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## 2 Global Developments Since the G20 Summit in Toronto, June 2010

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Since the G20 Leaders last met in Toronto, Canada, in June 2010 perhaps the highest profile development is that criticism of certain leading traders' exchange rate regimes has intensified. Fears that a "currency war" could break out were discussed at length. However, as this chapter shows, there have been other developments since the June 2010 summit worthy of comment. For those interesting in tracking developments numerically, the usual set of summary tables and statistics can be found after this text.

In preparation for this report the Global Trade Alert (GTA) Database was updated further. The database now contains information on 1339 state measures that have been announced or implemented. Since the GTA includes state measures announced or implemented since 1 November 2008, this amounts to reporting on average 55 measures per month. The last G20 summit was in June 2010, approximately 5 months ago. Since then the GTA database has included 288 new entries.

Each measure in the GTA database is classified according to the likelihood of harming or helping foreign commercial interests, be they imports, foreign investments, migrant workers, or intellectual property rights. A traffic light system (red, amber, green) is used to classify the likely impact of each measure. Of the 1339 state measures, 692 are now classified as red (that is, they are implemented state measures that almost certainly discriminate against foreign commercial interests.)<sup>1</sup>

### **Contentious exchange rate arrangements and protectionism**

While China's exchange rate regime had been the subject of comment earlier in this crisis, the degree of criticism--especially, but not exclusively, from U.S.

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<sup>1</sup> More information on the classification criteria used by the GTA team can be found below Table 2.1. in this chapter.

quarters--certainly intensified since June 2010. China was accused first of maintaining an "artificial" fixed exchange rate and then for not letting their currency appreciate faster enough. Meanwhile, other governments have been accused of intervening to slow down the pace of appreciation of their national currencies or for engineering outright currency depreciations. These developments highlight the role the exchange rate can play in distributing the burden of adjustment across economies.

For the purposes of monitoring the discrimination by governments against foreign commercial interests, exchange rate levels are of interest for two reasons, one direct and one indirect. The direct reason is, of course, that governments favour domestic export interests over foreign rivals by devaluing the national currency against international benchmarks (typically the US dollar or the Euro) or by slowing the appreciation of the national currency against those benchmarks. In short, intervening in the currency market effectively discriminates against foreign commercial interests.<sup>2</sup> The indirect reason is that sustained currency manipulation, as it is sometimes called, can induce some trading partners to threaten--and then impose--trade sanctions. Other trading partners may act more stealthily and put in place less transparent forms of protectionism, having discounted the likelihood that diplomacy will bear fruit.

While it is evident that across-the-board protectionism has not been triggered yet by disagreements over exchange rate policies, on the data available to the GTA team there is more good news. It seems doubtful that murkier forms of protectionism have been used more often than before the June 2010 summit to punish "currency manipulators" and those nations with large current account surpluses. In fact, the rate at which China's foreign commercial interests have been targeted has fallen slightly since the June 2010 summit. While the rate at which the U.S.' commercial interests have been targeted has fallen too, it has to a smaller extent than China. Germany which, like China, has a large current account surplus saw the rate at which its commercial interests were targeted fall faster than China since the June 2010 summit.<sup>3</sup>

No doubt other factors can account for the rate at which a nation's exporters, multinationals, and overseas nationals are harmed by protectionism, still these findings cast doubt on any simple relationship between large current account imbalances, exchange rate regime, and propensity to suffer protectionism since the June 2010 summit. This evidence is, therefore, consistent with the view that disagreements over exchange rate arrangements, while sharp, have to date been contained, which is surely good news for the world economy, allowing exports to make a greater contribution to national recoveries than would otherwise be the case.

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2 Indeed some economists have noted in recent months that an exchange rate devaluation--or an artificially low exchange rate against the U.S. dollar--have equivalent economic effects to an across the board import tariff and export subsidy.

3 Table 2.4 reports on the number of times leading jurisdictions have seen their commercial interests harmed by foreign protectionism since November 2008 and since our pre-Toronto report (the 6th GTA report).

