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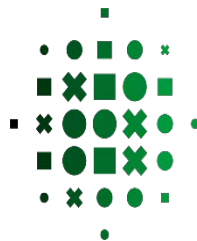
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How Crisis-Era Trade Distortions Reshuffled Global Trade Flows: Evidence from EU Exports

Simon J. Evenett and Johannes Fritz
January 2018



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Purpose of this presentation

- Using the evidence in the *Europe Fettered* study, I am going to make the following case:
 1. Extra-EU exports have stagnated—something has gone wrong since global trade bounced back in 2010.
 2. Even without 1930s tariff increases, over 3,200 foreign trade distortions favour foreign exporters over their EU rivals.
 3. EU export growth to third markets (and inside the Single Market) is slower when EU firms are exposed to relatively more trade distortions than Chinese, Japanese, and US rivals. Relative exposure determined relative performance.
 4. Foreign fiscal export incentives hold back EU exports most.
 5. Export incentives reshuffle—need not reduce—global trade.
 6. Growing export subsidies are an systemic concern.

So that I am not misunderstood—I am not making any of these arguments

1. That a global trade meltdown of the scale of the 1930s happened.
2. That protectionism caused the global economic crisis.
3. That WTO rules have utterly failed.
4. That there have been widespread violations of WTO rules.
5. That the G20 process on trade has been utterly useless.
6. That official monitoring of protectionism is useless.
7. That the EU and member states have been angels and have never imposed trade distortions since the start of the global economic crisis.
8. That trade distortions have become a concern only since President Trump was elected.
9. That China and the large emerging markets are “the problem” and that everything else is OK.

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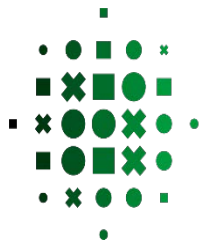
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Context: Extra-EU Exports Have Stagnated

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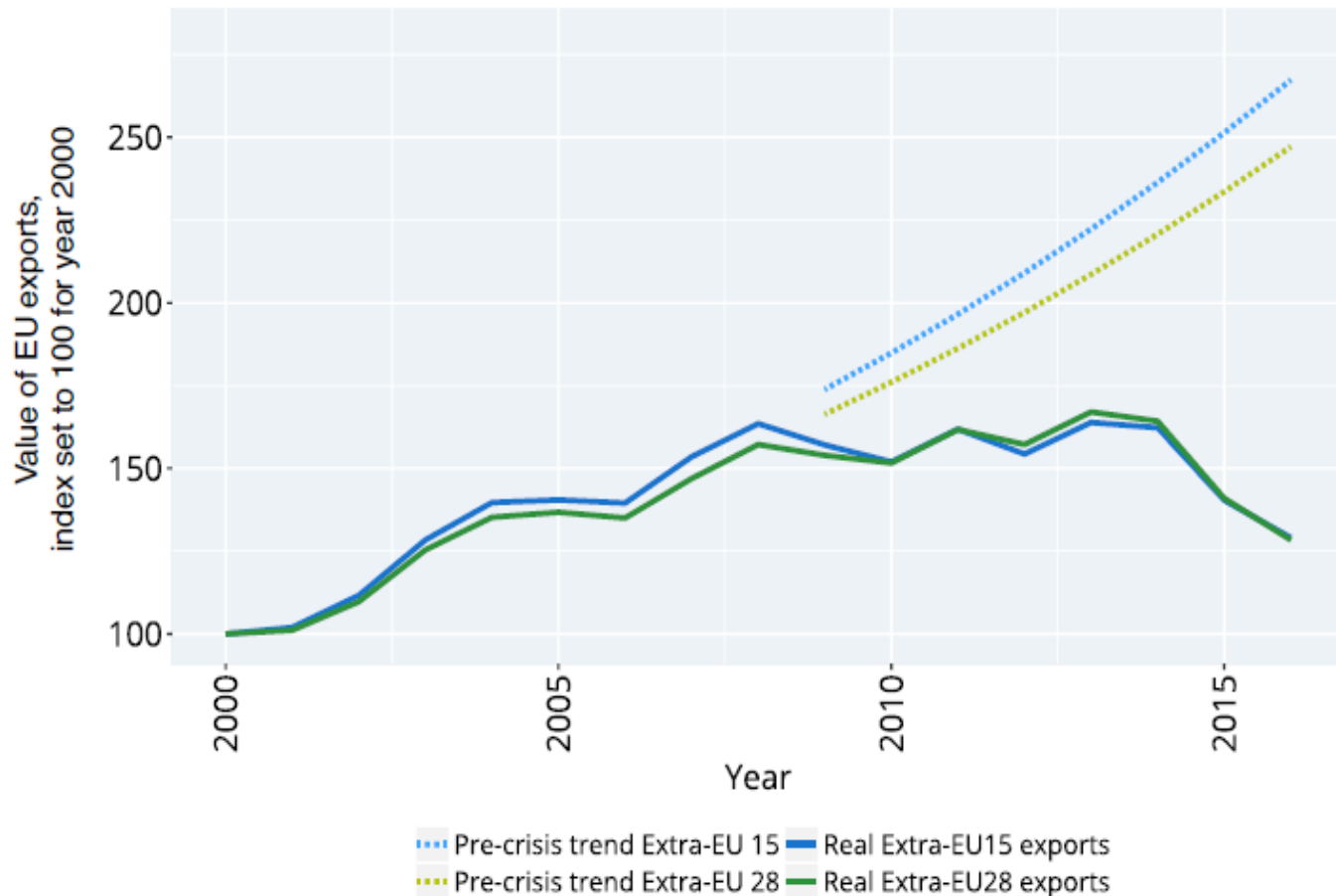


