

Box 3.1**Recent developments in trade protectionism**

Over the past year or so, trade protectionism has become a key threat to the stability of the global economy. The trade conflict between the US and the Mainland, the world's two largest economies, was particularly worrisome. The increased trade barriers, together with the uncertainty engendered, have not only affected trade flows, but also heightened financial volatility around the globe, with adverse implications for consumer confidence and business sentiment. This note provides an update to **Box 2.3** in the Third Quarter Economic Report 2017 and examines the recent developments of trade protectionism by reviewing the latest statistics compiled by World Trade Organization (WTO) on Group of Twenty (G20⁽¹⁾) trade measures.

The latest WTO Monitoring Report on G20 Trade Measures⁽²⁾, published on 22 November 2018, covers new trade and trade-related measures implemented by G20 members between mid-May and mid-October 2018 (the review period). Three types of measures are of particular interest here. The first type refers to trade restrictive measures, encompassing actions such as tariff increases, customs procedures and quantitative restrictions. An increase in the number of this type of measures may signal more trade restrictions implemented by G20 members. The second type refers to trade facilitating measures, including actions like 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⁽³⁾ (both initiated and terminated⁽⁴⁾), including investigations of antidumping and countervailing duties. 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 going forward.

The report showed a significant increase in the use of trade restrictive measures among G20 members during the review period. On average, 8.0 new measures per month were introduced during the review period, higher than 5.6 per month in the preceding review period (mid-October 2017 to mid-May 2018) or 6.1 per month during 2012 and 2017 (**Table 1**). Among these 40 new trade restrictive measures introduced during the review period, 34 of them were import restrictive measures, of which around three quarters were tariff increases. Moreover, the trade coverage of these import restrictive measures, at US\$481 billion (3.5% of the value of G20 merchandise imports), was more than six times the trade coverage of the measures introduced during the preceding review period (**Chart 1**).

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- (1) G20 comprises 19 countries plus the EU. These countries are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the UK and the US. They together account for more than 80% of gross world output, around three quarters of global trade, and are home to almost two-thirds of the world's population.
 - (2) The WTO Monitoring Report on G20 Trade Measures neither seeks to pronounce itself on whether a trade measure is protectionist nor questions the explicit right of Members to take certain trade measures. Its coverage may also have limitations. Yet, it can still shed light on the latest trend of trade measures implemented by G20 members that facilitate the flow of trade as well as measures that restrict it. https://www.wto.org/english/news_e/news18_e/g20_wto_report_november18_e.pdf
 - (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.

Box 3.1 (Cont'd)

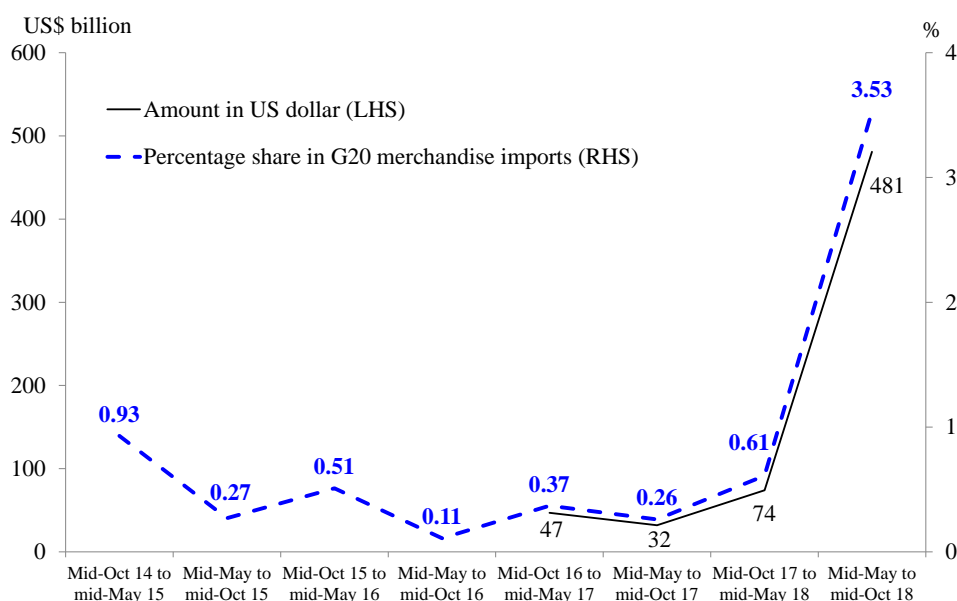
Table 1: Summary of trade measures implemented by G20