## A sharp uptick in tariff changes

In much of reporting on measures taken by governments since November 2008, selective bail outs (state aids) and trade defence measures have figured prominently. While the former still lead in terms of number of protectionist measures imposed, totals for the latter have been catching up (see Table 2.6). However, a focus solely on protectionist measures would overlook an important development since the June 2010 summit. The GTA team has found that 101 government measures involving tariff changes have been implemented since that summit. Interestingly, only 25 of these recent measures are almost certainly protectionist. Now, the total number of tariff liberalising measures outnumbers the almost certainly protectionist ones by 131 to 100.

Perusal of the GTA database reveals that many of the recent tariff measures are liberalising in nature. Tariff cutting, it seems, has come back in fashion. For sure, there are no examples of sweeping across-the-board tariff cuts. Still, almost all of these tariff cuts are by developing countries (notably Brazil and the Philippines) and are concentrated in capital goods, parts, and components. Should these developments gain momentum, they would point to manufacturing interests successfully persuading their governments to integrate further into the world economy.<sup>4</sup> In turn this finding would no doubt encourage those that argue that supply chains and more fine-grained specialisation in production have been a force, possibly a potent force, shaping protection during the recent global economic crisis and after.

## Few departures from the pattern of protectionism since Q1 2009

While the last two sections point to welcome positive developments, the evidence uncovered by the GTA team since the June 2010 G20 Leaders summits provides few reasons to believe that the patterns of protectionism that we have reported previously have changed in any fundamental sense. As each quarter goes by, the temporal sequence of reported harmful measures (see Figure 2.2.) indicates the following: In the fourth quarter of 2008 approximately 50 protectionist measures were implemented. Fears of spreading protectionism in the first quarter of 2009 proved accurate. In fact, the number of protectionist measures implemented during that quarter more than doubled (to 134). Since the first quarter of 2009 the quarterly rate of protectionist measures quickly settles down--after two quarters of data collection--to a range between 100-120. The current totals for the four quarters from Q2 2009 on lie within this range. Moreover, the total for the second quarter of 2010 is close to this range, suggesting little break in the pace of protectionism from the beginning of 2009 to the middle of 2010. This latter finding is significant because it suggests that governments continued to resort to protectionism--often covertly--even when the recovery of world trade was under

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<sup>4</sup> Although it is worth pointing out that cutting tariffs on parts and components will, *ceteris paribus*, increase the effective rate of protection of final goods, providing a less rosy interpretation of recent developments.

way. Reports that implied that the recovery of world trade implied a lessened resort to protectionism were misplaced.

Since the Toronto summit, G20 governments have implemented 94 almost certainly protectionist measures. The rest of the world has implemented only 44 such measures. Of the 100 liberalising or neutral measures implemented worldwide since June 2010, just 29 percent were implemented by G20 countries. Government leaders outside of the G20 seem better able to keep markets open than those who pledged to do so in Toronto. Once again there is a mismatch between words and deeds. (As the statistics presented in the next chapter make clear, there is a similar mismatch between the G20 countries' purported desire to facilitate development through trade and the frequency with which they harm the commercial interests of the poorest developing countries, the Least Developed Countries.)

The GTA provides four indicators of the extent of harm done by each country's almost certainly protectionist measures (see Table 2.5.) The pattern that established itself in early 2010 continues.<sup>5</sup> The largest emerging markets are joined by certain medium sized emerging markets and member states of the European Union in the listings of jurisdictions doing the most harm to their trading partners. Very few of the countries listed in the four top 10 rankings of harm done are not G20 members.

One consequence of trade defence and restrictive tariff measures gaining in popularity with governments compared to bailouts is that the sectoral impact of protectionism is returning to the more traditional, pre-crisis pattern (see Table 2.7.) Transport equipment, basic metals, chemicals, and some agriculture products have witnessed substantial numbers of protectionist measures being implemented. Given the large number of measures pending potential implementation in these sectors (see the last column of Table 2.7.), it would not be terribly surprising if some of these sectors overtook the financial sector as the targets of discriminatory government policies in the next GTA report.