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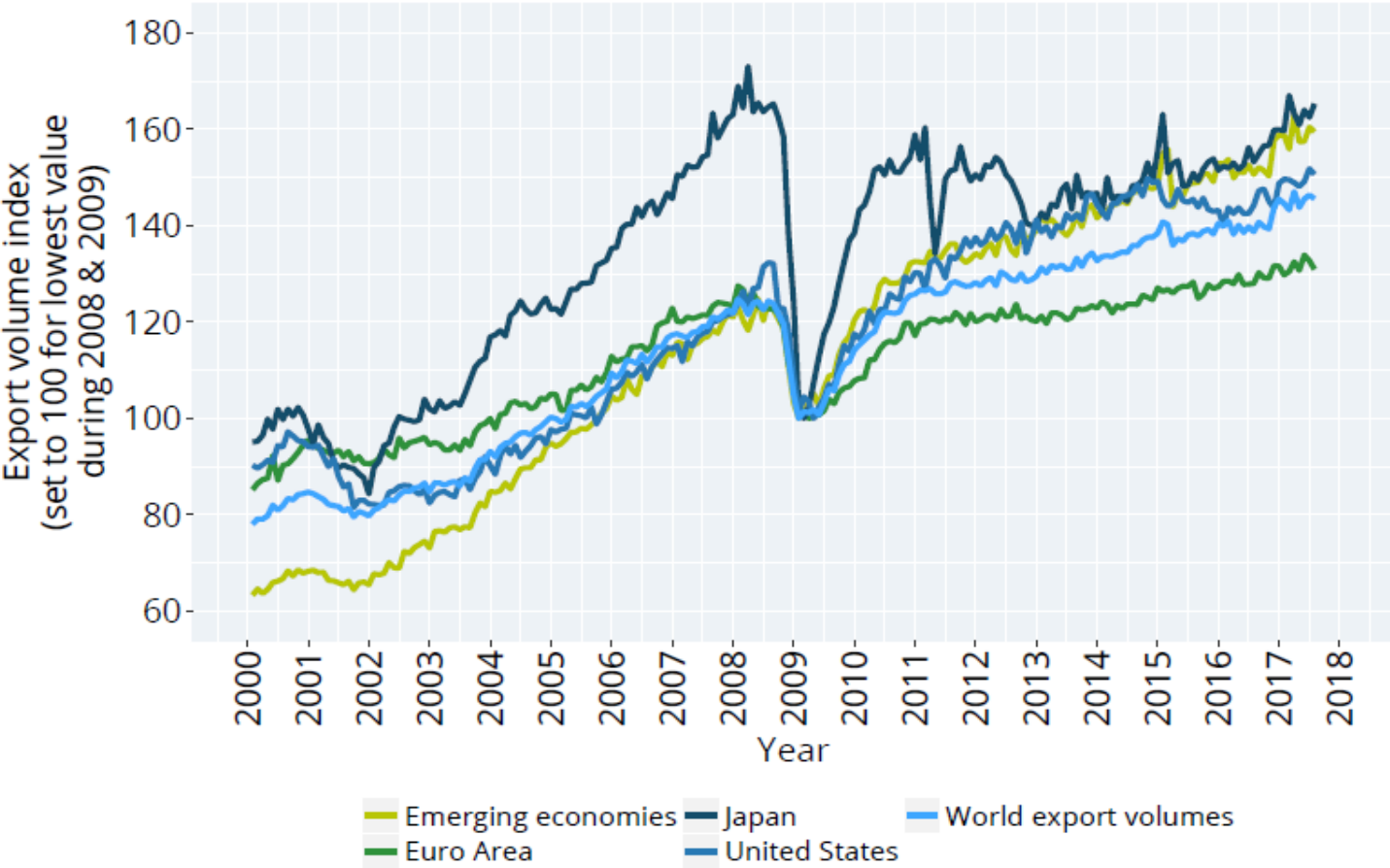
Pre-crisis Extra-EU Export growth could not be sustained

A sharp break in extra-EU export dynamics occurred after the crisis hit



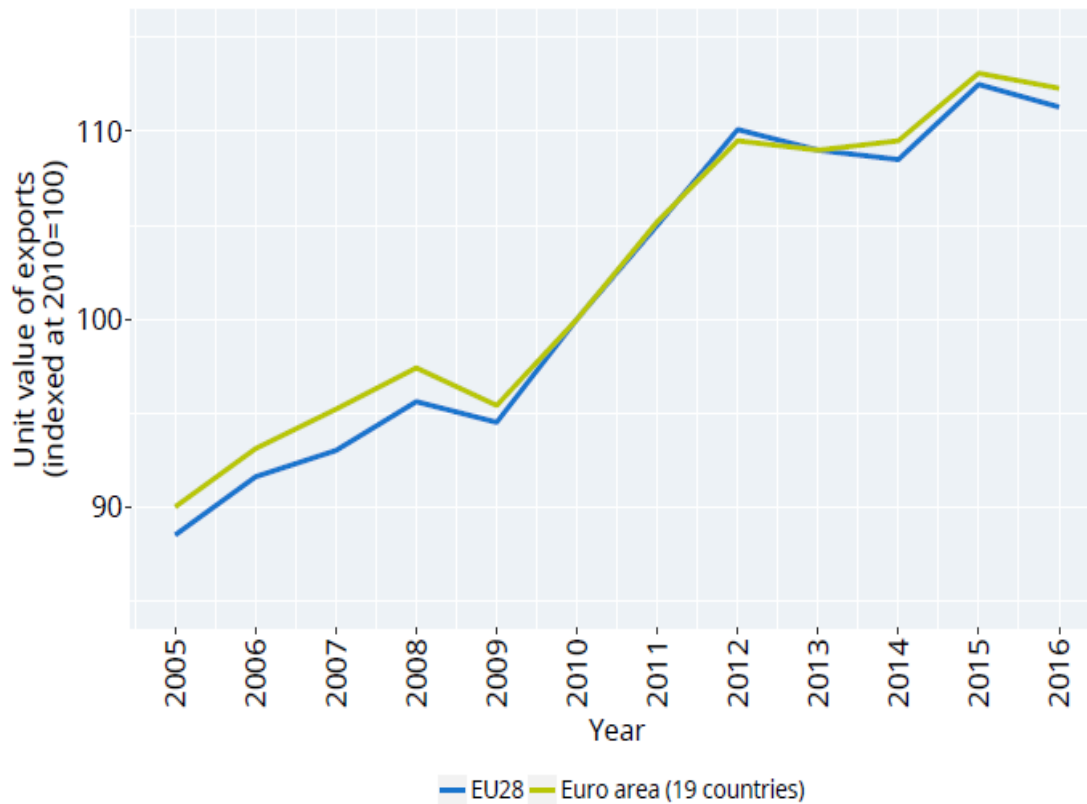
Eurozone export volumes recovered slowest

Eurozone export volumes bounced back slower than other major trading nations and regions



Eurostat data—although different— shows export price stagnation too

Eurostat data provide a different perspective on extra-EU export prices – even so, they have stagnated since 2012



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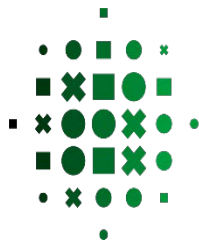
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Which Trade Distortions Matter?

