

**Box 2.3****The risk of trade protectionism: recent developments**

In view of the political developments in the major advanced economies, there has been heightened concern over a possible escalation of trade protectionism. This note makes use of the statistics compiled by World Trade Organization (WTO) on Group of Twenty (G20<sup>(1)</sup>) trade measures to examine the recent trend on this front and highlight the risks ahead.

In response to the request by G20 Leaders in 2008 to monitor and report publicly on trade measures taken by the G20 member countries, the WTO Monitoring Report on G20 Trade Measures<sup>(2)</sup> was issued, and has been published twice a year in recent years. The focus includes the measures related to merchandise trade by G20 member countries, which together accounts for more than four fifths of gross world output, three quarters of global trade, and are home to almost two thirds of the world's population.

The latest 17th report was published on 30 June 2017, tracing trade and trade-related measures implemented by G20 member countries. Whilst setting the review period from 16 October 2016 to 15 May 2017, comparable time series starting from 2012 are also available to gauge the changes over the years. Three types of measures are of particular interest here. The first type refers to trade restrictive measures, which cover actions such as increases in tariffs, customs procedures and quantitative restrictions. An increase in the number of this type of measures may signal more trade restrictions implemented by G20 member countries. The second type refers to trade-facilitating measures, which include actions such as reduction or elimination in tariffs and simplified customs procedures. A rise in the number of this type of measures may point to less trade restrictions. The third type of measures refers to trade remedy actions<sup>(3)</sup> (including investigations of antidumping and countervailing duties), tracing the number of those initiated and terminated<sup>(4)</sup>. While these investigations do not necessarily lead to the actual implementation of measures, a rise in number of investigations initiated can be an early indicator of potential trade barriers in the period ahead.

During the review period, G20 member countries applied a total of 42 new trade-restrictive measures. Among these, over half were in the form of tariff increases, followed by various customs procedures and quantitative restrictions. On average, this amounted to around 6 new measures per month (*Table 1*). This was higher than that of 4.9 in 2016, though still somewhat below the average of 7 per month between 2012 and 2015. The amount of trade flows affected by these restrictive measures was estimated at US\$47 billion, around 0.37% of the value of G20 merchandise imports.

**Table 1: Summary of trade measures implemented by G20**

|                                    | Average per month |      |      |      |      |                          |
|------------------------------------|-------------------|------|------|------|------|--------------------------|
|                                    | 2012              | 2013 | 2014 | 2015 | 2016 | mid-Oct 16 to mid-May 17 |
| <b>Trade-restrictive measures</b>  | 6.7               | 7.2  | 5.8  | 7.8  | 4.9  | 6.0                      |
| <b>Trade-facilitating measures</b> | 9.1               | 6.8  | 6.9  | 8.4  | 6.3  | 6.0                      |
| <b>Trade remedy actions:</b>       |                   |      |      |      |      |                          |
| - <b>initiations</b>               | 16.8              | 23.2 | 21.5 | 17.6 | 22.0 | 20.9                     |
| - <b>terminations</b>              | 13.3              | 12.8 | 14.3 | 12.6 | 10.8 | 8.9                      |

(1) G20 comprises 19 countries plus the EU. These countries are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Korea, Turkey, the UK and the US.

(2) While the WTO Monitoring Report on G20 Trade Measures neither seeks to pronounce itself on whether a trade measure is protectionist, nor does it question the explicit right of Members to take certain trade measures, and despite its coverage may have limitations, it shed light on the latest trend of trade measures implemented by G20 member countries that facilitate as well as restrict the flow of trade. [https://www.wto.org/english/news\\_e/news17\\_e/g20\\_wto\\_report\\_june17\\_e.pdf](https://www.wto.org/english/news_e/news17_e/g20_wto_report_june17_e.pdf)

**Box 2.3 (Cont'd)**

Concurrently, G20 member countries altogether reported 42 new measures implemented in facilitating trade, mostly in the form of eliminated or reduced tariffs, though there are some in the form of simplified customs procedures. On average, 6 new measures were implemented per month during the review period, about the same as the average in 2016. Yet, these facilitating measures were estimated to benefit trade flows valued at US\$163 billion, significantly higher than that of restrictive measures at US\$47 billion.

On trade remedy, 146 initiations were recorded for G20 member countries during the review period, with anti-dumping investigations the most frequent actions. At an average of 20.9 per month, the number of trade remedy initiations declined somewhat compared to the average in 2016. The trade covered by the trade remedy investigations initiated in the review period was estimated to be at US\$25 billion, or 0.20% of G20 merchandise imports value. Meanwhile, the monthly average of trade remedy terminations fell and continued to be lower than that of initiations.

In sum, the latest statistics did not indicate a visible increase in trade barriers among G20 member countries during the review period. This, coupled with the global economic uptake, has orchestrated a visible upturn in world trade flows so far this year. World trade volume picked up to increase 4.2% year-on-year in the first half of 2017, from the 1.3% growth in 2016. The improving global demand boosted regional trade flows in Asia, including those through Hong Kong. Our merchandise exports increased notably by 6.8% in volume terms in the first nine months, a strong pick-up from the 1.4% increase in 2016.

Nevertheless, recent international political developments indicate that the threat of trade protectionism has not dissipated. For example, the renegotiations on North America Free Trade Area (NAFTA) between the US, Canada and Mexico continued, and the target date was extended to the first quarter of 2018 from the end of 2017 as previously scheduled. The US and Korea has also started the process to amend the US-Korea Free Trade Agreement that has been come into force in 2012. Besides, the US Trade Representative in August 2017 formally initiated an investigation of China's trade practice under Section 301 of the Trade Act of 1974. In Europe, the Brexit negotiations are yet to have meaningful progress, and the possibility of a significant increase in trade barriers between the two parties after Brexit cannot be ruled out.

On a positive note, G20 leaders in its communique of Hamburg Summit in July 2017 continued to acknowledge international trade and investment as important engines of world economic growth, productivity and development, and agreed to enhance international cooperation towards inclusive and sustainable global growth. They were committed to keep markets open and fight protectionism, including all "unfair trade practices", and recognised the need for "legitimate trade defence instruments".

Hong Kong has all along been a staunch supporter of free trade. Indeed, Hong Kong, China is the first WTO Member to join the WTO Trade Facilitation Agreement, the first multilateral agreement concluded since the establishment of the WTO. In September 2017, Hong Kong announced the conclusion of negotiations for a Free Trade Agreement and a related Investment Agreement with ASEAN. Hong Kong strongly supports trade liberalisation via deepening and widening regional economic integration and believes the multilateral trading system to be the most effective safeguard against protectionism.

- (3) According to many WTO Members, trade remedy measures are taken to address market distortions resulting from trade practices in another trading partner. WTO Members are permitted to impose duties to offset what is perceived to be injurious dumping or subsidisation of products exported from one Member to another. Termination means either the termination of the investigation (without imposition of a measure) or elimination of the imposed measure.
- (4) WTO Monitoring Report on G20 Trade Measures counted anti-dumping or countervailing investigation involving imports from  $n$  countries/customs territories as  $n$  investigations. Similarly, a termination of an imposed measure on imports from  $n$  countries/customs territories is counted as  $n$  terminations.