, the Republic of Korea would prefer technical matters to be covered at the summit in June 2010 in Canada and that a more forward-looking discussion on the longer-term bases of economic development take place at the subsequent G-20 summit in Seoul. Having laid out what the G-20 has sought to do and its potential plans for 2010, attention now turns to the extent to which G-20 commitments to eschew protectionism have been implemented in practice.

### The G-20's record on protectionism in 2009

In addition to official monitoring exercises, an independent initiative to monitor the resort of governments to protectionism has been undertaken by the Global Trade Alert (GTA) from 1 November 2008. Announcements of state measures that are likely to affect foreign commercial interests are investigated, a report prepared, and posted on a dedicated free-to-use website, [www.globaltradealert.org](http://www.globaltradealert.org). In addition, the products (tariff lines), sectors, and trading partners affected by a state measure are identified (using a relatively conservative approach) and are posted too. The website is designed to facilitate comparisons of measures and their consequences. More details about

**Table 2. Which countries have inflicted the most harm?**

Rank	Metric: Country in specified rank, Number of measures			
	Ranked by <i>number of (almost certainly) discriminatory measures imposed</i>	Ranked by the <i>number of tariff lines (product categories) affected by (almost certainly) discriminatory measures</i>	Ranked by the <i>number of sectors affected by (almost certainly) discriminatory measures</i>	Ranked by the <i>number of trading partners affected by (almost certainly) discriminatory measures</i>
1.	EU27 (108)	Russian Federation (486)	Algeria (54)	EU27 (149)
2.	Russian Federation (40)	Ukraine (388)	EU27 (35)	India (141)
3.	Argentina (23)	China (331)	Ecuador (30)	China (138)
4.	Germany (23)	Ecuador (316)	Indonesia (25)	Russian Federation (132)
5.	Italy (14)	Indonesia (315)	Russian Federation (24)	Indonesia (124)
6.	UK (13), Hungary (13)	EU27 (231)	Ukraine (23), China (23) Belarus (23), Mexico (23)	UK (122)
7.	China (11), India (11) Indonesia (11), Spain (11) Austria (11)	India (210)	Germany (21)	USA (120)
8.	Brazil (10), Greece (10) Ireland (10)	Japan (134)	USA (20)	France (118)
9.	Finland (9), France (9) Latvia (9), Portugal (9)	UK (132)	Argentina (19)	Germany (116)
10.	Denmark (8), Japan (8) Kazakhstan (8), USA (8)	USA (124)	France (14), India (14)	Argentina (114)

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.

**Table 3. Ten most used state measures to discriminate against foreign commercial interests since the first G-20 crisis meeting**  
*Ranked by number of discriminatory measures imposed*

State measure	Number of discriminatory (red) measures imposed		Number of measures implemented (red, amber, or green)		Number of jurisdictions that imposed these discriminatory measures	Number of jurisdictions harmed by these discriminatory measures
	Worldwide	G-20	Worldwide	G-20	Worldwide	Worldwide
1. Bail out / state aid measure	123	56	129	58	41	176
2. Trade defence measure (AD, CVD, safeguard)	64	56	93	78	48	57
3. Tariff measure	64	30	89	56	19	122
4. Public procurement	14	6	18	9	11	133
5. Export subsidy	14	9	16	10	33	145
6. Non tariff barrier (unspecified)	13	8	22	14	9	109
7. Sanitary and Phytosanitary Measure	11	6	12	6	9	23
8. Export taxes or restriction	8	4	16	7	10	147
9. Migration measure	7	5	10	6	7	31
10. Import ban	7	4	8	4	6	42

the methodology employed by the GTA can be found in Evenett (2009a). From time to time a report on the measures investigated by the GTA is published; such a report was published on 14 December 2009 and focused on the Asia-Pacific region (see Evenett 2009b).

The GTA distinguishes between measures that are implemented and those that have been announced but await implementation. Table 1 reports information on the number and evaluation of state measures implemented in the past 12 months. Over 322 state measures that almost certainly discriminate against foreign commercial interests have been taken since 1 November 2008. Only a small proportion of these measures are trade restrictions associated with the so-called trade defence instruments (anti-dumping, countervailing duties, and safeguards), indicating that the pattern of protection witnessed in the past year differs from previous economic downturns. Finally, the number of discriminatory measures exceeds the number of benign or liberalising measures by a ratio of six to one.

How many of these discriminatory measures have been implemented by the G-20 countries? Table 1 summarises the main empirical findings in this regard. Just under two-thirds of the implemented state measures that harm foreign commercial interests were imposed by members of the G-20. That is, approximately every other day a G-20 member decided to break the no-protectionism pledge. There are good reasons for believing that the harm done by these measures is not confined to a small number of trading partners, sectors, or products.

The members of the G-20 are also well represented among the lists of countries that have inflicted the most harm with their protectionist measures in the past year. In the absence of separate trade and welfare estimates of the impact of each investigated state measure, the GTA reports four indicators of harm (see Table 2). While the rankings clearly differ, further analysis has revealed that the rank correlations across them are remarkably high. The Russian Federation is always in the top 5 most harming nations. If taken as a single unit the European Union, as well as China and Indonesia, are always in the top 10 most offending trading jurisdictions.