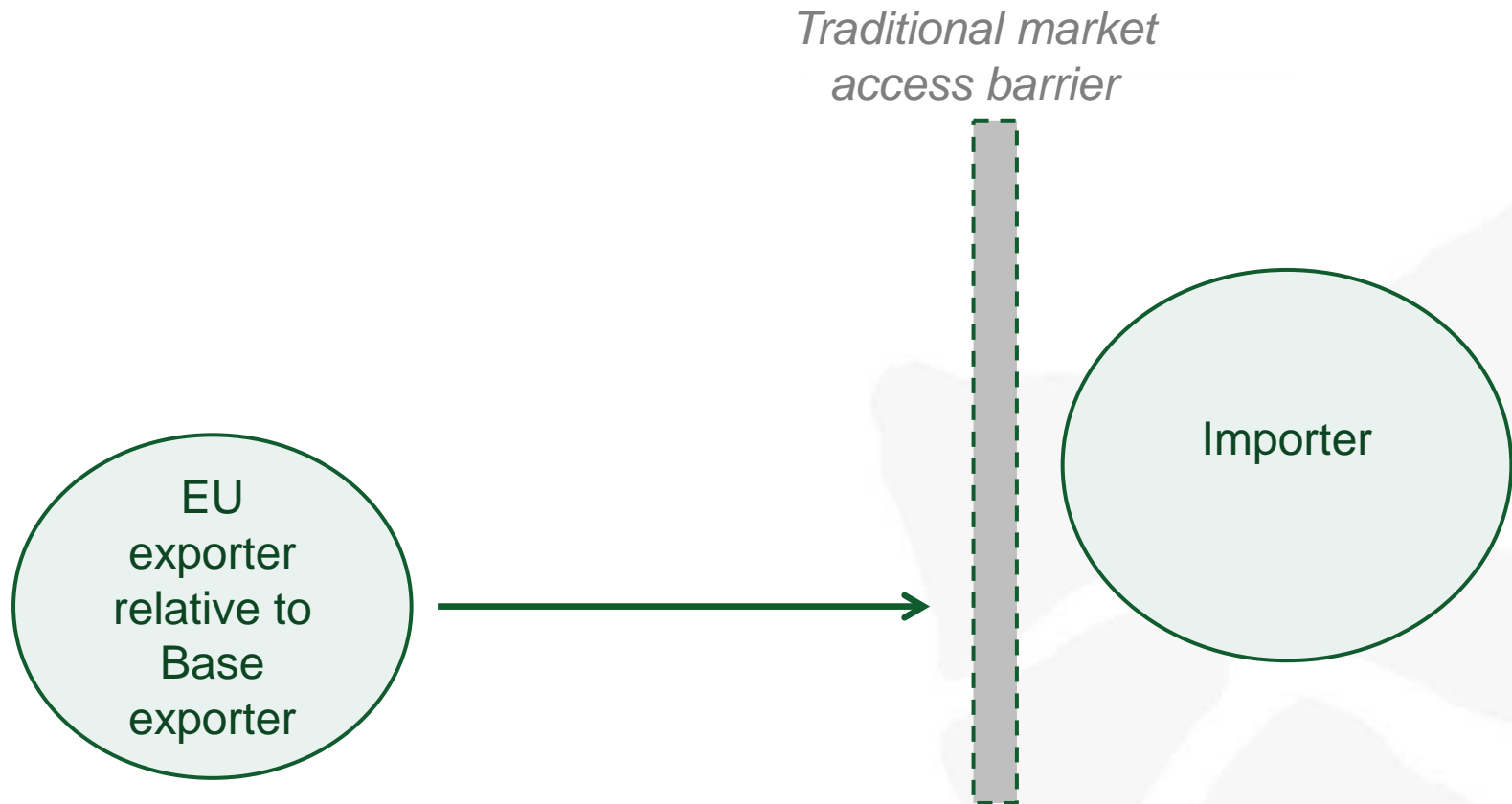
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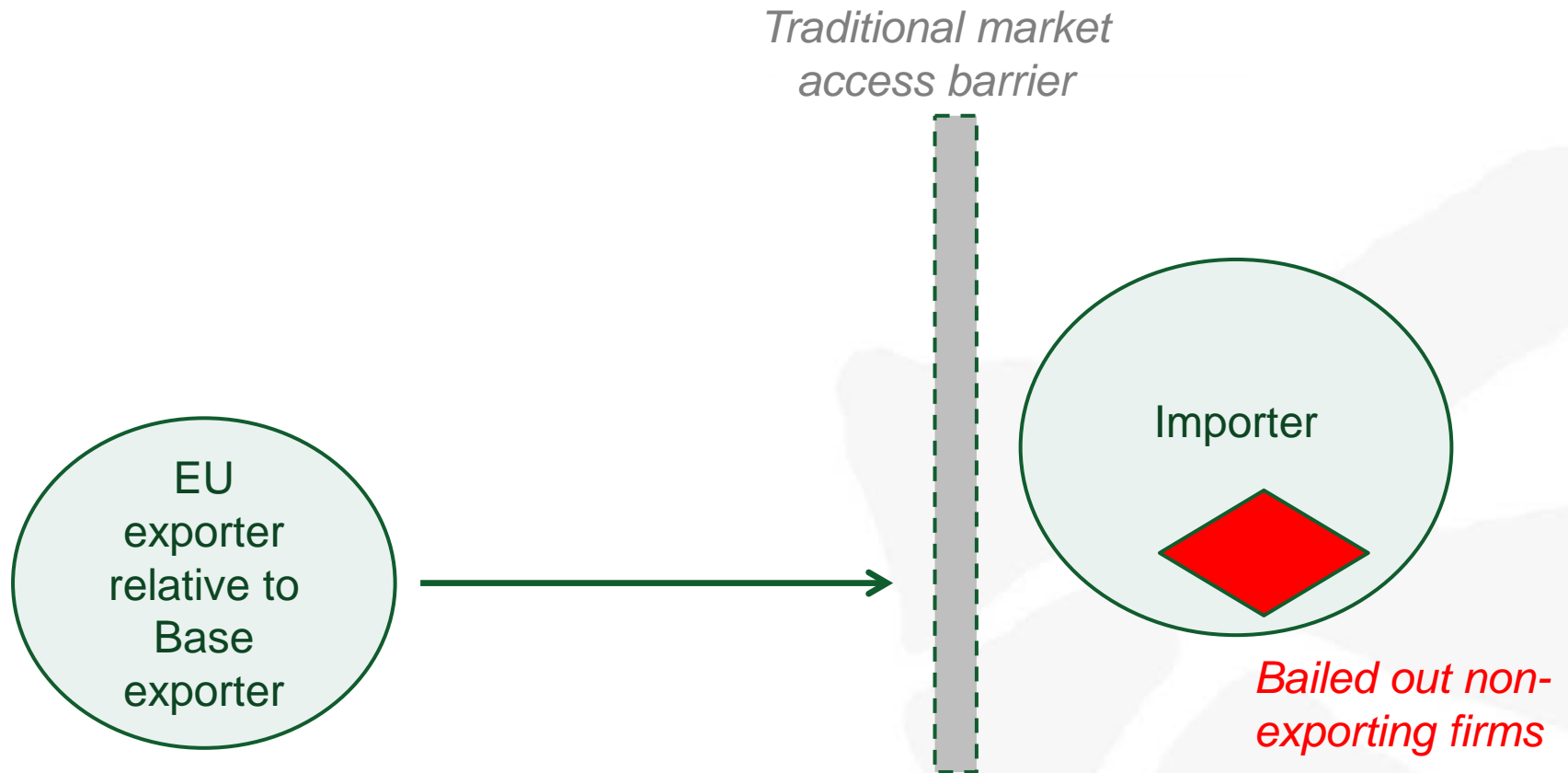


