Must An Effective Activist State Harm Trading Partners?
Evidence from the G20 members during 2020

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A longstanding presumption in trade policy circles is that governments should be afforded significant discretion in responding to crises. Even so, it is recognised in the declarations of many international summits and elsewhere that there should be limits to extent to which external stability is jettisoned in the pursuit of internal stability. In this chapter I present evidence that the frequency of cross-border harm inflicted by G20 members varied considerably in response to the COVID-19 pandemic. G20 policy choice differed along a number of other critical dimensions too. Such evidence, I argue, begs the question posed in the title of this chapter; the tension between internal and external stability may be more apparent than real. Technocratic work to identify trade-friendly crisis response packages should commence, providing a robust factual basis for discussions between WTO members once the COVID-19 pandemic is behind us.

1. Introduction.

The economic fallout from the COVID-19 pandemic is the second systemic crisis to confront the multilateral trading system in 15 years. In light of the duration of such crises including the years taken to recover from them, these events can no longer be dismissed as once-in-a-lifetime events or black swans.

Given the aftermath of the Global Financial Crisis, the potential for crisis responses to permanently scar cross-border commercial flows of goods, services, investments, ideas, data, and people can no longer ruled out either (Baldwin and Evenett 2020).

Plenty is at stake here. For one, the conclusion of certain leading economic historians of international trade—namely, that the world trading system is less affected by "shocks" (unanticipated crises) than "shifts" (evident trends)—may need to be revisited (Irwin and O'Rourke 2011).

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A rethink should also call into question certain sacred cows that underpin the post-war economic settlement, perhaps the most prominent of them is John Ruggie's notion of Embedded Liberalism (Ruggie 1982). One tenet of which is that international arrangements governing trade between nations not impede governments seeking to restore internal stability (or threats to such stability) even if that means discriminating against foreign commercial interests (thereby threatening external stability). In short, when responding to crises, on this view is it acceptable for governments to sacrifice external stability on the altar of internal stability. This proposition is tantamount to arguing that crisis-induced protectionism is permissible.

There are, of course, stronger and weaker versions of this proposition. Discrimination against foreign commercial interests could be time-limited. It could be targeted and proportionate. Governments engaging in discrimination could inform trading partners and make transparent the nature, extent, and duration of measures taken that disadvantage foreign commercial interests.

Arguably, senior officials have recognised the policy dilemmas that arise during systemic crises. That G20 heads of government repeated the mantra in 2009 that they had learned the lessons of the 1930s suggests they recognised the perils of an unconstrained free-for-all in state responses—in particular trade policy responses—to the Global Financial Crisis. Likewise, as the COVID-19 pandemic unfolded, on 30 March 2020 the trade ministers of the G20 group declared:

> *"We agree that emergency measures designed to tackle COVID-19, if deemed necessary, must be targeted, proportionate, transparent, and temporary, and that they do not create unnecessary barriers to trade or disruption to global supply chains, and are consistent with WTO rules"* (G20 2020).

Still, this non-binding G20 statement implies no formal constraint on the crisis-era choices of governments during the COVID-19 pandemic. On other occasions officials were at pains to emphasise that multilateral trade rules posed no constraint when formulating crisis responses.[2]

But what if the tension between internal and external stability is more apparent than real? What if it is possible to devise effective, activist policy intervention during crises that creates limited or no harm to trading partners? That a state must take action to protect its residents during a crisis, such as a pandemic, is not in question. The presumption that international rules should not influence crisis-era response is.

There would be little point asking the question "must an effective activist state harm trading partners?" if every government response was broadly similar and significantly discriminated against foreign commercial interests. Yet, this is an empirical question which, remarkably, few have addressed either in the context of the Global Financial Crisis or the COVID-19 pandemic.[3]

The bulk of this chapter is devoted to assessing the similarities and differences in the response of G20 members to the COVID-19 pandemic during the calendar year 2020.

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[2] If anything, the ongoing debate as to whether to relax certain WTO rules on intellectual property rights relevant to bearding COVID-19 is further evidence of the current direction of travel. Multilateral rules, on this view, are to play no role in shaping crisis responses—a position consistent with a hard line interpretation of Ruggie's Embedded Liberalism.

[3] The 26th Global Trade Alert report, published in November 2020, addressed this matter at considerable length. This book chapter can be thought of as updating some of the more pertinent facts concerning G20 pandemic-era policy response (Evenett and Fritz 2020a).