Average per month								
	2012	2013	2014	2015	2016	2017	mid-Oct 17 to mid-May 18	mid-May to mid-Oct 18
Restrictive measures	6.5	6.9	5.7	7.6	4.8	5.2	5.6	8.0
Facilitating measures	7.8	5.6	6.5	7.4	6.3	6.8	6.7	6.6
Remedy actions:								
- initiations	16.8	23.2	21.5	17.5	21.8	21.5	22.1	17.0
- terminations	13.4	12.8	14.3	12.6	11.9	9.3	11.0	12.0

Note: Some past data have been revised, as a result of the changes undertaken in the WTO Trade Monitoring Database to fine-tune and update the available information.

Source: WTO Secretariat.

Chart 1: Trade coverage of the import restrictive measures implemented by G20



Note: Figures are estimated by the WTO. The trade coverage of the import-restrictive measures refers to the amount of annual imports of the products affected by the measures. Prior to the review period of mid-October 2016 to mid-May 2017, only percentage shares of G20 merchandise imports are available.

Source: WTO Secretariat.

Among the import-restrictive measures introduced during the review period, the US' actions and the subsequent countermeasures by its trading partners made up the major parts. Of particular note are those related to the trade conflict between the US and the Mainland. The US imposed additional 25% tariffs on US\$50 billion worth of Mainland products in two batches starting 6 July and 23 August 2018 respectively, and an additional 10% tariff on another US\$200 billion worth of Mainland products starting 24 September 2018. According to the WTO, these three measures together accounted for over half of the total estimated trade coverage during the review period. The countermeasures undertaken by the Mainland effective on the same dates accounted for around an additional 20%. Separately, the US imposed tariffs on imports of steel and aluminium products from the EU, Canada, and Mexico starting 1 June 2018, and this was subsequently met by countermeasures from these economies.

Box 3.1 (Cont'd)

Meanwhile, the number of new trade facilitating measures was relatively stable. On average, 6.6 new measures per month were implemented during the review period, similar to the average of 6.7 per month in both the preceding review period and during 2012 to 2017. Among the 33 new trade facilitating measures introduced during the review period, over 80% of them were related to reduction or elimination of import tariffs. While the estimated trade coverage of these import facilitating measures implemented during the review period more than doubled as compared to the preceding review period to US\$216 billion (or 1.6% of the value of G20 merchandise imports), the amount was still less than half of that covered by trade restrictive measures implemented in the same period.

On trade remedy measures, G20 members initiated on average 17.0 trade remedy investigations per month during the review period, lower than the 22.1 per month in the preceding period. The trade coverage of the trade remedy investigations initiated during the review period was estimated at US\$25 billion (or 0.18% of the value of G20 merchandise imports), less than half of that recorded in the preceding review period. Meanwhile, the average number of terminations edged up to 12.0 per month during the review period, from 11.0 per month in the preceding period. The trade coverage of terminations was valued at US\$6 billion (or 0.04% of the value of G20 merchandise imports), similar to the figure in the preceding review period. Among these 85 trade remedy measures initiated during the review period, almost three quarters of them were initiations of anti-dumping investigations, and over 40% of them were related to iron and steel or the related products.

To sum up, trade barriers have increased significantly during the review period, as evidenced by far more extensive trade coverage of the new trade restrictive measures implemented. The escalated trade tensions among economic giants and the implementation of additional tariffs on a sizable amount of imports have weighed on global trade expansion and heightened financial volatility, denting global economic sentiment and economic outlook.

Looking forward, trade protectionism will continue to be a key threat to the global economy in 2019. Trade negotiations between the US and its major economic partners (including the Mainland, the EU, Japan and the UK) are either ongoing or pending. Given the complexity involved, the outcomes are highly unpredictable at the juncture. Also, the US Department of Commerce submitted its report on the results of the Section 232 investigation on US automobile and automobile part imports in early 2019, adding further uncertainty to global trade and economic outlook. Separately, G20 leaders in the latest summit in Buenos Aires expressed support for necessary reform of WTO to improve its functioning. The future developments in the reform and potential implications for the rule-based multilateral trade system warrant close attention.