Traditional view: importer's market access policies matter



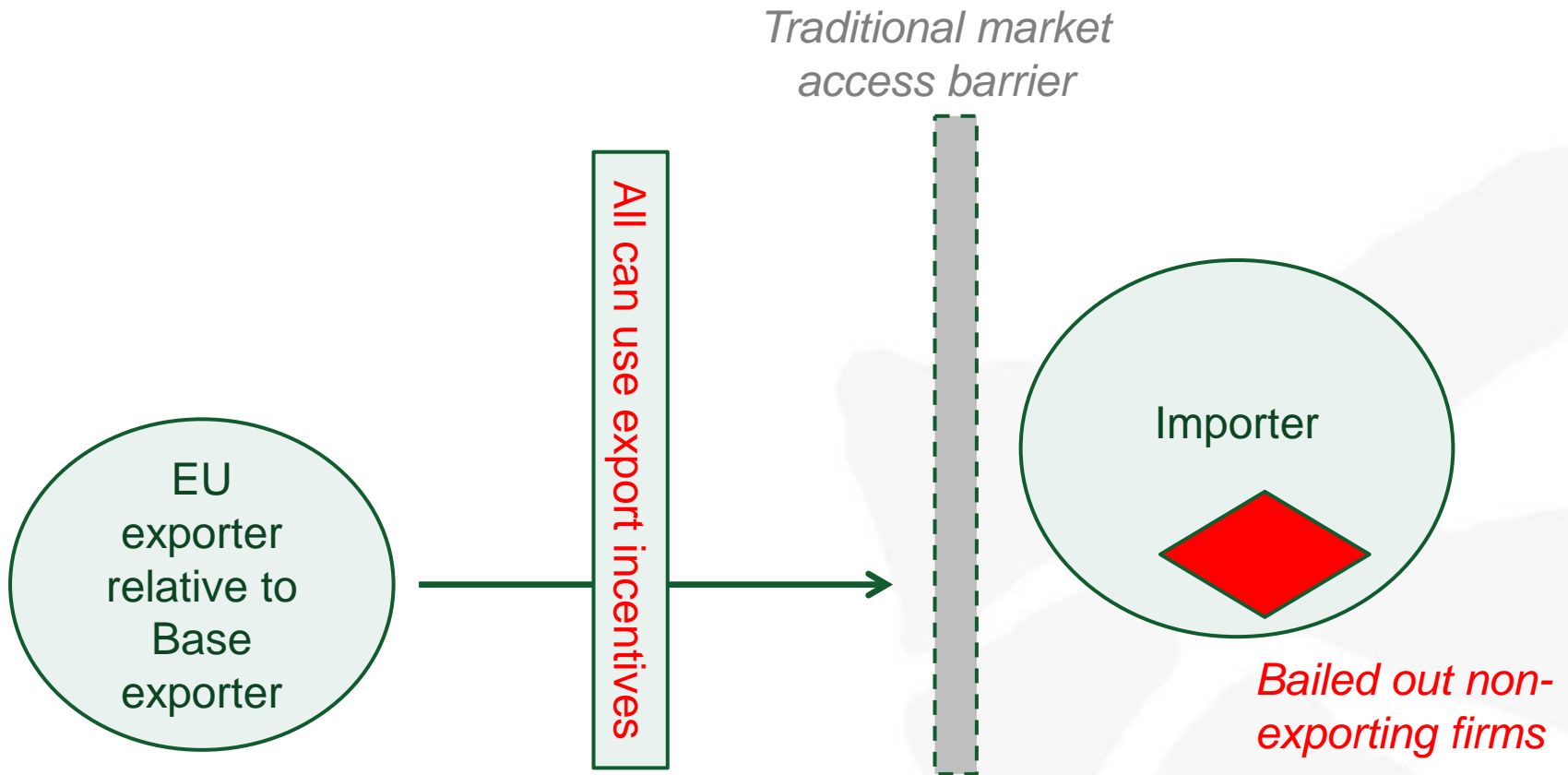
Base/Comparator exporters are China, Japan, and USA.

But bailouts/state aid to import-competing firms matter too



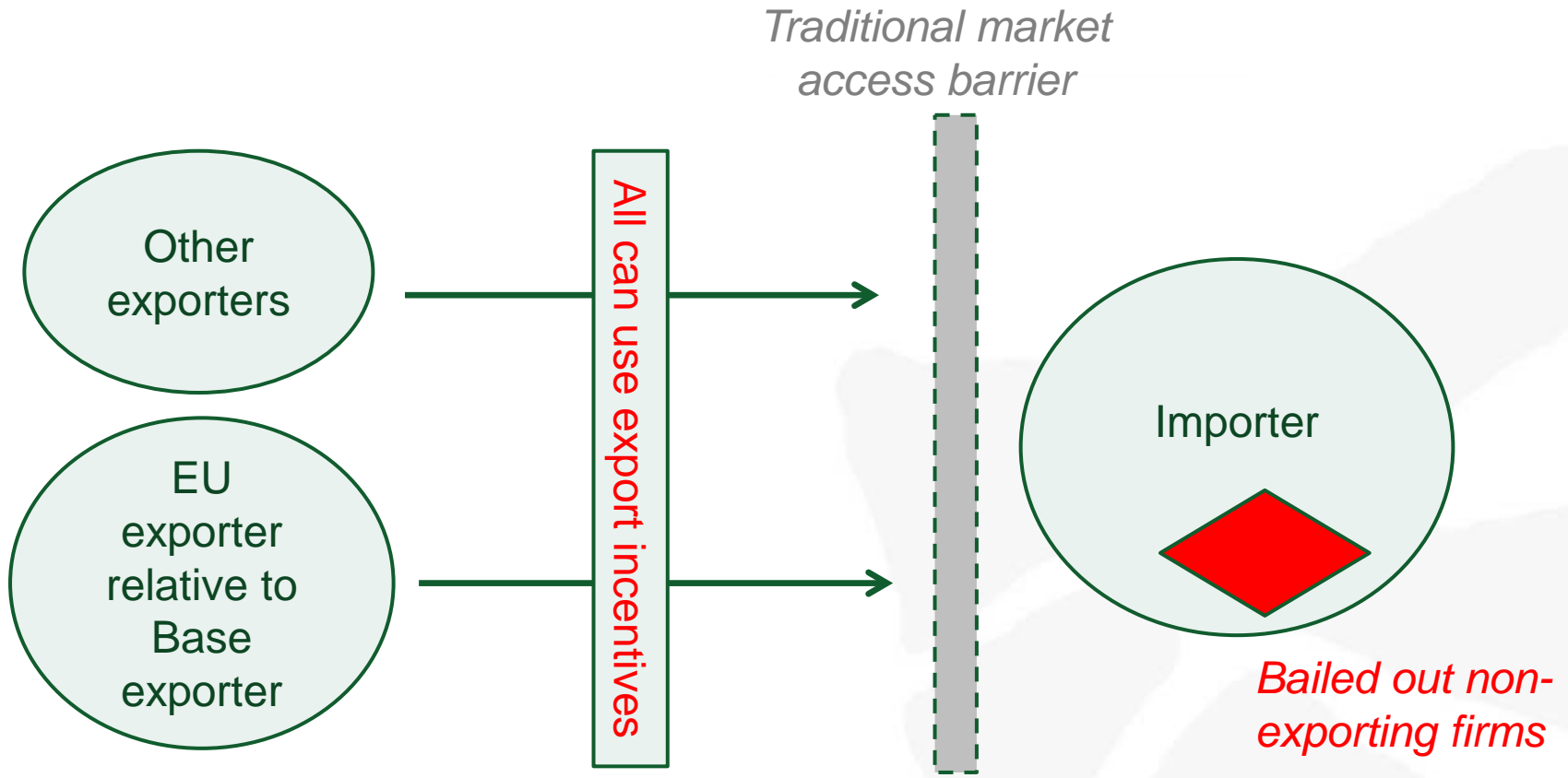
Base/Comparator exporters are China, Japan, and USA.