The purpose is to highlight that G20 members have used the discretion afforded to them in markedly different ways once the COVID-19 pandemic arose.

Some findings presented here also challenge the often-heard contention that certain large trading nations comply less with longstanding norms of the world trading system. While some readers may draw country-specific lessons from the results presented here, my goal is encourage further analysis and, ultimately, deliberation on the balance of state discretion and obligations appropriate during system-wide crises.

The remainder of this chapter is organised as follows. The next section addresses foundational questions (such as which crisis-era policy interventions are of interest to trading partners?), discusses the evidence base used in this study, and presents some summary statistics relating to the quantum of G20 policy response during 2020. The third section of this paper demonstrates that last year there was considerable variation across the G20 in their policy responses that created cross-border spillovers and thereby implicated trading partners. The focus of the fourth section is on the general economic support measures taken by the G20 members during 2020. Concluding remarks are presented in the final section.

2. Foundational matters, evidence deployed, and summary statistics on relevant G20 policy response during 2020.

In assessing the significance for the world trading system of G20 policy intervention during the COVID-19 pandemic, which policy intervention is in scope? From the perspective of trading partners, not every government policy response during a crisis is of interest to commercial policymakers.[4] Economists have long argued that only those policy interventions that induce cross-border spillovers are of interest. Such spillovers may harm or benefit trading partners and policy monitoring exercises should collect information on both.

A slew of crisis-era policy intervention does not generate *direct* cross-border spillovers by affecting conditions of competition in relevant goods and services markets or by affecting the incentive to engage in foreign direct investment, for example. Unemployment insurance payments do not directly alter the relative treatment of domestic and foreign firms and are out of scope. State contributions to firm labour costs during the COVID-19 pandemic need not be in scope either, in particular if a condition for receipt of those payments is that the employees in question remain at home and do not engage in commercial activity. Under these circumstances, the recipient firm is *de facto* temporarily part of the national welfare state, disbursing monies to idled workers.

Another important design choice relates to the stated motive and purpose of a policy intervention. Some may be tempted to take these into account. However, it is difficult to verify any statement concerning motive or purpose. Furthermore, in the case of subventions to firms, money is fungible. Consequently, if the stated purpose of a subsidy is to (without strings attached) contribute to the labour costs of a company still in commercial operation, then there is no guarantee that the money is not used for

[4] During a pandemic, when public health concerns are of considerable importance, policy changes by foreign governments may be a concern on non-commercial grounds.

some other purpose that affects conditions of market competition. For this reason, a blanket exclusion for subsidies for employee compensation is inappropriate.

Moreover, once certain motives or purposes are deemed benign and therefore out of scope, this risks encouraging inappropriate relabelling of policy intervention. For these reasons, the Global Trade Alert team regards as in scope any policy intervention likely to alter the relative treatment of domestic commercial interests vis-à-vis any group of foreign rivals—irrespective of stated motive or purpose.

A further design choice is whether to include only those policies that are crisis-related. In the context of the COVID-19 pandemic, this would amount to including only those policies that are said to have arisen solely because of the pandemic. This is a difficult assessment to make as even routine trade policy decisions (or decisions scheduled before the emergency arose) can be coloured by an unfolding crisis. For this reason, the source used here collected information on all policy intervention likely to induce cross-border spillovers of some kind that were implemented between 1 January 2020 and 31 December 2020. Perhaps it would be better to refer to crisis-era policy intervention than crisis-related policy measures.

In mid-May 2021 information from the Global Trade Alert database was extracted on different facets of in-scope G20 policy response and this provided the factual basis for the findings presented in this chapter.[5] This database is a point of reference for policy developments in the world trading system and is increasingly used in official circles, by scholars and analysts, and by the business community. As of this writing, over 2,500 entries in the Google Scholar database refer to the Global Trade Alert.

By mid-May 2021, a total[6] of 2,204 distinct policy interventions undertaken G20 members between 1 January and 31 December 2020 had been documented by the Global Trade Alert team. To put this total in context, consider the following. In November 2020 the 26th report of the Global Trade Alert was published and it contained information on 1,371 policy interventions undertaken by the G20 members during the first 10 months of 2020 (Evenett and Fritz 2020a). Much of the 50% difference in the quantum of G20 policy intervention documented refers to earlier policy intervention that came to light after information collected ceased for the 26th report.[7]

With the finest grain available product-level international trade data on underlying goods trade flows[8] and information on the goods and sectors implicated by each recorded G20 policy intervention, it is possible to identify at the product level cross-border spillovers associated with G20 commercial policy intervention.