## Concluding remarks

Developments since the last G20 summit in June 2010 have been mixed. It is surely good news that disagreements over exchange rate arrangements have yet to spill over into overt or murky forms of protectionism. This finding in no way diminishes the importance that should be attached to the calls for restraint in the coming months. Secondly, the reported increase in tariff cutting is promising, even if it is probably too soon to be established as a trend. That arguments to open markets can still overcome opposition in the policy circles of emerging market jurisdictions is heartening.

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<sup>5</sup> As our reports at the time showed, the pattern in 2009 was different. Then few emerging markets were represented in the top 10 lists of most harmful jurisdictions. Over time some of the industrialised countries ranked highly in 2009 were displaced by the larger and medium sized emerging market nations. Whether the latter were emulating--or reacting to--the early crisis measures taken by the former is an interesting question.

Unfortunately not all the news since June 2010 has been good. Indeed, as far as the G20 governments are concerned, there is precious little evidence that the patterns of intensified protectionism found in 2009 have yet to abate. Quarter by quarter between 100 and 120 more protectionist measures are implemented. Few appear to be unwound. As a result “business as usual” for the G20 is tantamount to a tightening vice on international competition and open borders. Too many quarters have gone by to dismiss the evidence as “one off’s” or exceptional. There is an urgent need to cut the rate at which protectionist measures are implemented before the current accelerated rate becomes the new norm.

**Table 2.1** Total number of state measures reported in the GTA database

Statistic	This report (November 2010)		Increase from previous G20 meeting (June 2010)	
	Total	Total except unfair trade and safeguards investigations	Total	Total except unfair trade and safeguards investigations
Total number of measures in GTA database	1339	965	288	233
Total number of measures coded green	278	236	103	96
Total number of measures coded amber	369	185	47	36
Total number of measures coded red	692	544	138	101

How does the GTA colour code measures?

Color code	Criteria
Red	(i) The measure has been implemented and almost certainly discriminates against foreign commercial interests.
Amber	(i) The measure has been implemented and may involve discrimination against foreign commercial interests; OR (ii) The measure has been announced or is under consideration and would (if implemented) almost certainly involve discrimination against foreign commercial interests
Green	(i) The measure has been announced and involves liberalization on a non-discriminatory (i.e., most favored nation) basis; OR (ii) The measure has been implemented and is found (upon investigation) not to be discriminatory; OR (iii) The measure has been implemented, involves no further discrimination, and improves the transparency of a jurisdiction's trade-related policies.

**Table 2.2** Measures implemented since the first crisis-related G20 summit in November 2008, totals for all jurisdictions and change since last pre-summit report in June 2010

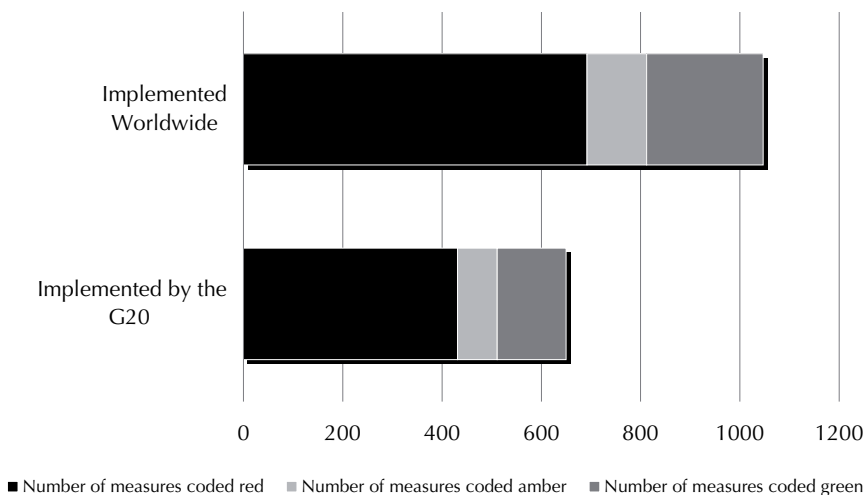
Statistic	This report (November 2010)		Increase from previous G20 meeting (June 2010)	
	Total	Total except unfair trade and safeguards investigations	Total	Total except unfair trade and safeguards investigations
Total number of measures in GTA database	1047	823	267	211
Total number of measures coded green	235	201	100	93
Total number of measures coded amber	120	78	29	17
Total number of measures coded red	692	544	138	101
Total number of 4-digit tariff lines affected by almost certainly discriminatory measures	1214	1214	0	0
Total number of 2-digit sectors affected by almost certainly discriminatory measures	72	72	5	5
Total number of trading partners affected by almost certainly discriminatory measures	217	217	*	*