Own and rival export incentives can affect relative performance



Base/Comparator exporters are China, Japan, and USA.

Third party export incentives can affect differential export performance too



Base/Comparator exporters are China, Japan, and USA.

The impact of these trade distortions differs

1. Instructive to recall the different effects of import restrictions (like tariffs) and export incentives (such as tax breaks for exporters).
2. Export incentives have a different impact on trade and buyers:
 - Buyers might gain in short run from lower prices and greater variety.
 - Competing, unsubsidised rivals lose market share.
 - Total observed trade in relevant products can increase
 - In sum, trade can be reshuffled not necessarily reduced.
3. Bottom line: **Equating trade distortions with reductions in trade—and equating trade distortions with trade restrictions—is wrong** (it's a legacy of thinking about protectionism solely in 1930s terms).

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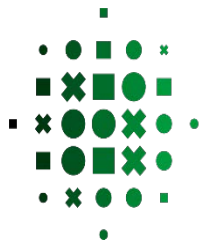
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Example: Which Trade Distortions Mattered for Extra-EU Exports?

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What is the Global Trade Alert?

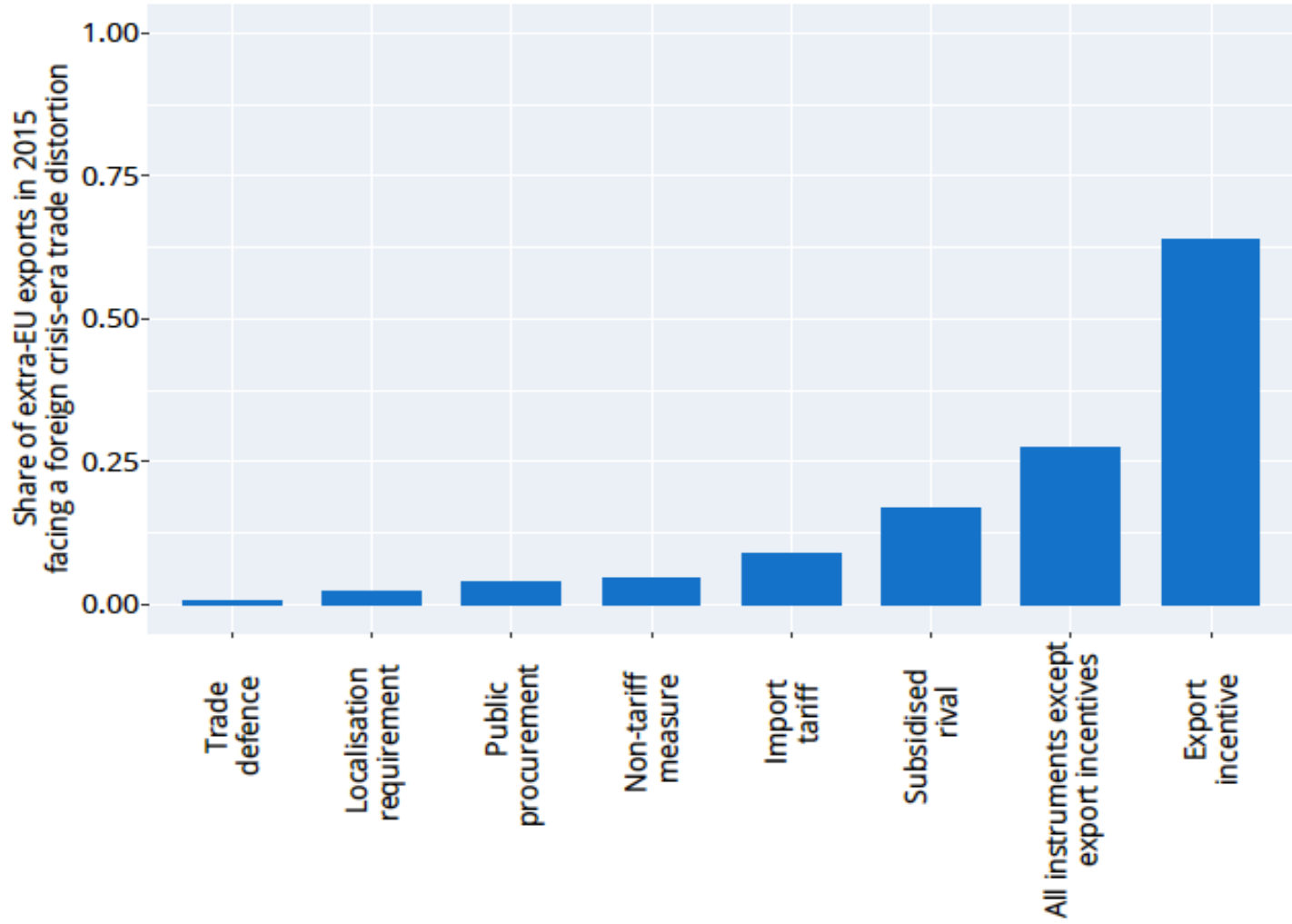


- Goal: Support better public policy, corporate, and social decision making on commercial policy by providing the best available source of information on trade distortions and trade reforms implemented since November 2008.
- Documented over 13,500 government policy interventions.
- IMF stated in 2016: GTA “has the most comprehensive coverage of all types of trade-discriminatory and trade liberalizing measures.”
- Reports of government acts viewed over 7.7 million times on old website.
- Covered in major media outlets all over the world.
- Used in speeches by political and corporate leaders as well as heads of international organisations.
- Referred to in 1,310 studies and reports.
- Run from the University of St. Gallen, Switzerland.