On the basis of available in mid-May 2021, I estimate that G20 policy intervention during the calendar year 2020 generated a total of 54,844 beneficial cross-borders spillovers and 129,313 harmful spillovers at the product level. Intra-G20 spillovers totalled 37,901. Least Developed Countries saw their commercial interests affected just under 40,000 times by G20 policy intervention implemented last year, providing

[5] For a description of the methodology used to collect information in the Global Trade Alert database and a comparison with the reporting by the World Trade Organization see Evenett (2019). For a detailed account of how the Global Trade Alert classifies policy intervention see Evenett and Fritz (2020b).
[6] This total excludes any trade defence or safeguard investigations initiated by G20 members during 2020 that did not result in duties that year.
[7] That the Global Trade Alert team updates earlier published totals on policy intervention is one of the reasons why the quantum of policy intervention found in that independent initiative exceeds those reported by public sector international organisations.
[8] Specifically, the six-digit HS code international trade data found in the United Nations COMTRADE database.

one indication of the cross-border fallout from G20 commercial policy response during the COVID-19 era.

3. No set blueprint: Differential G20 commercial policy response during 2020.

Having summarised statistics on the collective G20 policy response and associated spillovers, attention turns to the contributions of individual G20 members. Of particular interest is whether G20 governments responded to the onset of the COVID-19 pandemic in ways that have broadly similar implications for trading partners.

If so, one might conclude there is a widely-used blueprint for crisis response. If that blueprint involved frequently harming trading partners, then it would reveal the degree to which external stability is sacrificed to restore internal stability. For some, such a finding might justify affording governments considerable discretion in responding to crisis. On this view, the collateral damage done to trading partners is an unfortunate consequence of effective crisis response.

However, if G20 members differ in the degree to which their responses to COVID-19 inflicted harm on trading partners, then the question of whether effective pandemic responses can be devised at little or no cost to other nations arises. Such a finding might call into question the wisdom of giving governments a “free pass” during crises.

Taking this discussion forward requires some discussion of how aggregate commercial policy stance can be compared across governments in anything like real time. After a decade of official and independent monitoring of national trade policy stance, a number of practices have emerged and they have been followed in this chapter.

For example, reports by the World Trade Organization (WTO) secretariat present counts of policy intervention, typically distinguishing between trade restrictive and trade liberalising measures. For policy intervention implicating trade in goods, estimates of the amounts of trade covered have been presented as well. Similar coverage estimates for services trade or for foreign direct investment flows have not been presented to date, largely on account of limited availability of detailed information on relevant cross-border flows.

The drawbacks of frequency and trade coverage measures are well known to those who use and present them. However, given the lags in the publication of international trade data and of measures of national business environments, macroeconomic policy stance, and other relevant variables, little more can be done to inform policymaking in the shorter term. Indeed, at this point it is appropriate to note that the tendency of many analysts to make the perfect (simulations/counterfactuals, advanced econometric estimation etc) the enemy of the good (frequency, trade coverage, and other simple measure) needs to be kept in check.[9]