Crisis-era discrimination has been concentrated in a relatively small number of policy instruments. By far the

most widely used instruments are bailouts and subsidies, accounting for a total of 123 discriminatory measures (see Table 3). Only 51 of those 123 subsidy measures actually benefit the financial sector (i.e. bank bailouts). Trade defence instruments are the second most commonly used measure (64 measures), and traditional tariff increases a distant third (44 measures). Indeed, it is worth remembering that the most transparent form of discrimination (tariff increases) account for only one in seven of the total number of protectionist measures taken in the past year. Table 3 also serves as a reminder that there are many policy instruments whose use has likely harmed 100 or more trading partners' commercial interests.

Overall, then, the G-20 members have hardly delivered on their first pledge on protectionism over the past year. Can they can do better in the future?

### **A meaningful trade policy agenda for the G-20 in 2010**

Looking forward, two possible scenarios present themselves in 2010. The worse of the two scenarios involves an intensification of pressures on policymakers to grant protection. This intensification could have several origins including in reaction to large increases in unemployment in 2010, a lapse into a so-called double-dip recession (whereby the world economy sinks back into contraction) after the 2008 stimulus measures have worked through national economies, or diminished scope for subsidisation/bailouts brought about by tightening monetary policy and fiscal policy constraints. In this scenario the existing G-20 commitments to eschew protectionism would come under substantial strain.

The practical difficulty in reacting to this worse case scenario is two-fold. First, given the mounting data in the fourth quarter of 2009 that several economies have stopped contracting and begun expanding, many senior officials and policymakers will be disinclined to plan for an eventuality that they see as negative and which they can dismiss as hypothetical. Second, the apparent reluctance of the G-20 leaders to tie their hands with more formal commitments denies them the very tool that the private sector and the financial markets may regard as necessary to credibly disavow protectionism. All that can realistically be hoped for in this scenario, therefore, is that commercial

policy matters receive higher priority and are given greater clarity in leaders' declarations. Whether these steps would be enough to prevent a serious turn towards protectionism is doubtful. If this comes to pass, the limits of the G-20 process will be laid bare.

A more optimistic scenario takes as its starting point the recovery of the global economy in 2010. Although unemployment (a lagging indicator in most economic cycles) may continue to rise in some jurisdictions in 2010, pressure to increase protection is more likely to be localised and less likely to trigger adverse reactions from trading partners. In this scenario thought might be given to developing a process whereby G-20 countries commit to a timetable for removing simultaneously many of the major pieces of discrimination that have been put in place during the past 12 months. The process would be led by senior officials and would develop understandings (probably informal and not necessarily even publicly articulated—although that would be desirable) concerning the unwinding of subsidies, buy national provisions in public procurement policies, and export incentives.

Collective action is needed precisely because governments will be unwilling to remove some measures unilaterally—in particular, financial support—if they believe that the burden of any subsequent adjustment in a global industry will fall disproportionately on their countries' firms and workers. As a practical matter, governments will need to have confidence that such measures are being withdrawn progressively and simultaneously across the major jurisdictions that have intervened in a comparable manner. A senior officials' process from the G-20 countries, potentially informed by independent expertise on the policies and industries in question, could help build such confidence.

Another advantage of such a process is that it would entrench the expectation that the discriminatory measures taken during the past 12 months are not permanent. The private sector would receive the signal that it would be unwise to assume—and to base investment decisions unduly upon—the persistence of crisis-era discriminatory measures.

For sure, some private sector interests are not going to like the withdrawal of any discrimination from which they have benefited during the past year, but the reciprocal nature of the unwinding of such discrimination should—in sectors which are internationally contestable—create other private sector winners.

The Republic of Korea and Canada are well placed to champion such an informal senior officials' process. Both countries are large enough players in international trade circles to be listened to. Yet they are not so large that their pronouncements induce fear in G-20 partners, including the questioning of motives, etc. Both countries have established reputations for technocratic expertise in the area of international commercial policy and so could garner as well as sort through competing suggestions and ideas. In short, in 2010 the G-20 could lay the foundation for a progressive unwinding of the central elements of crisis-era protectionism.

### Concluding remarks

The considerable frequency with which G-20 governments have resorted to state measures that discriminate against foreign commercial interests in the past year call into question whether the non-binding pledges made in Washington, D.C., London, and Pittsburgh amounted to much. But past need not be prologue. Should the G-20 governments wish to develop constructive commercial policy initiatives in 2010 then a senior officials-led process could be established so as to develop the principles and timetable for withdrawing crisis-era discriminatory state measures.

### References

- Evenett (2009a). Simon J. Evenett. "What can be learned from crisis-era protectionism? An Initial Assessment." *Business & Politics*. October 2009.
- Evenett (2009b). Simon J. Evenett (ed). *The Unrelenting Pressure of Protectionism: The Third GTA Report*. CEPR. December 2009.



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