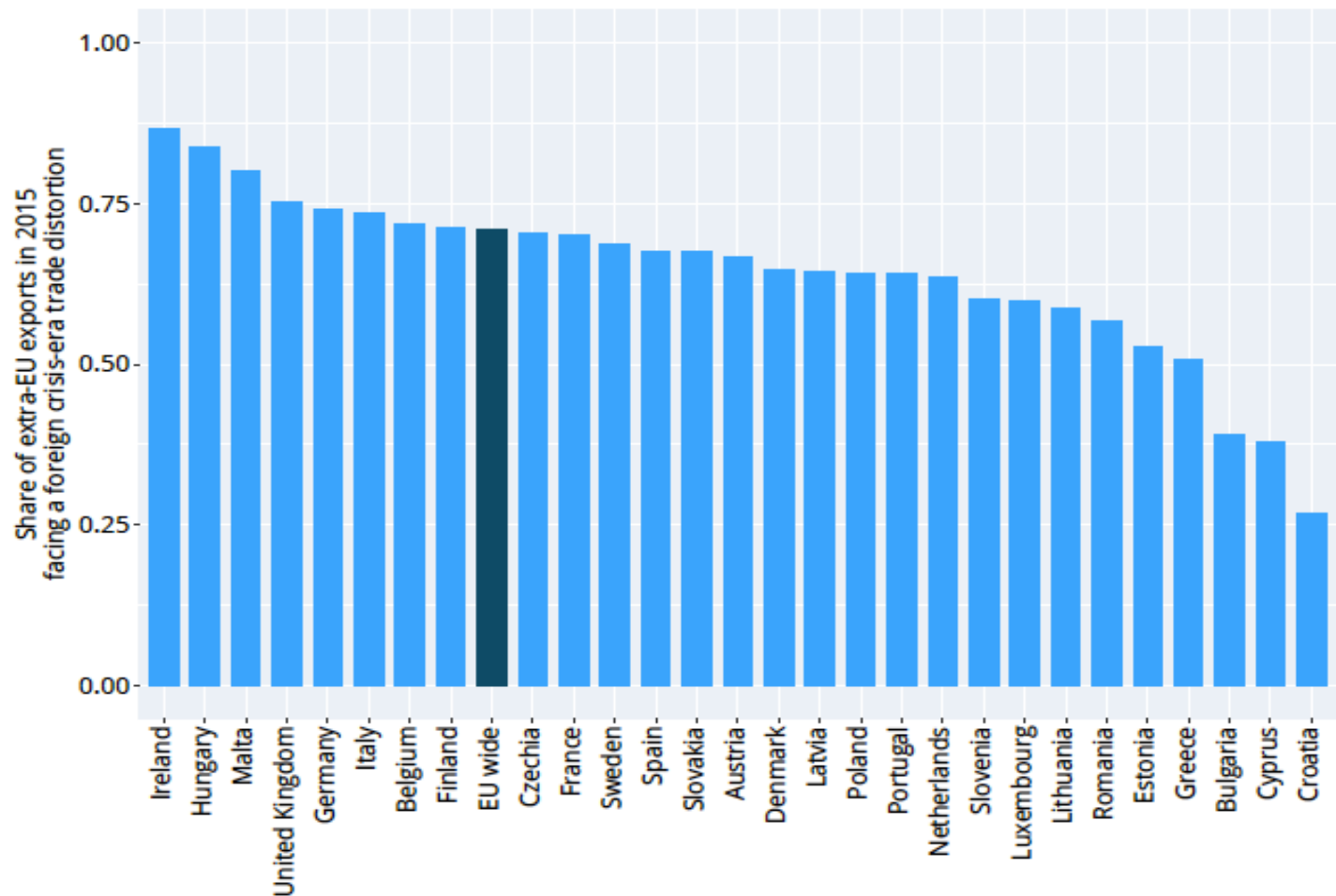
Three policy instruments alone account for nearly 60% of the foreign state intervention detrimental to EU commercial interests

MAST chapter (where applicable)	Discriminatory policy instrument by UN MAST chapter	Number of times used against EU commercial interests since November 2008	Percentage share
	Import tariff measures	718	21.61
L	Subsidies (except export subsidies)	709	21.34
P	Export measures	608	18.30
M	Government procurement	417	12.55
D	Contingent trade protection	276	8.31
E	Non-automatic licensing, quotas	171	5.15
I	Trade-related investment measures	126	3.79
	Migration measures	94	2.83
	Instrument unclassified	88	2.65
	FDI measures	58	1.75
F	Price control measures	29	0.87
G	Finance measures	9	0.27
B	Technical barriers to trade	8	0.24
A	Sanitary and phytosanitary measure	7	0.21
	Capital control measures	3	0.09
N	Intellectual Property	2	0.06

Subsidies—of different types—affect the most Extra-EU exports



Don't buy arguments that little Extra-EU exports are affected by trade distortions



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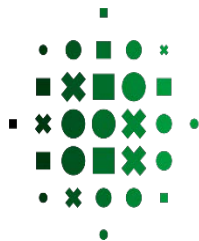
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How much was Extra-EU exports held back by?

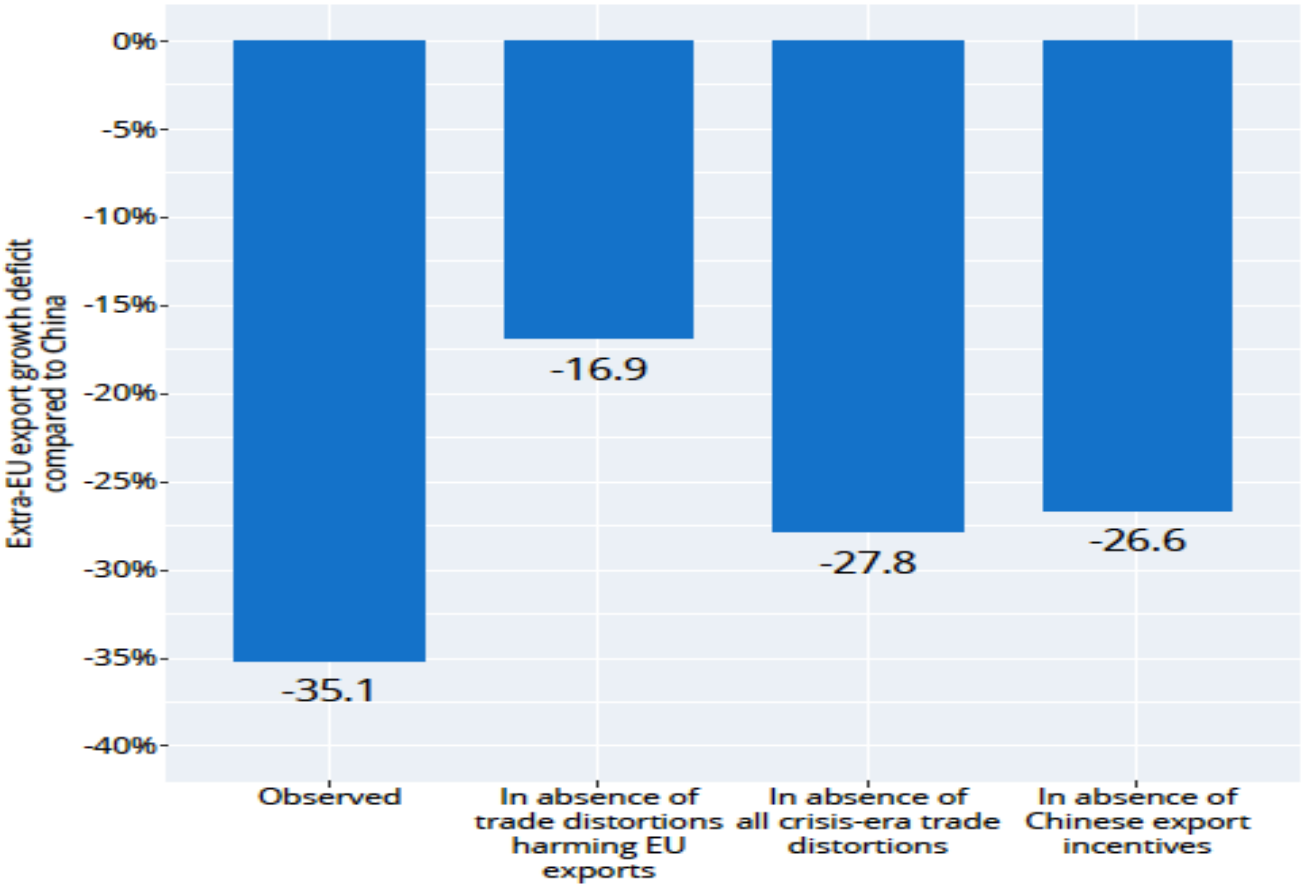
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Trade distortions had a big impact on the EU export performance gap with China