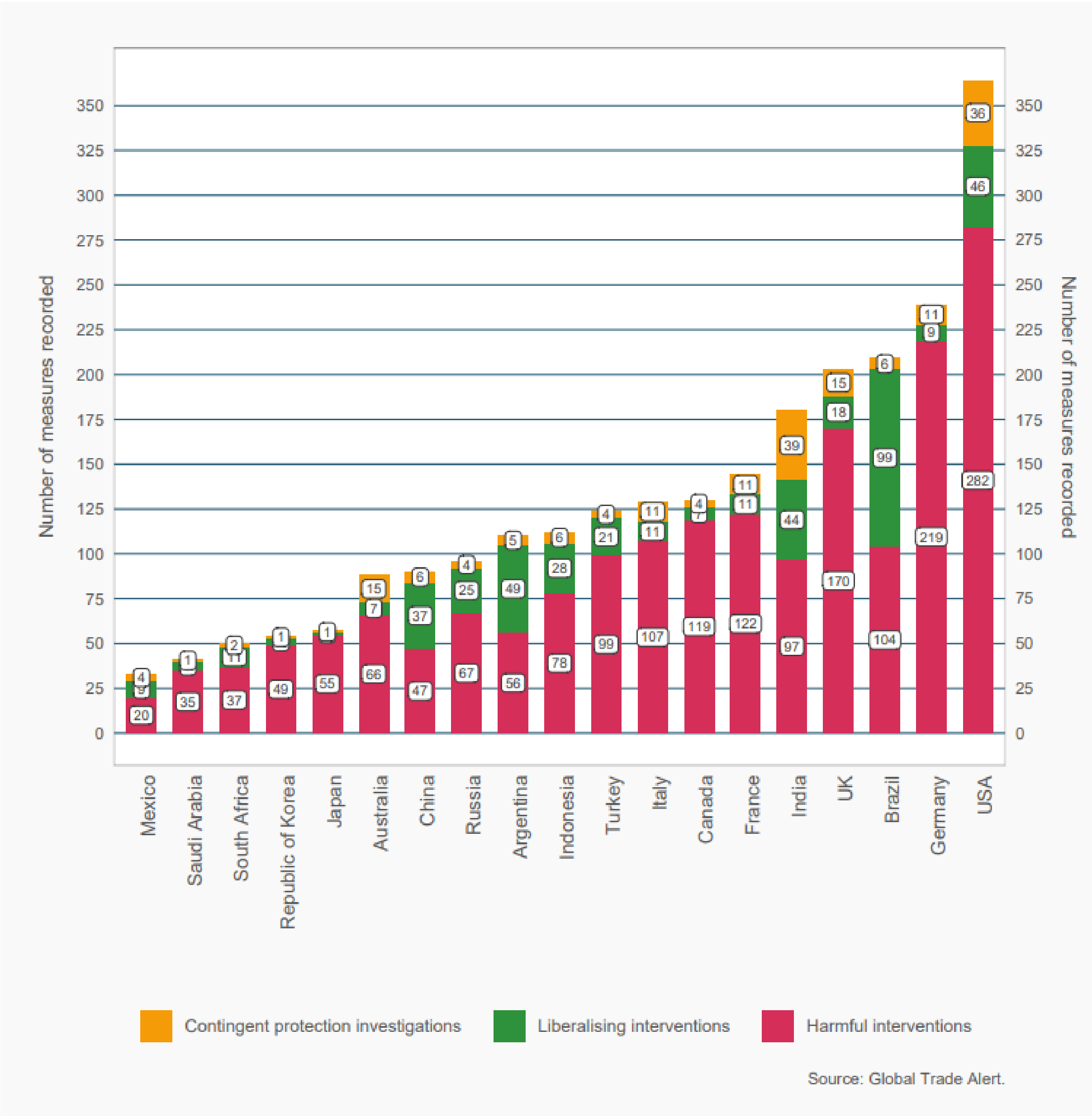
Figure 1 presents the simplest way to compare commercial policy stance of G20 members last year. In this figure, for each G20 member, the total number of implemented policy interventions that created negative cross-border spillovers found in the Global Trade Alert database is reported as harmful interventions in a red vertical bar. Likewise, for implemented policy interventions that benefited trading partners (so-

[9] Moreover, what passes for the “perfect” often involves deeper analysis of some narrowly defined aspect of the trade policy matter in question. This became evident in the “serious” academic papers seeking to quantify what amounted to selected aspects of the impact of the U.S.-China trade war. There are significant trade-offs between “depth” and “breadth” in applied international trade analysis.

called “liberalising intervention” shown in green). As there is interest in the total amount of intervention, the number of initiated contingent protection investigations that have yet to result in the imposition of import duties is reported too (in yellow bars).

The G20 members were then ranked from the member with the least number of recorded interventions to the member with the most. Significant lengths were taken to ensure that the amount of time reporting on each G20 member was comparable. Since the principal source of information used by the Global Trade Alert are official documents then any delays in such publication or any denial of access to official websites could result, in principle, in different recorded totals of information.

Figure 1: Measured in terms of frequency of policy intervention, there are three groups of G20 member.



Examining the data presented in Figure 1, evidently there are three groups of G20 member. As far as resort to policy intervention likely to cause cross-border spillovers, there is a group of five relatively inactive nations. These five nations implemented less than 60 relevant policy interventions last year. Then there is a group of five very active G20 members, the governments of which each undertook more than 175 policy interventions last year. In between are nine G20 members that undertook between 75 and 175 steps last year likely to implicate trading partners.