*Note:* \* The GTA periodically reviews the number of countries affected by implemented state measures. The conservative methodology used only identifies those trading partners that are actually trading more than a de minimus amount as being affected. The re-application of this conservative methodology led the GTA team to revise down the total number of harmed jurisdictions on some measures. Overall, this reduced the total number of harmed jurisdictions from 233 in the 6th Report to 216 in the 7th Report.

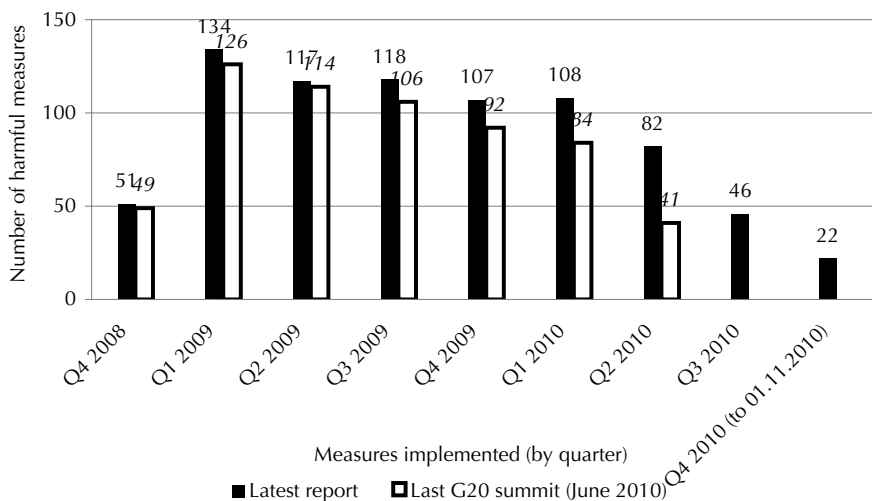
**Table 2.3** Measures implemented by G20 countries since the first crisis-related G20 summit in November 2008, totals for all G20 jurisdictions and change since last pre-summit report in June 2010

Statistic	This report (November 2010)		Increase from previous G20 meeting (June 2010)	
	Total	Total except unfair trade and safeguards investigations	Total	Total except unfair trade and safeguards investigations
Total number of measures in GTA database	650	459	140	95
Total number of measures coded green	139	114	29	29
Total number of measures coded amber	80	44	17	6
Total number of measures coded red	431	301	94	60
Total number of 4-digit tariff lines affected by almost certainly discriminatory measures	1030	1026	26	28
Total number of 2-digit sectors affected by almost certainly discriminatory measures	63	63	0	0
Total number of trading partners affected by almost certainly discriminatory measures	209	208	1	1

**Figure 2.1** The G20 members implement a higher share of beggar-thy-neighbour policies than other countries



**Figure 2.2** Once again, after reporting lags the total number of harmful measures for Q1 and Q2 2010 convergence to the 100-120 range seen in 2009. Q4 2008 seems more anomalous as time goes on, suggesting a big upward jump in protectionism in 2009



Note: In Figures 2.1 and 2.2, a harmful measure is taken to be one which has been implemented since November 2008 and is almost certainly discriminatory (coded red) or likely to be discriminatory (coded amber).