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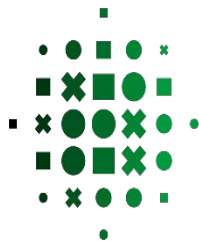
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Discussion of policy significance

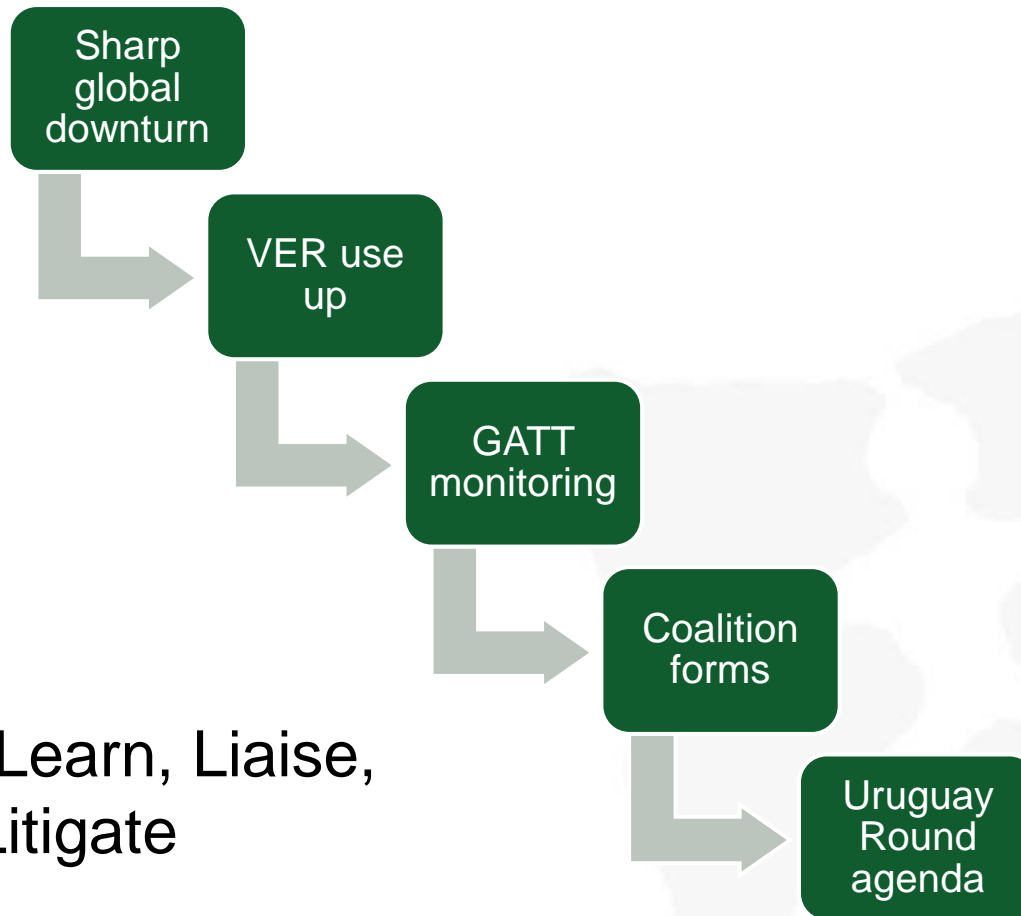
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A positive precedent: Voluntary export restraints in the 1980s



5Ls: Look, Learn, Liaise,
Legislate, Litigate

Top 10 users of fiscal export incentives, ranked by share of exports eligible

Exporter	Share of exports eligible for fiscal incentives in 2016	Share of exports eligible for fiscal incentives in 2017
India	73.60%	74.13%
China	73.11%	73.26%
Pakistan	32.41%	62.65%
Brazil	57.48%	57.32%
Australia	23.22%	23.16%
Argentina	18.29%	22.38%
Indonesia	15.58%	15.54%
Colombia	13.92%	13.89%
Uruguay	6.55%	6.53%
South Africa	3.77%	3.76%

Implications for WTO deliberations

1. Export competition has been tackled by WTO members before—in agriculture.
2. EU not only affected: Our study implies that China, Japan, and USA affected too.
 - A prior study by us showed LDC exports affected.
 - Third party studies shows impact of increased tax rebates on exports.
 - Exposure of G20 countries to export incentives documented by us as well (in publicly available reports).
3. Resist the temptation to copy trading partners' export incentives; instead, build a coalition among WTO members in favour of tougher rules on export incentives, especially those delivered through national tax systems.
 - Suggestions for coalition formation.