Such differences across G20 members are associated with variation in the number of cross-border spillovers that implicate the commercial interests of trading partners. The five G20 members that implemented the fewest measures last year together created 1,873 product-level spillovers benefiting trading partners and 5,350 spillovers harming them. In contrast the five most active G20 members reported in Figure 1 generated just under 20,000 positive product-level spillovers and over 47,000 harmful spillovers.

The breakdown between policy intervention harmful and beneficial to trading partners reported in Figure 1 is also instructive. Three emerging market members of the G20 adopted policy mixes where 40% or more of the implemented policy intervention benefited trading partners: Argentina (44%), Brazil (48%), and China (41%). Meanwhile, seven G20 members adopted policy mixes where at least 90% of policy intervention adopted last year was harmful to trading partners. The seven are Australia, Canada, France, Germany, Japan, the Republic of Korea, and the United Kingdom. Just one out of 56 Japanese policy interventions benefited trading partners. Less than 4% of German policy intervention during 2020 benefited trading partners.

As Figure 1 makes clear, G20 members differed significantly in their resort to policy intervention that implicates the interests of trading partners. On the metrics presented there, it seems some governments were able to devise pandemic responses that did not sacrifice their trading partners interests that often.

Another dimension upon which G20 policy stance can be compared is over the length of time policy intervention harmful to trading partners is in force. Some may take the view that crisis-era policy intervention that harms trading partners is inevitable and so what matters is that the intervention be short-lived. Readers may recall that G20 trade ministers called on policy intervention to be temporary, which is not necessarily the same as a measure being short-lived. Still, it does beg the question whether the share of time-limited policy intervention varies across G20 members.

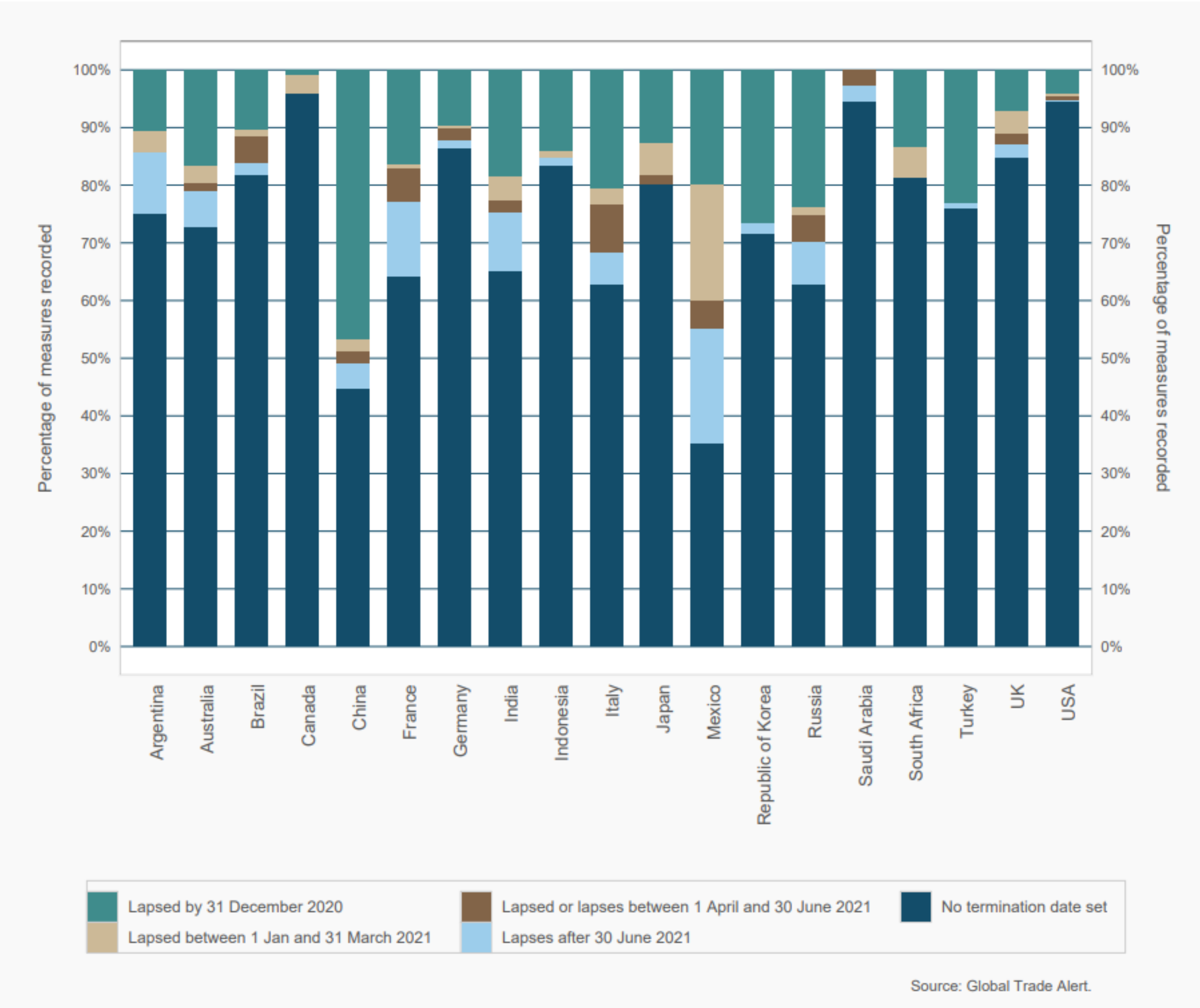
Figure 2 reveals considerable variation across G20 members in resort to harmful policy intervention in terms of its duration. Over 90% of American, Canadian, and Saudi Arabian policy intervention that harmed the interests of trading partners does not have a phase-out date. In contrast, 35% of harmful Mexican policy intervention last year has no set termination date. More than half of Chinese harmful policy intervention has a termination date.