**Table 2.4** Top 10 biggest targets of discriminatory measures

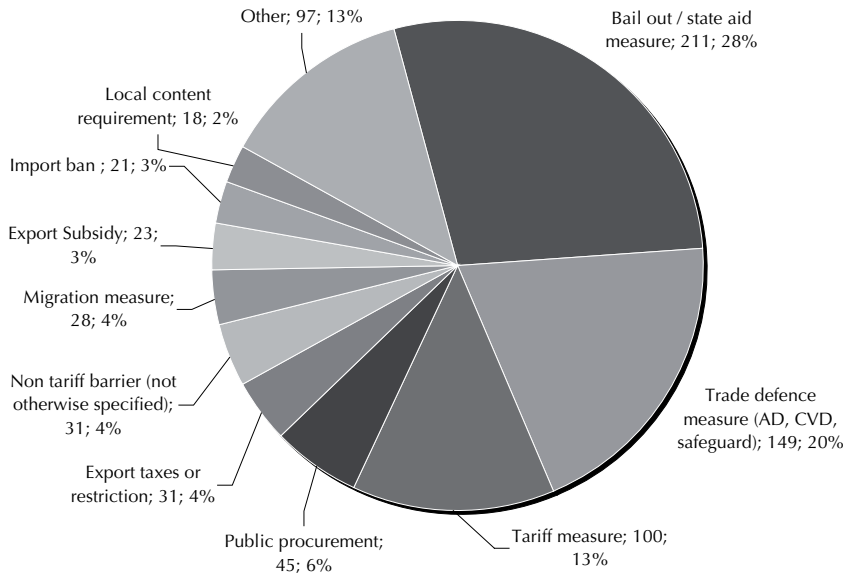
Target	Number of discriminatory measures imposed on target		Number of trading partners imposing discriminatory measures		Number of pending measures, which if implemented, would harm target too	
	This report (November 2010)	Increase from previous G20 meeting (June 2010)	This report (November 2010)	Increase from previous G20 meeting (June 2010)	This report (November 2010)	Increase from previous G20 meeting (June 2010)
China	337	55	79	1	129	4
EU27	322	56	80	3	88	8
USA	260	47	70	2	51	5
Germany	240	36	55	4	63	7
France	221	33	57	4	50	4
UK	214	33	55	5	48	4
Italy	211	36	52	6	53	3
Japan	192	24	63	0	50	4
Netherlands	191	21	51	4	45	3
Belgium	189	19	51	5	46	3

**Table 2.5** Which countries have inflicted the most harm?

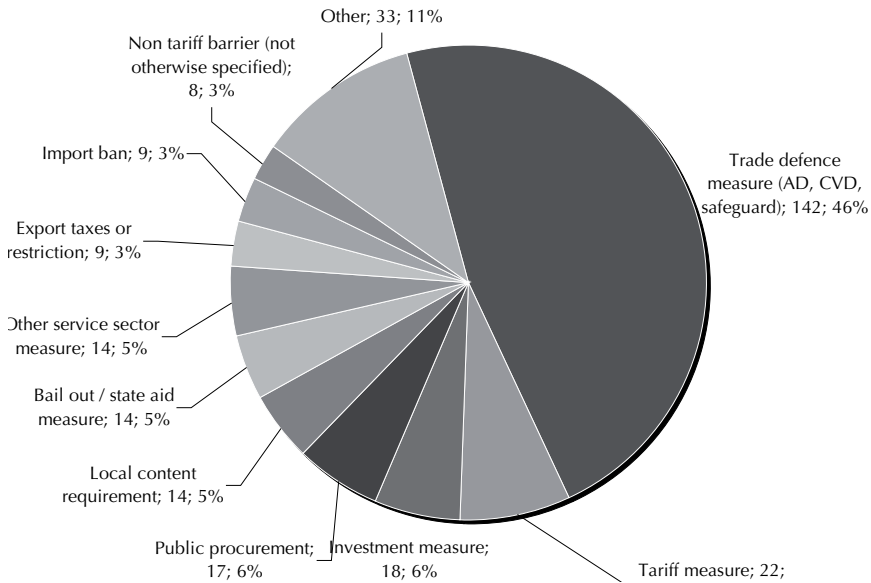
Rank	Metric, Country in specified rank, Number			
	Ranked by number of (almost certainly) discriminatory measures imposed	Ranked by the number of tariff lines (product categories) affected by (almost certainly) discriminatory measures	Ranked by the number of sectors affected by (almost certainly) discriminatory measures	Ranked by the number of trading partners affected by (almost certainly) discriminatory measures
1.	EU27 (166)	Viet Nam (926)	Algeria (67)	Argentina (174)
2.	Russian Federation (85)	Venezuela (785)	EU27 (57)	EU27 (168)
3.	Argentina (52)	Kazakhstan (723)	Nigeria (45)	China (160)
4.	India (47)	Nigeria (599)	Venezuela (38)	Indonesia (151)
5.	Germany (35)	Algeria (476)	Viet Nam (38)	Viet Nam (148)
6.	Brazil (32)	EU27 (467)	Germany (36)	India (145)
7.	UK (31)	Russian Federation (426)	Kazakhstan (36)	Russian Federation (143)
8.	Spain (25)	Argentina (396)	Russian Federation (36)	Finland (132)
9.	Indonesia (24)	India (365)	Ethiopia (32)	Germany (132)
10.	Italy (24)	Indonesia (347)	India (32)	South Africa (132)