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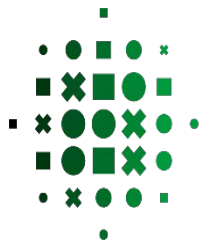
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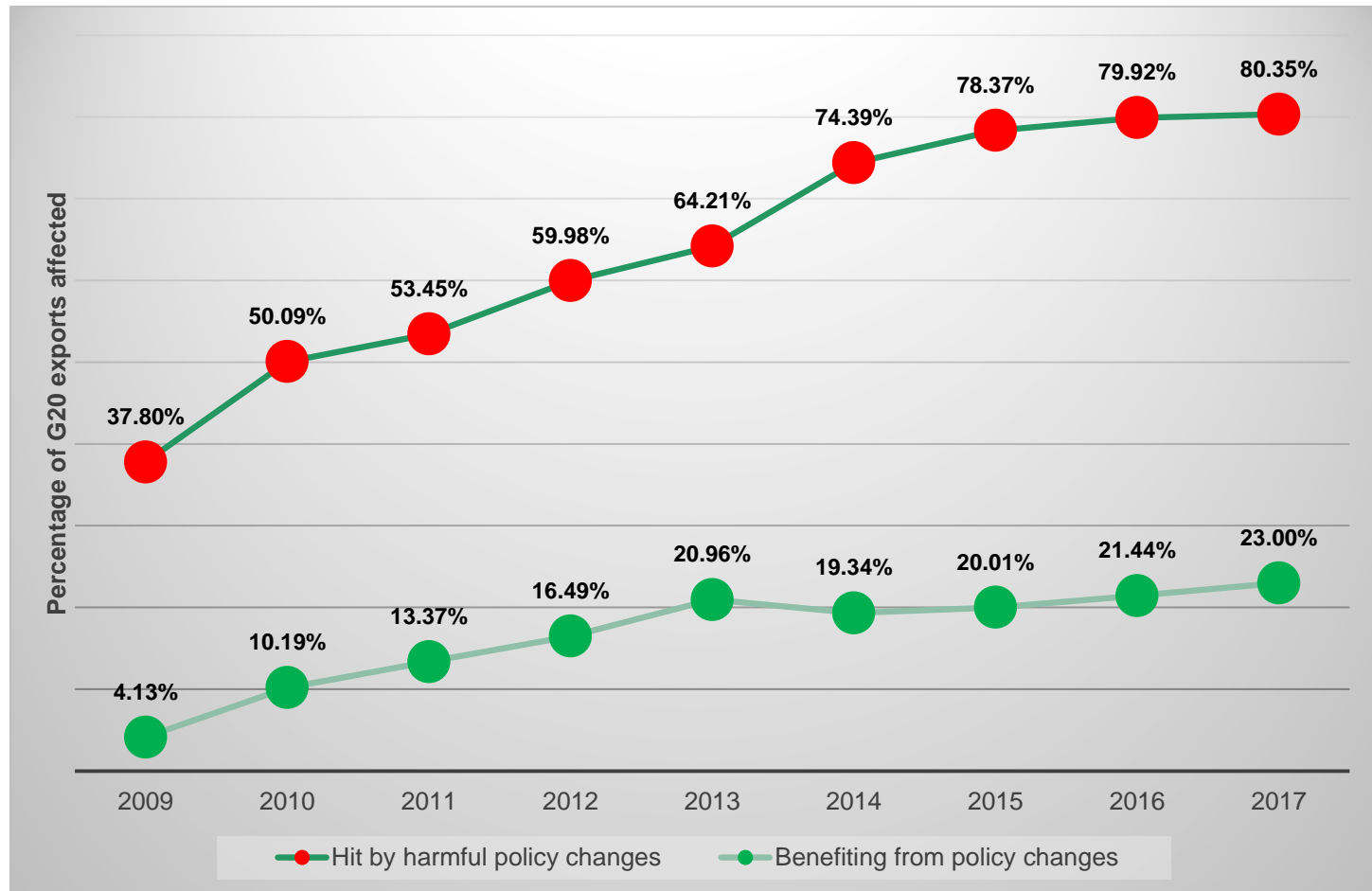
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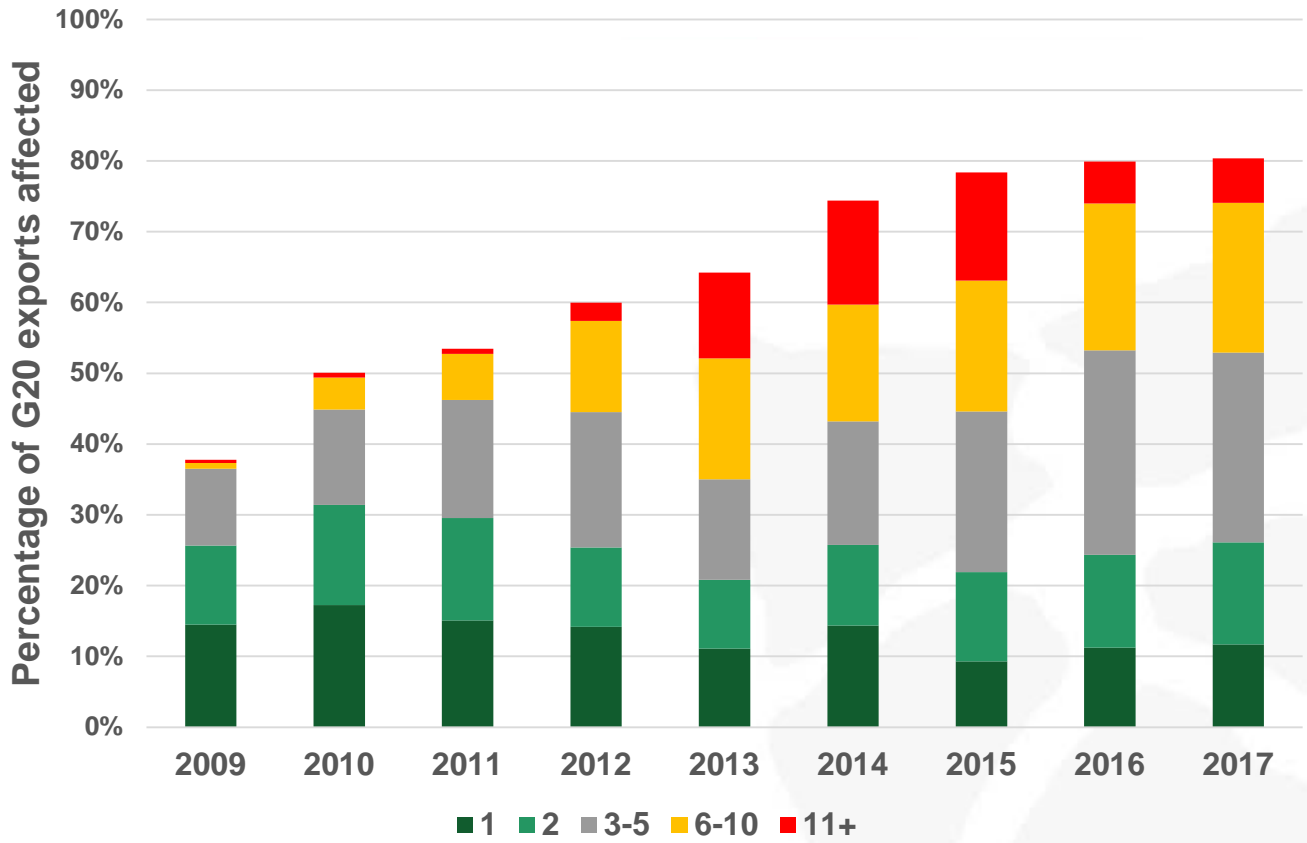


The growing scale of crisis-era trade distortions faced by G20 exporters



Recall: 10% of G20 exports exceeded \$900 billion in 2016.

A growing share of G20 exports compete against more and more trade distortions



Number of trade distortions faced

G20 Pledge in 2008: “We will refrain from...implementing World Trade Organization (WTO) inconsistent measures to stimulate exports.”