Another difference across the G20 members revealed by Figure 2 is the degree to which harmful policy intervention had been phased out by the end of last year (31 December 2020). Forty-six percent of Chinese measures that were introduced last year and that harmed trading partners were unwound before 2021 began. Italy, the Republic of Korea, Russia, and Turkey had removed between 20% and 26% of harmful policy intervention by the end of last year. Some G20 members may have taken their trade ministers' plea for temporary policy intervention more seriously than others.

In terms of resort to more transparent forms of trade policy intervention, one way to compare across G20 members is to examine the percentage of national policy interventions implemented last year that take the form of the border policies the WTO secretariat reports in their G20 trade monitoring reports. These border policies are typically salient policy interventions (such as import tariff increases). Governments can choose to implement these higher profile policy interventions or murkier, less transparent policy interventions, such as firm-specific subsidies.

For the entire G20, a third of the policy intervention implemented last year (714 out of 2,204 measures) were transparent border measures of the kind the WTO secretariat regularly reports statistics on. On this metric, none of the measures Japan implemented last year were transparent. Less than 10% of Australian, Canadian, and German policy intervention last year employed policy instruments the WTO reports regularly on. Over 40% of Indonesia's and South Africa's policy interventions were transparent in this sense. Over 50% of Argentina's, Brazil's, and Turkey's policy intervention during 2020 involved resort to the more transparent policy intervention. In sum, G20 members varies significantly in their resort to transparent and to murkier policy intervention.

Figure 2: G20 members varied significantly in their resort to temporary, time-bound policy intervention during 2020.



As should be fairly evident from the statistics reported in this section, certain narratives that have arisen in recent years concerning which nations fail to comply with multilateral trade norms need revisiting. On some of the metrics presented here, the policy stance of certain emerging markets is "better" than those of higher per-capita income counterparts in the G20.

The more significant point, which has systemic as opposed to country-specific implications, is that G20 members did not resort to the same playbook or blueprint in designing their responses to the COVID-19 pandemic. To the extent that some G20 members were able to develop effective responses to the pandemic without harming the commercial interests of trading partners often, then there may be important lessons for devising responses to future crises. Indeed, there may be more than one effective strategy that does little harm to trading partners—there is no presumption here that there is a single blueprint that could guide responses to future crises.

4. Subsidies dominate G20 resort to General Economic Support measures.

Despite the frequent resort to behind-the-border policy responses, many G20 members long gave up cooperating with the WTO Secretariat on reporting their General Economic Support measures. This is regrettable as such measures can affect trading partners. For example, a very generous state-provided bailout may have important knock-on effects for competitive dynamics in a sector deemed important for a trading partner’s interests.

More generally, concerns about subsidies and other so-called non-market practices have been frequently raised in recent years. Yet, the evidence base provided by governments to the WTO Secretariat is thin and arguably this has hampered deliberation and finding common ground. For the purposes of this chapter, however, so-called General Economic Support measures are important as they account for 1,345 of the 2,204 policy interventions undertaken by G20 members last year and recorded in the Global Trade Alert database.