*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.

**Figure 2.3** Top 10 implemented measures used to discriminate against foreign commercial interests since the first G20 crisis meeting.



**Figure 2.4** Top 10 pending measures that target foreign commercial interests.



**Table 2.6** Ten most used state measures to discriminate against foreign commercial interests since the first G20 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.	
	This report (November 2010)	Increase from previous G20 meeting (June 2010)	This report (November 2010)	Increase from previous G20 meeting (June 2010)	This report (November 2010)	Increase from previous G20 meeting (June 2010)	This report (November 2010)	Increase from previous G20 meeting (June 2010)
Bail out / state aid measure	211	28	224	29	46	2	185	0
Trade defence measure (AD, CVD, safeguard)	149	37	225	58	57	3	77	4
Tariff measure	100	25	253	101	35	4	145	4
Export taxes or restriction	45	14	69	23	47	3	184	0
Migration measure	31	7	46	12	19	0	95	0
Investment measure	31	3	36	3	19	1	133	0
Non tariff barrier (not otherwise specified)	28	2	43	4	18	2	129	0
Export subsidy	23	4	30	6	40	3	167	15
Import ban	21	na	64	na	17	na	73	na
Local content requirement	18	3	21	3	13	2	124	0

**Table 2.7** Top 20 sectors most affected by discriminatory measures.

CPC code, Affected Sector	Number of discriminatory (red) measures affecting commercial interests in this sector	Number of implemented measures affecting specified sector	Number of jurisdictions implementing measures affecting specified sector and classified as red	Number of pending measures affecting specified sector
81 ( Financial intermediation services and auxiliary services therefore)	80	86	28	5
49 (Transport equipment)	79	132	55	28
41 ( Basic metals)	73	121	55	36
01 ( Products of agriculture, horticulture and market gardening)	70	108	39	14
44 ( Special purpose machinery)	68	121	53	16
34 ( Basic chemicals)	64	109	52	45
21 ( Meat, fish, fruit, vegetables, oils and fats)	57	86	31	13
42 ( Fabricated metal products, except machinery and equipment)	54	86	50	29
23 ( Grain mill products, starches and starch products; other food products)	47	80	49	12
35 ( Other chemical products; man-made fibres)	44	83	50	18
02 ( Live animals and animal products)	42	63	48	7
43 ( General purpose machinery)	42	84	22	16
22 ( Dairy products)	41	57	45	8
26 ( Yarn and thread; woven and tufted textile fabrics)	41	75	50	7
47 ( Radio, television and communication equipment and apparatus)	38	68	20	9
27 (Textile articles other than apparel)	37	67	26	18
38 (Furniture; other transportable goods n.e.c.)	36	61	21	11
46 (Electrical machinery and apparatus)	36	78	19	12
36 ( Rubber and plastics products)	35	63	46	16
37 ( Glass and glass products and other non-metallic products n.e.c.)	35	68	48	26