For the purposes of what follows here, General Economic Support measures are taken to include:

- Subsidies to firms that are likely to affect conditions of competition inside the borders of the implementing jurisdiction.
- State provided support to exporters shipping to third markets and to national firms undertaking investments (including mergers and acquisitions) abroad.
- The introduction or expansion of localisation measures.
- Changes to public procurement regulations or public procurement tenders that direct purchases to domestic suppliers and hiring to nationals.

Table 1 reports on each G20 member’s resort to these four types of support measure during 2020. It is worth noting that two-thirds (883) of all General Economic Support measure involve some type of financial support for firms competing in domestic markets. Another 18% relate to export incentives or support for domestic firms’ operations in foreign markets. Therefore, subsidies in sectors where international competition is possible accounted for a significant share of G20 pandemic-era response last year.

Of the subsidies offered by G20 governments, 277 were in the form of state loans, 261 were financial grants, 155 involved state-supported trade finance, 117 were in the form of loan guarantees, 98 involved some type of tax relief, and 74 involved state-provided financial support for overseas operations, including acquisition of corporate assets. Almost all (98%) of subsidy policy changes taken last year by G20 governments disadvantaged foreign commercial interests.

The second column of Table 1 makes clear that every G20 government availed themselves of subsidies during 2020. In terms of resort to subsidies affecting conditions of competition in domestic markets, the United States, France, the United Kingdom, Italy and Germany stand out. In contrast, Mexico and Saudi Arabia both granted 15 or fewer such subsidies last year.

When it comes to state provided incentives likely to alter conditions of competition abroad, Canada and Germany have been most active. Between them, these two governments account for more than half of such state support awarded by the G20 last year that has been recorded in the Global Trade Alert database. Localisation measures, often linked to state-provided trade finance, are common in Germany and the United Kingdom. Use of public procurement regulations to support domestic firms remains common in the United States.

The final column in Table 1 reinforces the earlier finding that there is considerable variation across the G20 in the resort to time-limited or temporary measures. Mexico and China have the largest shares of time-limited General Economic Support measures. In fact, those shares are an order of magnitude larger than the shares of time-limited measures implemented during 2020 by Canada and the United States.

Table 2 provides further information on the beneficiaries of the General Economic Support measures. Those beneficiaries could be sector-specific or firm-specific. Alternatively, state support provided by G20 members could be horizontal—that is, in principle benefitting all sectors. Once again, comparing across G20 members, the patterns of intervention vary considerably.

Only in Mexico and Turkey did more than a fifth of support measures favour firms in agriculture; for every other G20 member the share is less than 0.1. Over 40% of American, Brazilian, French, German, Indian, and Russian favour manufacturing industries. Two-fifths of more of American, Indonesian, and Turkish support target commercial interests in service sectors.

Argentina, China, and Italy stand out for adopting such high shares of support measures that cover all sectors of the economy (deemed “horizontal” measures). In each case, more than two-fifths of general support measures benefiting local firms did not explicitly discriminate between those local firms. In contrast, as the last column of Table 2 shows, more than four-fifths of American, Canadian, and German general economic support measures benefited specific local firms.

The significant differences across G20 members in the manner in which they implemented general economic support measures in G20 raises important questions as to what, from the perspective of limiting distortions to the world trading system, are better practices during systemic crises.

The aftermath of the Global Financial Crisis witnessed rising shares of world goods trade competing in markets where some exporting firms were subsidised (see Figure 2 on page 7 of Baldwin and Evenett 2020). It remains to be seen whether the COVID-19 pandemic will result in a similar ratcheting up of potentially subsidy-distorted trade. Surely the time has come to devise guidelines to governments to support firms and their employees during systemic crises that limit both the short- and medium-term fallout for the world trading system.

Table 1: Subsidies dominate General Economic Support measures taken by the G20 during 2020.

Implementing G20 member	Number of non-export-related subsidies (subsidies affecting competition in domestic markets)	Number of export incentives and support in foreign markets	Number of localisation measures	Number of government procurement measures	Share of time-limited measures
Argentina	21	2	2	0	0.20
Australia	42	7	4	3	0.30
Brazil	47	3	9	0	0.19
Canada	31	71	0	1	0.02
China	20	5	0	1	0.69
France	93	0	2	0	0.37
Germany	70	64	61	0	0.12
India	18	8	5	11	0.38
Indonesia	49	2	4	1	0.16
Italy	79	3	2	0	0.39
Japan	23	25	1	1	0.22
Mexico	12	0	0	1	0.77
Republic of Korea	30	7	2	0	0.23
Russia	31	7	11	3	0.33
Saudi Arabia	15	2	7	3	0.07
South Africa	18	3	0	0	0.10
Turkey	38	6	3	0	0.26
UK	82	30	26	0	0.14
USA	164	1	0	52	0.04

Table 2: The domestic beneficiaries of discriminatory General Economic Support measures vary considerably across the G20.

Implementing G20 member	Share of harmful economic support measures that affect agricultural sectors	Share of harmful support measures that affect manufacturing sectors	Share of harmful support measures that affect service sectors	Share of harmful support measures that are classified as 'horizontal'	Share of harmful support measures that are classified as firm-specific
Argentina	0.080	0.040	0.240	0.480	0.000
Australia	0.054	0.214	0.339	0.232	0.357
Brazil	0.085	0.424	0.136	0.203	0.492
Canada	0.039	0.330	0.330	0.010	0.942
China	0.038	0.115	0.385	0.462	0.000
France	0.074	0.474	0.168	0.221	0.453
Germany	0.021	0.415	0.113	0.113	0.815
India	0.095	0.476	0.119	0.167	0.214
Indonesia	0.018	0.125	0.464	0.268	0.446
Italy	0.060	0.298	0.143	0.429	0.286
Japan	0.060	0.360	0.180	0.300	0.460
Mexico	0.231	0.231	0.000	0.231	0.154
Republic of Korea	0.000	0.154	0.410	0.359	0.154
Russia	0.058	0.481	0.404	0.019	0.135
Saudi Arabia	0.000	0.148	0.407	0.333	0.111
South Africa	0.000	0.333	0.524	0.048	0.619
Turkey	0.319	0.255	0.213	0.170	0.085
UK	0.000	0.246	0.355	0.130	0.674
USA	0.018	0.415	0.544	0.028	0.903

5. Concluding remarks.

When the COVID-19 pandemic hit, governments inherited multilateral trade rules and underlying conventions concerning appropriate state behaviour when crises threaten internal stability. Those rules essentially give governments wide discretion to tackle crises, even if that discretion involves harming the commercial interests of trading partners. The current rules have been defended by some on the grounds that during emergencies multilateral trade disciplines don't stand in the way of governments.

When those rules were devised in the aftermath of the Second World War, national markets were significantly less integrated into the world economy. Under those circumstances perhaps privileging internal stability over external stability made sense, maybe on the grounds that there was limited external exposure to foreign government actions and, correspondingly, the risks to external stability were not that large.

With the highly integrated world economy of today, circumstances have changed markedly. So the question arises as to whether it still makes sense to jettison external stability and the benefits it confers whenever a crisis looms into view. This question is all the more compelling given the finding that the trading nations responsible for most of world trade have responded in such different ways during the initial phase of the COVID-19 pandemic.

Last year five G20 members were able to devise pandemic responses that generated less than one-eighth of the cross-border spillovers of the five most active G20 members. This begs the question whether effective state action during crises must inflict considerable harm on trading partners? If it is possible to devise crisis responses—or more importantly, guidelines for governments devising crisis responses—then the tension between internal and external stability loses much of its force and with it the logic of the current rules on exceptions at the WTO.

Now is not the time to add reform of exceptions to the WTO work programme. This would be premature, not least because much more fact collection and analysis needs to be done. Such technocratic groundwork could be undertaken after the conclusion of the Twelfth WTO Ministerial Conference, drawing upon the expertise of officials from principal international economic institutions as well as independent experts. Crisis response is typically a complex and fraught matter and any analysis of these matters would need to take account of the realities of decision-making under extremis. That such analysis is difficult makes it no less valuable.

Given that governments have faced in less than 15 years two episodes of intense system-wide stress, from now on it is advisable to think more in terms of the world trading system facing recurring emergencies than crises and black swans. The timing, form, context, and threats posed by future emergencies cannot be known for sure, but it is prudent to expect that there will be emergencies and that it is our responsibility to prepare for them. Those personnel who fight fires and staff ambulances and hospitals have developed protocols for effective decision-making during emergencies. Trade policy officials need to catch up.

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